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OPEN MEETING

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MEMORANDUM

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TO: THE COMMISSION

Arizona Corporation Commission

2003 APR -1 A 10: 13

FROM: Utilities Division

DOCKETED

APR 01 2003

DATE: March 31, 2003

RE: DISAGGREGATION OF RURAL TELEPHONE COMPANY STUDY AREAS FOR PURPOSES OF FEDERAL UNIVERSAL SERVICE HIGH COST SUPPORT (DOCKET NO. T-00000D-01-0915)

DOCKETED 5/7
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Background

On May 23, 2001, the Federal Communications Commission ("FCC") issued its Fourteenth Report and Order and Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45 and Report and Order in CC Docket No. 00-256 ("*FCC Rural Carrier High Cost Support Order*" or "*the Order*").¹ The *FCC Rural Carrier High Cost Support Order* delegates certain responsibilities to state commissions including review of rural carrier disaggregation plans.

On November 16, 2001, the Commission opened this docket, and Staff requested a Procedural Order consistent with the requirements of the FCC in the *FCC Rural Carrier High Cost Support Order*. Currently, federal universal high cost support is averaged across all lines served by a carrier within its study area and the per-line support available throughout the study area is the same, even though the costs throughout the study area may vary widely. The FCC concluded in its Order that support should be disaggregated and targeted below the study area level so that support will be distributed in a manner that ensures that the per-line level of support is more closely associated with the cost of providing service.

The Order provides that rural carriers are to elect a disaggregation plan by either certifying to the Commission that they will not disaggregate or by filing a disaggregation plan with the Commission. Once a rural carrier files a disaggregation plan with the Commission, the Commission is to evaluate the plan, and decide whether to approve the plan.

The Order gave three disaggregation paths which rural carriers could choose. Path One allows a rural carrier to choose not to disaggregate. A rural carrier may choose this path by filing a certification with the Commission. Path One certification is effective for at least four years from the

¹ *In the Matter of Federal-State Joint Board on Universal Service; and Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45 and Report and Order in CC Docket No. 00-256 (Rel. May 23, 2001) ("*FCC Rural Carrier High Cost Support Order*").

date of the certification unless disaggregation is subsequently ordered by the Commission. The Commission may require disaggregation upon its own motion or upon petition by an interested party. Commission approval is not required for filings under Path One.

Path Two applies to carriers which choose to disaggregate and target support. Any method of disaggregation may be chosen under Path Two. However, the Commission must review the plan, and the plan becomes effective only upon Commission approval. If a competitive eligible telecommunications carrier ("ETC") has been designated in the same study area as the rural carrier, then the rural carrier must choose Path Two, if it chooses to disaggregate. The plan would remain in effect for at least four years unless disaggregation is subsequently ordered by the Commission. The Commission may require a change to the disaggregation plan upon its own motion or upon petition by an interested party.

Path Three allows a rural carrier to self-certify a disaggregation plan. The rural carrier must provide its plan to the Commission, but it becomes effective upon certification by the carrier to the Commission. The plan would remain in effect for at least four years unless disaggregation is subsequently ordered by the Commission. The Commission may require a change to the disaggregation plan upon its own motion or upon petition by an interested party. Commission approval is not required for filings under Path Three.

On November 20, 2001, a Procedural Order was issued which gave a schedule for rural carriers to file their disaggregation plans as well as a list of the requirements in each filing. Rural carriers were ordered to file disaggregation plans in January 2002.

On January 10, 2002, Staff requested a modification of the November 20, 2001, Procedural Order. Staff recommended that the timeframes for filing disaggregation plans be extended consistent with a later Order by the FCC.² Staff recommended that rural carriers file their disaggregation plans on May 15, 2002.

On January 16, 2002, a Procedural Order was issued which adopted Staff's proposed timeframe.

