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BEFORE THE ARIZONA CORPORATION COMMISSION

- GARY PIERCE**
Chairman
- BOB STUMP**
Commissioner
- SANDRA D. KENNEDY**
Commissioner
- PAUL NEWMAN**
Commissioner
- BRENDA BURNS**
Commissioner

Arizona Corporation Commission
DOCKETED

MAY 15 2012

DOCKETED BY [Signature]

**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

**CENTURYLINK'S INITIAL
RESPONSES TO THE COMMISSION'S
QUESTIONS CONTAINED IN THE
PROCEDURAL ORDER DOCKETED
ON MARCH 21, 2012**

Pursuant to the March 21, 2012 Procedural Order issued in the above referenced consolidated dockets (the "Procedural Order"), Qwest Corporation d/b/a CenturyLink-QC ("CenturyLink") hereby submits its initial responses to the questions propounded in the Procedural Order.

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

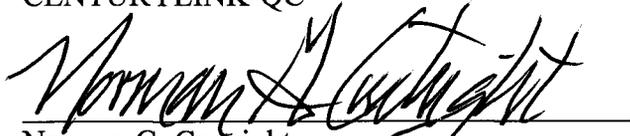
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RESPECTFULLY SUBMITTED, this 15th day of May, 2012.

QWEST CORPORATION d/b/a
CENTURYLINK-QC



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Arizona Corporation Commission
Docket No. RT-00000H-97-0137
Docket No. T-00000D-00-0672
Responses of CenturyLink-QC
May 15, 2012

- 1a. 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?

Response: There is no need for the Arizona Commission to take further action at this time, as the FCC has determined which carriers should be covered by access reform and the target access charge levels for those carriers. The FCC's transformation order (the *CAF order*) and subsequent reconsideration orders have made significant modifications to the intercarrier compensation landscape with broad ranging changes impacting switched access, reciprocal compensation, arbitrage issues, and phantom traffic. This extensive order went further than anything contemplated in the Arizona Access Charge Docket, as that case was conducted under the previous legal and regulatory approach to intercarrier compensation. In addition, the FCC's transformational order applies to all carriers, unlike Phase II of the Arizona switched access docket, which was specifically addressing issues of CLEC and Rural ILEC access rates. The transformation order also sets a target rate for all terminating access which goes further than anything contemplated by the Arizona Access Charge case- ultimately bringing terminating rates to a *bill and keep* level.

- 1b. Does the *CAF Order* address all access charge rate elements that have been addressed in these dockets?

Response: As described above, the FCC has addressed all of the switched access rate elements for price cap carriers; therefore there is no need for additional inquiry in this proceeding. The FCC's transformation order addresses all rate elements for price cap carriers in the following manner:

Originating access elements are frozen for both intrastate rates and interstate rates. The FCC issued a further notice of proposed rulemaking (FNPRM) to determine what further adjustments should be made to intrastate and interstate originating rates. The FCC recognizes that originating access rates require further analysis and therefore has initiated the process to investigate that issue further.

Terminating access elements and originating and terminating dedicated transport are reduced to interstate parity after 2 years and ultimately to Bill and Keep based on the following seven step process:

Step 1 -Effective 7/3/12, Intrastate terminating switched end office and transport rates and originating and terminating dedicated transport, if above the carrier's interstate access rate, are reduced by 50% of the differential between the rate and the carrier's interstate access rate.

Arizona Corporation Commission
Docket No. RT-00000H-97-0137
Docket No. T-00000D-00-0672
Responses of CenturyLink-QC
May 15, 2012

Step 2 – Effective 7/1/13, Intrastate terminating switched end office and transport rates and originating and terminating dedicated transport, if above the carrier's interstate access rate, are reduced to parity with interstate access rates. The intrastate rate structure will mirror the interstate rate structure.

Step 3– Effective 7/1/14, Establish separate originating and terminating rate elements for all per-minute and fixed components within interstate and intrastate end office access service. Terminating switched end office rates are reduced by 1/3 (one-third) of the differential between end office rates and \$0.0007.

Step 4– Effective 7/1/15, Terminating switched end office rates are reduced by 2/3 (two-thirds) of the differential between end office rates and \$0.0007.

Step 5– Effective 7/1/16, Terminating switched end office rates are reduced to \$0.0007.

Step 6- Effective 7/1/17, For interstate and intrastate terminating traffic traversing a tandem switch that the terminating carrier or its affiliate owns, Tandem Switched Transport Access Service rates are reduced to \$0.0007.

Step 7 - For interstate and intrastate terminating traffic traversing a tandem switch that the terminating carrier or its affiliate owns, Tandem Switched Transport Access Service rates are reduced to bill-and-keep.

1.c. If not, should the Commission take action with respect to these rate elements?

Response: The Commission should not take further action at this time with regards to any rate elements not reduced in the transformation order. The FCC has requested further comment on a subset of elements that were not reduced, such as originating access, and the Commission should not take action until the FCC has acted on these issues. The issues before the FCC are national in scope, and states moving forward at this time on the remaining issues could create conflicts and implementation problems. The Commission should also understand that there are significant differences between originating and terminating access, and there are a multitude of issues that must be addressed before any reduction in originating access is undertaken.

Arizona Corporation Commission
Docket No. RT-00000H-97-0137
Docket No. T-00000D-00-0672
Responses of CenturyLink-QC
May 15, 2012

- 1.d. 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: No, further action by this Commission will simply create more problems for the LECs who are already attempting to implement the major changes mandated by the transformation order. Layering additional state requirements on top of the current FCC mandated changes will add confusion and inefficiency to the process. In addition, state action could result in mandates that are ultimately inconsistent with FCC requirements.

