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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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JUN 15 2012

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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-00000H97-0137

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

) Docket No. T-00000D-00-0672

**SPRINT'S REPLY COMMENTS CONCERNING THE IMPLEMENTATION OF
THE FCC CONNECT AMERICA FUND ORDER**

In accordance with the directive included in the Arizona Corporation Commission's ("Commission" or "ACC") Procedural Orders, issued on March 20, and May 16, 2012, in the above-styled docket, Sprint Communications Company L.P., Sprint Spectrum, L.P. and Nextel West Corp. (collectively "Sprint") respectfully submits these Reply Comments on the impact of the Federal Communications Commission's ("FCC") *Connect America Fund Order*¹ on these Arizona dockets. Sprint respectfully reserves its

¹ WC Docket No. 10-90 *et al.*, *In the Matter of Connect America Fund, Report and Order and Further Notice of Proposed Rulemaking* (rel. Nov. 18, 2011), 26 FCC Rcd 17663, (hereinafter "CAF Order").

1 right to comment on portions of the *CAF Order* not specifically discussed below or in its
2 Initial Comments filed on May 14, 2012.

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

6 In its Initial Comments filed on May 14, 2012, Sprint emphasized that it is
7 imperative for the Commission to implement procedures necessary to ensure proper
8 implementation and enforcement of the intercarrier compensation reforms required by the
9 FCC's *CAF Order*. In fact, Sprint spelled-out in detail the actions required on the part of
10 the Commission to ensure the intrastate tariff filings would be in accordance with the
11 FCC's *CAF Order* (Sprint Initial Comments pages 5-8).

12 The Initial Comments of AT&T on this issue similarly promote Commission
13 involvement with the intrastate access filings and the corresponding review of those
14 filings to guard against gamesmanship (AT&T Initial Comments pages 8-13). Thus,
15 Sprint agrees with the Initial Comments of AT&T pertaining to Issue 3.

16 All other parties filing Initial Comments: Cox Arizona Telecom, LLC ("Cox")
17 (page 3), Arizona Local Exchange Carriers Association ("ALECA") (page 2), Eshelon
18 Telecom of Arizona, Inc., Mountain Telecommunications, Inc., and Electric Lightwave,
19 LLC (collectively "Integra") (page 3), Qwest Corporation d/b/a CenturyLink-QC
20 ("CenturyLink"), suggest that procedures to implement intrastate access reform are
21 unnecessary. Sprint disagrees with all of the aforementioned parties, and believes that if
22 the Commission fails to establish the proper procedures, it will clearly invite the
23 opportunity manipulate the tariff filing process.

24 It should come as no surprise that parties that are net-payers of Arizona intrastate
25 access charges (Sprint and AT&T) support the implementation of procedures to ensure
full reform compliance, whereas the net-receivers of access payments (Cox, ALECA,

1 Integra, and CenturyLink) oppose the idea of a formal plan. The net-payers of access
2 charges wish to assure the intrastate access reductions ordered by the FCC come to their
3 fruition. The net-receivers of access payments have not provided evidence to justify why
4 they should not be required to demonstrate compliance with the *CAF Order*. Without
5 such a demonstration it is possible intrastate access rates will remain artificially high.
6 The opportunity to game the system should be eliminated by requiring all LECs to
7 demonstrate compliance with the *CAF Order*.

8 **Issue 5 – Does the *CAF Order* impact the AUSF? Should the Commission proceed**
9 **with revisions to the AUSF rules? Why or why not? How should the AUSF be**
10 **revised? Is the current record sufficient to support any revised recommended**
11 **reforms?**

12 Sprint disagrees with ALECA’s position that the AUSF rules should be revised to
13 allow for a revenue-neutral offset from the intrastate access reductions (ALECA Initial
14 Comments page 3). As expressed in Sprint’s Initial Comments, the *CAF Order* provides
15 sufficient access revenue recovery via the Access Recovery Charge (“ARC”)² and
16 explicit support from the Connect America Fund to the extent an ILEC’s eligible
17 recovery exceeds the recovery permitted from the ARC.³ Further, the FCC concluded
18 that access revenue recovery from the ARC and the Connect America Fund allows the
19 LECs to earn a reasonable rate of return, and therefore established a petition process
20 through which the LECs can request additional support should they believe such relief is
21 insufficient⁴ (Sprint Initial Comments page 9).

22 ALECA’s request that the Commission allow LECs to utilize the AUSF as an
23 avenue to insulate themselves from the effects of reforms adopted in the *CAF Order*

24 ² See *CAF Order*, ¶ 852.