On August 28, 2002, Smith Bagley, Inc. ("Smith Bagley") filed an Application to Intervene. The application was granted in a Procedural Order issued on October 4, 2002. Smith Bagley is a competitive wireless ETC on reservation lands which are within the service areas of Citizens Telecommunications Company of the White Mountains d/b/a Frontier Communications of the White Mountains ("Citizens White Mountains") and Navajo Communications Company, Inc. ("Navajo").

² *In the Matter of Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, et al. Docket No. 00-256, et al., Fourteenth Report and Order, Twenty-Second Order on Reconsideration and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, FCC 01-157 (rel. May 23, 2001).

On January 16, 2003, a Procedural Order was issued which set a schedule for the receipt of comments from other telecommunications carriers in Arizona on the disaggregation plans filed for Commission approval. The Procedural Order set January 22, 2003, as the deadline for comments and January 31, 2003, as the deadline for reply comments.

Disaggregation Plan Filings

Most rural carriers chose Path One, no disaggregation. These carriers are: Verizon California, Inc., Midvale Telephone Exchange, Inc., CenturyTel of the Southwest, Inc., South Central Utah Telephone Association, Accipiter Communications, Inc., Southwestern Telephone Company, Valley Telephone Cooperative, Inc., Copper Valley Telephone, Inc., Rio Virgin Telephone Company, and Table Top Telephone Company, Inc. On May 9, 2002, Citizens Communications filed disaggregation plans for three of its companies. On May 15, 2002, Arizona Telephone filed its disaggregation plan. Two rural carriers chose Path Two: Citizens White Mountains and Navajo. These two carriers have a competitive ETC in their study areas, Smith Bagley. Two rural carriers chose Path Three: Citizens Utilities Rural Company d/b/a Frontier Citizens Utilities Rural ("Citizens Rural") and Arizona Telephone Company ("Arizona Telephone").

The Procedural Order issued on November 20, 2002, ordered rural carriers choosing Paths Two or Three to file a disaggregation plan which includes:

- a) Rationale (including methods) used in developing the plan
- b) Identification, explanation, and support for any benchmarks
- c) Description of each zone so that level of support per line can be determined
- d) Maps of each zone

Rural carriers choosing Path Three were also ordered to explain how their plans comply with the self-certification guidelines of the FCC Order.

Staff has reviewed the disaggregation plans filed by Citizens White Mountains and Navajo for disaggregation under Path Two. Citizens White Mountains proposed disaggregating its study area into three zones. Zone 1 is composed of six exchanges. Zone 2 is composed of three exchanges. Zone 3 is composed of six exchanges. Zone 1 has the lowest costs, Zone 2 has higher costs, and Zone 3 has the highest costs. Navajo proposed disaggregating its study area into three zones. Zone 1 is composed of four exchanges. Zone 2 is composed of four exchanges. Zone 3 is composed of sixteen exchanges. Zone 1 has the lowest costs, Zone 2 has higher costs, and Zone 3 has the highest costs.

These plans comply with the above requirements of the Procedural Order.

Staff has also reviewed the disaggregation plans filed by Citizens Rural and Arizona Telephone for disaggregation under Path Three. Citizens Rural proposed disaggregating its study

area into three zones. Zone 1 is composed of two exchanges. Zone 2 is composed of four exchanges. Zone 3 is composed of seven exchanges. Zone 1 has the lowest costs and Citizens Rural is proposing no federal universal high cost support for this zone. Zone 2 has higher costs than Zone 1 and Zone 3 has the highest costs. Arizona Telephone proposed disaggregating its study area into eight wire centers and is proposing different federal universal high cost support for each wire center.

Even though Path Three allows self-certification of disaggregation and does not require Commission approval, Staff verified that the plans complied with the Procedural Order requirements and with the self-certification guidelines of the FCC Order.

Staff sought comment from other telecommunications carriers in Arizona. Staff received no comments.

Staff recommends approval of the disaggregation plans filed by Citizens White Mountains, Navajo, Citizens Rural, and Arizona Telephone.