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

Response: CenturyLink does not believe the Commission should address access issues that are being addressed by the FCC, as this will lead to a duplication of effort and potential conflicts. However, if the Commission were to further address originating access effectively in this proceeding, it would be necessary to gather in the record further updated information to address the *differences* between originating and terminating access.¹ Since the FCC is currently addressing originating access issues and the ultimate transition to bill and keep, duplicate efforts by this Commission would not be a productive use of resources, either for the Commission or various intervenors.

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

Response: No. Additional procedures are not required to implement the *CAF Order*. The required changes to intrastate access charges will be accomplished through a series of annual tariff filings as described above, which can be handled using the Commission's existing processes and procedures for tariff approval compliance, and enforcement of non-compliance, if necessary.

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

¹ In the Access Charge Docket, there was discussion of treating origination and termination in the same manner.

Arizona Corporation Commission
Docket No. RT-00000H-97-0137
Docket No. T-00000D-00-0672
Responses of CenturyLink-QC
May 15, 2012

Response: Yes, there is a need to address the narrow and specific issue of ongoing rate discrimination in Arizona. The CAF Order specifically allows companies to contract access rates, with the idea that tariffs will eventually no longer be necessary. However, there is a long transition period before switched access tariffs can be eliminated. Therefore the need to contract in a manner which does not create rate discrimination is paramount. In the Arizona Access Charge docket, evidence was produced demonstrating that, while all IXCs are similarly situated with regard to intrastate switched access, some (but not all) were afforded secret, off-tariff discounts. There is ample evidence on the record for a finding that contracts for switched access are allowed, but must not be discriminatory. We would urge the commission to clarify that carriers entering into switched access agreements do in fact make agreements known and available. Otherwise, it has been shown that carriers are already willing to discriminate, and clarification is necessary.

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

Response: The CAF Order does not directly impact the current AUSF at this time. The CAF Order reduces terminating intrastate access rates over time, and provides limited, partial revenue recovery for the reductions through an Access Recovery Charge (ARC). Based on these changes, there is no need to adopt additional changes to the AUSF to account for the impacts of the CAF Order at this time. Although the CAF Order does not directly impact the existing purpose or procedures associated with the AUSF, it does repurpose the federal USF mechanism from one that has historically supported basic voice communications, to one that will be directed towards broadband expansion in the future and, in a significant policy change, migrates away from a study-area based USF distribution mechanism to a more granular census-block mechanism for high-cost support. The ACC may wish to consider a similar repurposing of the AUSF in the future, but the current record is insufficient to make such a determination. It will be necessary for parties to have an opportunity in the future to create a record before any such repurposing is done.

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

Response: CenturyLink-QC has no specific modifications to its earlier recommendations other than those that are addressed through these

Arizona Corporation Commission
Docket No. RT-00000H-97-0137
Docket No. T-00000D-00-0672
Responses of CenturyLink-QC
May 15, 2012

responses. However, CenturyLink-QC reserves the right to respond to the comments of other parties in its reply comments.

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

Response: The FCC's Lifeline Order (FCC 12-11, released February 6, 2012) includes provisions that impact both of these issues. With respect to centralized administration, the Lifeline Order requires a greater level of documentation in connection with customer eligibility, enrollment, and certification. There is no centralized administration of the Lifeline program in Arizona today and these new requirements will necessitate careful consideration of a carrier's use of outside firms and agencies to administer these programs. The Lifeline Order also prohibits the use of automatic enrollment procedures in connection with new Lifeline participants and completely eliminates the non-tribal Linkup program. Therefore, no action should be taken with respect to either centralized administration or automatic enrollment at this time.

The Lifeline Order includes many new requirements that must be implemented by the company and state regulators. The Commission will need to work with CenturyLink-QC to implement many of these requirements. For example, the federal support level will be limited to \$9.25 per month (to be implemented by August 2012). Because the FCC has already addressed Lifeline issues in its Lifeline Order, the Commission should not take any further action in connection with Lifeline service in this proceeding.

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

Response: No further action is required in the Access Charge docket for implementation of the FCC's reforms in connection with the transformation Order. The Commission will have ETC certification responsibilities, but there is no need to address these responsibilities, which are defined in the FCC's Order, in the Access Charge proceeding. However, CenturyLink urges the Commission to actively support the development of a reasonable forward looking cost model that produces sufficient funding levels to fulfill the associated obligations and that is targeted to high-cost areas during CAF Phase II.

Arizona Corporation Commission
Docket No. RT-00000H-97-0137
Docket No. T-00000D-00-0672
Responses of CenturyLink-QC
May 15, 2012

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

Response: CenturyLink-QC interprets the current AUSF rule as requiring a financial showing to qualify for high cost support for the provision of voice service to rural areas. The financial showing need not necessarily require a rate case filing under R14-2-103; the Commission may prescribe some other method. Some other methods should be considered in the future, especially in light of the continued growth of competition in all areas of the state.

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

Response: CenturyLink QC does not believe that the provision of carrier-specific information to the Arizona Commission, especially from carriers operating under an AFOR plan, or who provide services pursuant to A.A.C. R14-2-1108, would serve any useful purpose.

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

Response: As stated at the February Procedural Conference in this docket, CenturyLink and other carriers are constrained by limited resources. There is an enormous amount of work necessary to implement the FCC's CAF Order already, without imposing additional State requirements, which, given the scope of the CAF Order, would be completely unnecessary at this time