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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

2012 MAY 15 A 9:41

Arizona Corporation Commission

GARY PIERCE, Chairman  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP  
BRENDA BURNS

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

DOCKETED

MAY 15 2012

DOCKETED BY *JM*

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

**INNITAL COMMENTS CONCERNING IMPACT OF CAF ORDER  
BY  
ARIZONA LOCAL EXCHANGE CARRIERS ASSOCIATION**

The Arizona Local Exchange Carriers Association ("ALECA") hereby provides the following comments in response to the questions set forth by Judge Rodda in her March 21, 2012, Procedural Order in the above-captioned dockets.

1. *In light of the CAF Order, is there a need for the Commission to determine what carriers should be covered by access reform, or a target level for intrastate access charges? Does the CAF Order address all access charge rate elements that have been addressed in these dockets? If not, should the Commission take action with respect to these rate elements? Does it make sense for the Commission to act on access charge reform while the CAF Order is on appeal, or while the FCC continues to consider comments on the Order?*

**Response:** The CAF order addresses terminating access rates, bringing them into equality with interstate rates in two steps on July 1, 2012 and July 1, 2013 and subsequently to zero by 2018 for price cap companies and 2020 for ROR companies. The FCC preempted the states from addressing terminating access rates and the Commission should not act to reform

1 originating state access rates or other access rate elements not addressed in the CAF order, in  
2 advance of the FCC, particularly given the latter's preemptive powers. The FCC intends to  
3 address originating access and has opened a separate further notice of proposed rulemaking  
4 (FNPRM) to seek comments prior to proceeding. In the CAF order the FCC noted:

5 We recognize, however, that we need to further evaluate the timing, transition,  
6 and possible need for a recovery mechanism for those rate elements—including  
7 originating access, common transport elements not reduced, and dedicated  
8 transport—that are not immediately transitioned; we address those elements in the  
9 FNPRM.<sup>1</sup>

10 The financial ramifications and customer impacts of lowering intrastate terminating  
11 access rates and other financial impacts of the CAF order are not yet fully determined.

12 As part of the FNPRM, the FCC will be considering how to minimize any  
13 additional consumer burden associated with the transition of originated access  
14 traffic.<sup>2</sup>

15 Because originating-access issues are being addressed by the FCC in the FNPRM, the  
16 Commission should not address them, at least not before the FCC has acted, particularly while  
17 the carriers are presently addressing how to best deal with the substantial terminating rate  
18 decreases already ordered by the FCC. There is no need for the Commission to take further  
19 action.

20 2. *Do any parties wish to modify or augment their recommendations concerning*  
21 *access charge reform in light of the FCC's actions?*

22 **Response:** The Commission should not take any action regarding access charge  
23 reductions since action is already pending by the FCC.

24 3. *Given the CAF Order, does the Commission need to establish procedures to*  
25 *implement intrastate access reform? And if yes, what procedures are recommended?*

26 **Response:** No, see the response to Number 1 above.

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<sup>1</sup> CAF Order at ¶ 739.

<sup>2</sup> CAF Order, ¶ 1301.

1           4.       *Given the CAF Order, does there remain a need to address the question of*  
2 *whether carriers should be permitted to contract for access rates that differ from their tariffed*  
3 *rates? If there is still a need, is the current record sufficient to resolve the issue?*

4           **Response:** No.

5           5.       *Does the CAF Order impact the AUSF? Should the Commission proceed with*  
6 *revisions to the AUSF rules? Why or why not? How should the AUSF be revised? Is the current*  
7 *record sufficient to support any revised recommended reforms?*

8           **Response:** The AUSF rules should be revised. ALECA proposed specific AUSF rule  
9 changes, new section R14-2-1202, in Douglas Duncan Meredith's direct testimony filed in the  
10 state access docket as exhibit DDM-01. DDM-01 provides for a revenue-neutral offset from the  
11 AUSF for state access reductions. The proposed rule could be easily modified to conform to the  
12 access reform process in the FCC's CAF Order.

13          6.       *In light of the intervening events, do the interested parties have modifications to*  
14 *any of their earlier recommendations about the AUSF not already addressed? Procedurally, how*  
15 *should the Commission consider any revised recommendations?*

16          **Response:** The record is sufficient and supports the Commission taking action without  
17 any further rulemakings or proceedings. All parties have filed written testimony and participated  
18 in the access docket hearing conducted by the Commission for three days and have had ample  
19 opportunity to address all aspects of the AUSF. As described in the response No. 5, above, the  
20 AUSF rules proposed by ALECA (exhibit DDM-01) could easily be amended to conform to the  
21 time line and reductions detailed in the CAF order.