Ernest G. Johnson
Director
Utilities Division

EGJ:MGK:rdp/MAS

ORIGINATOR: Marta Kalleberg

BEFORE THE ARIZONA CORPORATION COMMISSION

1 MARC SPITZER
2 Chairman
3 JIM IRVIN
4 Commissioner
5 WILLIAM A. MUNDELL
6 Commissioner
7 JEFF HATCH-MILLER
8 Commissioner
9 MIKE GLEASON
10 Commissioner

7 IN THE MATTER OF THE DISAGGREGATION)
8 OF RURAL TELEPHONE COMPANY STUDY)
9 AREAS FOR PURPOSES OF FEDERAL)
UNIVERSAL SERVICE HIGH COST SUPPORT)

DOCKET NO. T-00000D-01-0915
DECISION NO. _____
ORDER

10 Open Meeting
11 April 22 and 23, 2003
12 Phoenix, Arizona

12 BY THE COMMISSION:

13 FINDINGS OF FACT

14 **Background**

15 1. On May 23, 2001, the Federal Communications Commission ("FCC") issued its
16 Fourteenth Report and Order and Twenty-Second Order on Reconsideration, and Further Notice of
17 Proposed Rulemaking in CC Docket No. 96-45 and Report and Order in CC Docket No. 00-256
18 ("*FCC Rural Carrier High Cost Support Order*" or "*the Order*").¹ The *FCC Rural Carrier High*
19 *Cost Support Order* delegates certain responsibilities to state commissions including review of rural
20 carrier disaggregation plans.

21 2. On November 16, 2001, the Commission opened this docket, and Staff requested a
22 Procedural Order consistent with the requirements of the FCC in the *FCC Rural Carrier High Cost*
23 *Support Order*. Currently, federal universal high cost support is averaged across all lines served by a
24 carrier within its study area and the per-line support available throughout the study area is the same,
25 even though the costs throughout the study area may vary widely. The FCC concluded in its Order that

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27 ¹ *In the Matter of Federal-State Joint Board on Universal Service; and Multi-Association Group (MAG) Plan for*
28 *Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers,*
Fourteenth Report and Order. Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in
*CC Docket No. 96-45 and Report and Order in CC Docket No. 00-256 (Rel. May 23, 2001) ("*FCC Rural Carrier High**
Cost Support Order").

1 support should be disaggregated and targeted below the study area level so that support will be
2 distributed in a manner that ensures that the per-line level of support is more closely associated with
3 the cost of providing service.

4 3. The Order provides that rural carriers are to elect a disaggregation plan by either
5 certifying to the Commission that they will not disaggregate or by filing a disaggregation plan with the
6 Commission. Once a rural carrier files a disaggregation plan with the Commission, the Commission is
7 to evaluate the plan, and decide whether to approve the plan.

8 4. The Order gave three disaggregation paths which rural carriers could choose. Path One
9 allows a rural carrier to choose not to disaggregate. A rural carrier may choose this path by filing a
10 certification with the Commission. Path One certification is effective for at least four years from the
11 date of the certification unless disaggregation is subsequently ordered by the Commission. The
12 Commission may require disaggregation upon its own motion or upon petition by an interested party.
13 Commission approval is not required for filings under Path One.

14 5. Path Two applies to carriers which choose to disaggregate and target support. Any
15 method of disaggregation may be chosen under Path Two. However, the Commission must review the
16 plan, and the plan becomes effective only upon Commission approval. If a competitive eligible
17 telecommunications carrier ("ETC") has been designated in the same study area as the rural carrier,
18 then the rural carrier must choose Path Two, if it chooses to disaggregate. The plan would remain in
19 effect for at least four years unless disaggregation is subsequently ordered by the Commission. The
20 Commission may require a change to the disaggregation plan upon its own motion or upon petition by
21 an interested party.

