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BEFORE THE ARIZONA CORPORATION COMMISSION
AZ CORP COMMISSION
DOCKET CONTROL

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

2012 JUN 15 PM 3 11

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 STAFF'S
COMMENTS AND
RECOMMENDATIONS ON THE ISSUES
CONTAINED IN THE MARCH 21, 2012
PROCEDURAL ORDER

Attached are Staff's Comments and Recommendations on the issues raised in the March 21,
2012 Procedural Order in these consolidated dockets.

RESPECTFULLY SUBMITTED this 5th day of June, 2012.

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Original and thirteen (13) copies
of the foregoing filed this
5th day of June, 2012 with:

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Arizona Corporation Commission
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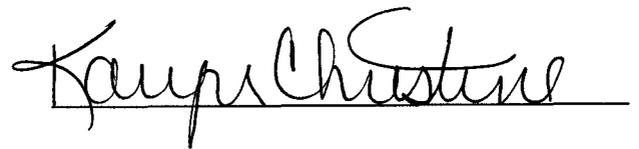
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STAFF'S COMMENTS AND RECOMMENDATIONS ON ISSUES
RAISED IN MARCH 21, 2012 PROCEDURAL ORDER

In her Procedural Order dated March 21, 2012, the Administrative Law Judge requested comments and recommendations on the following issues:

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: Staff does not believe that there is a need for the Commission to determine what carriers are or should be covered by access reform. In its Order, the FCC addressed the issue of intrastate terminating access charge reform and what carriers should be covered by access reform. It specified step downs in terminating access charges on specific dates. It further defined to a large degree how those reductions were to be accomplished. While it does not address all access charge rate elements that have been addressed in these dockets (for instance originating access charges), The FCC however is looking at the originating access issue, as part of a Further Notice of Proposed Rulemaking. Staff would note that the Arizona Commission has appealed the FCC's Order and that appeal is part of the consolidated cases now pending before the Tenth Circuit Court of Appeals. The Commission and other parties have specifically challenged the FCC's preemption of state authority over intrastate access charges. Until the jurisdictional issues are sorted out in the appeal, Staff does not believe that it makes sense for the Commission to take any further action on intrastate access reform at this time, unless the comments indicate a need in some area.

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

Response: The extent of the FCC's action in its reform of access charges exceeded by a margin Staff's expectations regarding the breadth and depth of its reforms of access charges, including the extent to which the FCC preempted State Commissions in that reform, its stated goal of bill and keep for all access and the timetable it set up for the transition to bill and keep. The first step in the implementation of transitional rates is to take place in just two and a half weeks. Given that, Staff believes that its recommendations regarding the implementation of access charge reductions have to a large extent been overtaken by the FCC's actions. The extent of the need for the AUSF to cover

these reductions is also uncertain at this point, since the FCC established an Access Recovery Charge (“ARC”) which will compensate carriers for reductions to their intrastate terminating access charges.

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, not at this time. Sprint recommends that the Commission establish procedures to implement intrastate access reform and require LECs to file data to support their proposed reductions. This would require significant updating to the record alongwith rule changes that may ultimately not be necessary. Carriers have been filing changes to their tariffs implementing the FCC’s changes; and Staff has been processing those tariff changes. The first FCC required step down to intrastate terminating access charges will occur on July 3, 2012. The Staff’s review of these tariffs is consistent with its interpretation of the FCC’s Order and its provisions regarding the reform of inter- and intrastate access charges. The FCC’s timetable and accompanying requirements for the level of access rates for Price Cap and Rate of Return companies has already been established.

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?

Response: No. Staff believes that the *CAF Order* specifically allows and indeed encourages carriers to enter into contracts for the provision of access services.

5. Does the *CAF Order* impact the AUSF? Should the Commission proceed with 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: Staff does not believe that the current record is sufficient to support any revised recommended reforms, given the FCC’s expansive and preemptive actions in its *CAF Order*. The Commission should hold the current docket in suspension until the jurisdictional issues are sorted out at the Tenth Circuit Court of Appeals; or until someone demonstrates a need for Commission action prior to that time.

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: Staff recommended that the Commission require that any company that wanted to receive AUSF funding to file a rate case; or a revenue neutral rate rebalancing proposal if certain parameters were met. The FCC has now proposed to implement an ARC mechanism to compensate carriers for their intrastate access reductions. The *CAF Order's* implications for Arizona carriers are extremely difficult to determine at this point because they are so wide-reaching and expansive in nature. The Staff, and the Commission as well, will have to rely on carriers informing them of any adverse impact resulting from the Order and how the carriers believe that those adverse impacts should be addressed. Given the wide-ranging nature of the various changes contained in that Order and the likely impact to carriers, the changes may have to be addressed on a carrier specific basis.

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

Response: No. Staff continues to recommend that Arizona Eligible Telecommunications Carriers ("Arizona ETCs") implement the recommendations contained in the Report and Recommendations of the Arizona Eligible Telecommunications Carriers ("ETCs") on Lifeline and Link-Up ("the Industry Report") which was submitted to the Commission on December 21, 2005. However, Staff does not recommend that the costs of implementing these recommendations be recoverable through an AUSF surcharge.

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, not at this time unless a party identifies a need and how that need can be addressed in this docket.

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: The FCC in its ARC discussion recognized that access revenues have been on the decline as customers communicate more via alternatives to voice communications such as email and text messaging. To provide LECs with a constant revenue (through the AUSF or other source) to offset losses in a source of revenue that is declining is not something Staff would recommend

that the Commission do without at least some review of the requesting company's financials.

Staff does believe that streamlined procedures that meet the requirements of Arizona law in lieu of the more lengthy rate case procedures embodied in rule R14-2-103 may be necessary and appropriate for some carriers to address the impacts of the *CAF Order* in a timely manner. LECs are under pressure from the FCC to increase local exchange rates to minimum levels in order to continue to be eligible to receive Federal USF support. In the *CAF Order*, the FCC stated that LEC must have minimum monthly service rates beginning with an initial rate floor of \$10 for the period July 1, 2012 through June 30, 2013 and \$14 for the period July 1, 2013 through June 30, 2014. Beginning July 1, 2014, and in each subsequent calendar year, the rate floor will be established after the Wireline Competition Bureau completes an updated annual survey of voice rates. To the extent end-user rates do not meet the rate floor, USAC will make appropriate reductions in High Cost Loop Support. While this aspect of the *CAF Order* has also been challenged on appeal, the appeal may not be resolved for sometime; so the Commission will be called upon to address these issues. Again, it may be that this issue is more appropriately addressed in individual carrier rate proceedings.

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: Some information has already been generated regarding the impact of the FCC's *CAF Order* on carrier revenues. Staff anticipates that carriers will bring this information forward in any individual filings that they make for rate relief as a result of the FCC's actions.

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

Response: From Staff's review of the comments of others, Staff does not believe that there are any other issues that can or should be addressed in these dockets at this time.