22          7.       *Is there any reason why the Commission should not act now concerning*  
23 *centralized administration and automatic enrollment of Lifeline and Link-up?*

24          **Response:** The Commission should consider centralized administration of low-income  
25 programs. Centralized administration has been effective in increasing participation in such  
26 programs. The FCC, in its recent Lifeline and Link-Up order (FCC 12-11 released February 6,  
27 2012), is far reaching and results in numerous changes in the administration and implementation

1 of the lifeline and link-up programs. As part of that order, the FCC amended its rules regarding  
2 the certification of initial program eligibility and annual verification of subscriber eligibility.  
3 The state should coordinate its efforts with the FCC's actions to ensure the most efficient  
4 administration of the programs.

5 8. *In light of the CAF Order's reference to the role of states in the implementation*  
6 *of the reforms addressed in that Order, should the Commission take further action in these*  
7 *dockets? Is yes, what?*

8 **Response:** No, not concerning the specific reforms addressed in the Order.

9 9. *Are current rate case procedures adequate, or should the Commission establish*  
10 *procedures for rate of return carriers that are not able to absorb lost access charge revenues?*

11 **Response:** The existing requirements are costly and burdensome. Filing requirements for  
12 local rate increases and AUSF funding have to be stream-lined to meet the target dates and  
13 address any unforeseen revenue losses resulting from implementation of the CAF order. Both to  
14 ensure consistency with federal policy and/or to avoid possible reductions in federal funding for  
15 certain Arizona companies, the Commission should allow all carriers who are below the FCC  
16 \$10.00 "rate floor" to raise rates to that level by no later than July 1, 2012.

17 Further adjustments should be permitted in future years, as the FCC continues to raise the  
18 "rate floor" as contemplated in the Transformation Order. The initial rate floor increases from  
19 \$10.00 to \$14.00 in 2013 and beginning July 1, 2014, and in each subsequent calendar year, the  
20 rate floor will be established after the Wireline Competition Bureau completes an updated annual  
21 survey of voice rates.<sup>3</sup> The national average local rate computed by data collected by NECA in  
22 2008 was \$15.62.<sup>4</sup> Carriers below the minimum rate levels that the FCC has deemed appropriate  
23 will lose, on a dollar per dollar basis, their high-cost loop included in federal funding.

24 The requirements outlined in R14-2-103 are not necessary for a revenue-neutral increase  
25 that only seeks to put a carrier in compliance with the FCC "rate floor" requirement. The

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<sup>3</sup> CAF Order at ¶ 239.

<sup>4</sup> CAF Order at ¶ 236.

1 Commission should waive the traditional rate increase rules in this specific case and create an  
2 expedited procedure whereby a rate increase can be implemented within 30 days. The new  
3 process should apply only to annual requests to modify rates to the "rate floor," and the  
4 application should be supported by a pro forma revenue calculation using prior year revenues as  
5 a point of comparison.

6 With regard to revenue neutral filings, carriers should have a streamlined process within  
7 the existing rules that allows for a revenue neutral filing. ALECA is available to work with  
8 Commission staff in arriving at a process to allow revenue neutral adjustments to occur in a  
9 timely and cost effective manner.

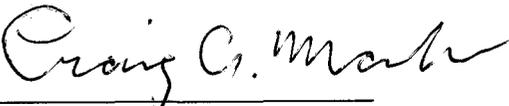
10 *10. Should the Commission seek carrier-specific information about the anticipated*  
11 *impact of the FCC's CAF Order on carrier revenues? If yes, from all carriers, or, e.g., only from*  
12 *rate of return carriers?*

13 **Response:** The Commission should only request carrier-specific information when a  
14 carrier initiates a filing to replace or increase revenues. Companies filing petitions to increase  
15 rates in order to comply with required benchmarks in the CAF order should not be required to  
16 file carrier specific information. Carriers filing for revenue neutral increases should only be  
17 required to document that the required increase is in fact, revenue neutral. Revenue neutral  
18 filings should also be done on a streamlined and expedited basis.

19 *11. Are there any other issues that can or should be addressed in these dockets? If*  
20 *yes, how should they be addressed procedurally?*

21 **Response:** ALECA supports closing the existing access docket. If the Commission  
22 determines certain aspects of the AUSF proceeding are beneficial, then the Commission should  
23 at least narrow the scope of the dockets to specific issues, such as AUSF.

1 RESPECTFULLY SUBMITTED on May 15, 2012.  
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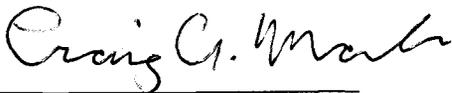
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