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23 must provide its plan to the Commission, but it becomes effective upon certification by the carrier to
24 the Commission. The plan would remain in effect for at least four years unless disaggregation is
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26 disaggregation plan upon its own motion or upon petition by an interested party. Commission
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28 . . .

1 7. On November 20, 2001, a Procedural Order was issued which gave a schedule for rural
2 carriers to file their disaggregation plans as well as a list of the requirements in each filing. Rural
3 carriers were ordered to file disaggregation plans in January 2002.

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5 Procedural Order. Staff recommended that the timeframes for filing disaggregation plans be extended
6 consistent with a later Order by the FCC.² Staff recommended that rural carriers file their
7 disaggregation plans on May 15, 2002.

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9 timeframe.

10 10. On August 28, 2002, Smith Bagley, Inc. ("Smith Bagley") filed an Application to
11 Intervene. The application was granted in a Procedural Order issued on October 4, 2002. Smith
12 Bagley is a competitive wireless ETC on reservation lands which are within the service areas of
13 Citizens Telecommunications Company of the White Mountains d/b/a Frontier Communications of the
14 White Mountains ("Citizens White Mountains") and Navajo Communications Company, Inc.
15 ("Navajo").

16 11. On January 16, 2003, a Procedural Order was issued which set a schedule for the receipt
17 of comments from other telecommunications carriers in Arizona on the disaggregation plans filed for
18 Commission approval. The Procedural Order set January 22, 2003, as the deadline for comments and
19 January 31, 2003, as the deadline for reply comments.

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21 **Disaggregation Plans**

22 12. Most rural carriers chose Path One, no disaggregation. These carriers are: Verizon
23 California, Inc., Midvale Telephone Exchange, Inc., CenturyTel of the Southwest, Inc., South Central
24 Utah Telephone Association, Accipiter Communications, Inc., Southwestern Telephone Company,
25 Valley Telephone Cooperative, Inc., Copper Valley Telephone, Inc., Rio Virgin Telephone Company,

26
27 ² *In the Matter of Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent*
28 *Local Exchange Carriers and Interexchange Carriers*, et al. Docket No. 00-256, et al., Fourteenth Report and Order,
Twenty-Second Order on Reconsideration and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and
Report and Order in CC Docket No. 00-256. FCC 01-157 (rel. May 23, 2001).

1 and Table Top Telephone Company, Inc. On May 9, 2002, Citizens Communications filed
2 disaggregation plans for three of its companies. On May 15, 2002, Arizona Telephone filed its
3 disaggregation plan. Two rural carriers chose Path Two: Citizens White Mountains and Navajo.
4 These two carriers have a competitive ETC in their study areas, Smith Bagley. Two rural carriers
5 chose Path Three: Citizens Utilities Rural Company d/b/a Frontier Citizens Utilities Rural ("Citizens
6 Rural") and Arizona Telephone Company ("Arizona Telephone").

7 13. The Procedural Order issued on November 20, 2002, ordered rural carriers choosing
8 Paths Two or Three to file a disaggregation plan which includes:

- 9 a) Rationale (including methods) used in developing the plan
10 b) Identification, explanation, and support for any benchmarks
11 c) Description of each zone so that level of support per line can be determined
12 d) Maps of each zone

13 14. Rural carriers choosing Path Three were also ordered to explain how their plans comply
14 with the self-certification guidelines of the FCC Order.

15 15. Staff has reviewed the disaggregation plans filed by Citizens White Mountains and
16 Navajo for disaggregation under Path Two. Citizens White Mountains proposed disaggregating its
17 study area into three zones. Zone 1 is composed of six exchanges. Zone 2 is composed of three
18 exchanges. Zone 3 is composed of six exchanges. Zone 1 has the lowest costs, Zone 2 has higher
19 costs, and Zone 3 has the highest costs. Navajo proposed disaggregating its study area into three
20 zones. Zone 1 is composed of four exchanges. Zone 2 is composed of four exchanges. Zone 3 is
21 composed of sixteen exchanges. Zone 1 has the lowest costs, Zone 2 has higher costs, and Zone 3 has
22 the highest costs.

23 16. These plans comply with the above requirements of the Procedural Order.

24 17. Staff has also reviewed the disaggregation plans filed by Citizens Rural and Arizona
25 Telephone for disaggregation under Path Three. Citizens Rural proposed disaggregating its study area
26 into three zones. Zone 1 is composed of two exchanges. Zone 2 is composed of four exchanges. Zone
27 3 is composed of seven exchanges. Zone 1 has the lowest costs and Citizens Rural is proposing no
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and is proposing different federal universal high cost support for each wire center.

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ORDER

IT IS THEREFORE ORDERED that the disaggregation plans of Citizens Telecommunications Company of the White Mountains d/b/a Frontier Communications of the White Mountains, Navajo Communications Company, Inc., Citizens Utilities Rural Company d/b/a Frontier Citizens Utilities Rural, and Arizona Telephone Company are approved.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2003.

BRIAN McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

EGJ:MGK:rdp/MAS

SERVICE LIST FOR DISAGGREGATION DOCKET

1 DOCKET NO. T-00000D-01-0915

2 Mr. Jeff Jung

3 Director-Cost Analysis

4 TDS Telecom

5 Post Office Box 5158

6 Madison, Wisconsin 53705-0158

7 Mr. Curt Huttzell

8 Regulatory Manager

9 Citizens Communications Company

10 4 Triad Center, Suite 200

11 Salt Lake City, Utah 84180

12 Mr. Randall J. Brockmann

13 Manager—Economic Costing

14 Frontier Corporation

15 180 South Clinton Avenue

16 Rochester, New York 14646-0400

17 Mr. Michael J. Shultz

18 Director—Federal Regulatory

19 Frontier Corporation

20 180 South Clinton Avenue

21 Rochester, New York 14646-0300

22 Mr. David A. LaFuria

23 Lukas Nace Gutierrez & Sachs, Chartered

24 1111 Nineteenth Street, NorthWest, Suite 1200

25 Washington, DC 20036

26 Accipiter Communications Incorporated

27 2238 West Lone Cactus Drive, Suite 100

28 Phoenix, Arizona 85027

Arizona Telephone Company

Post Office Box 5158

Madison, Wisconsin 53705-0158

CenturyTel Of The Southwest, Inc.

Post Office Box 4065

Monroe, Louisiana 71211-4065

Copper Valley Telephone, Inc.

Post Office Box 970

Willcox, Arizona 85644

1 Midvale Telephone Exchange
Post Office Box 7
2 Midvale, Idaho 83645-0000

3 Qwest Corporation
3033 North 3rd Street, Room 1010
4 Phoenix, Arizona 85012

5 Rio Virgin Telephone Company
6 Rio Virgin Telephone & Cablevision
Post Office Box 189
7 Estacada, Oregon 97023-0000

8 San Carlos Apache Telecommunication Utility, Inc.
9 Post Office Box 701 245 S Hill
Globe, Arizona 85502

10
11 Mr. Daniel Spencer
South Central Utah Telephone Association, Inc.
12 Post Office Box 555
Escalante, Utah 84726

13
14 Southwestern Telephone Company, Inc.
Post Office Box 5158
15 Madison, Wisconsin 53705-0158

16 Table Top Telephone Company, Inc.
600 North Second Avenue
17 Ajo, Arizona 85321

18 Valley Telephone Cooperative Inc.
19 752 East Malley Street Post Office Box 970
Willcox, Arizona 85644

20
21 Verizon California Inc.
One Verizon Way - CA500GCF
22 Thousand Oaks, California 91362-3811

23 Mr. Christopher C. Kempley
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24 Arizona Corporation Commission
25 1200 West Washington Street
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