25 ³ See *Id.*, ¶853.

⁴ See *Id.*, ¶ 924.

1 directly contradict the FCC's ruling. The *CAF Order* recognizes the fact that access rates
2 have historically been set well above cost, and correctly concluded that continuing to
3 subsidize other services through inflated access rates will harm consumers and
4 competition in the telecommunications market. ALECA's request is nothing more than
5 an attempt to undo the *CAF Order* reforms in the interest of continuing to inflate their
6 revenue streams at the expense of consumers and other carriers. This Commission should
7 not be persuaded by such misplaced proposals, which directly contradict the *CAF Order*.

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

11 Sprint supports several of the statements made by AT&T in its Initial Comments
12 on this Issue. First, AT&T states that the FCC has already established federal recovery
13 mechanism (ARC and CAF funds) to address the terminating access reductions the FCC
14 has ordered (Initial Comments page 15). Second, AT&T states that the FCC explicitly
15 rejected a 100 percent revenue neutral approach to recovery, concluding that the reforms
16 the FCC adopted allowed the incumbent LECs to earn a reasonable return on their
17 investment (Initial Comments page 16). Third, AT&T reasons that the Commission
18 cannot override the FCC's mechanisms or give carriers a windfall or double recovery
19 above that specified by the FCC (Initial Comments page 16). Finally, AT&T opines that
20 the Commission need not allow carriers to eschew the available federal recovery
21 mechanisms and instead, obtain recovery under some alternative Arizona state
22 mechanism (Initial Comments page 16).

23 The AT&T comments cited above are in concurrence with Sprint's Initial
24 Comments that the FCC: (1) Ruled there is not a need to adopt a revenue-neutral
25 approach to allow for the recovery of lost access revenue resulting from the transition of

1 access charges, and that it had no legal obligation to allow full recovery “absent a
2 showing of taking.”⁵; (2) Established “a rebuttable presumption that the reforms adopted
3 in this [CAF] Order, including the recovery of Eligible Recovery from the ARC and
4 CAF, allow incumbent LECs to earn a reasonable return on their investment.”⁶; (3)
5 Established “a “Total Cost and Earnings Review,” through which a carrier may petition
6 the Commission to rebut presumption and request additional support.”⁷; and (4) Ruled
7 that “the limited recovery permitted will be more than sufficient to provide carriers
8 reasonable recovery for regulated services, ...”⁸ In addition, Sprint commented that if a
9 rate of return carrier feels that the ARC and CAF Funds establish by the FCC’s *CAF*
10 *Order* do not allow for a reasonable recovery for lost access revenues, the proper
11 procedure is for the carrier to rely upon the FCC’s “Total Cost and Earnings Review”
12 appeal process to seek additional recovery.

13 On the other hand, CenturyLink argues that an alternative to the rate case process
14 should be considered to allow for the recovery of access reductions, and ALECA argues
15 for a streamlined process within the existing rules that allows for a revenue neutral filing
16 (Initial Comments page 5). These arguments ignore the FCC’s ruling in the *CAF Order*
17 which explicitly rejected a revenue-neutral approach, and the FCC’s establishment of the
18 presumption that the ARC and CAF Funds allow for reasonable recovery of reduced
19 access revenue, as discussed above. Such arguments are nothing more than an attempted
20 end run around the reforms adopted in the *CAF Order*. Because the *CAF Order* provides
21 sufficient alternative recovery for access revenue reductions it mandates, Arizona does
22 not need to provide alternative recovery.

24 ⁵ See CAF Order, ¶ 924.

25 ⁶ *See Id.*

⁷ *See Id.*

⁸ *See Id.*

1 **Issue 10 – Should the Commission seek carrier-specific information about the**
2 **anticipated impact of the FCC’s *CAF Order* on carrier revenues? If yes, for all**
3 **carriers, or, e.g., only from rate of return carriers?**

4 Sprint supports the Initial Comments of AT&T on Issue 10. In particular, AT&T
5 urges the Commission to direct all LECs to provide carrier-specific information
6 underlying their implementation of the FCC-ordered terminating access reductions.
7 AT&T reasons that such information will ensure the access reductions are implemented
8 properly, and that such information will allow the Commission to assess the impact of the
9 *CAF Order* on carrier revenues (Initial Comments page 17).

10 AT&T’s arguments are in alignment with Sprint’s Initial Comments filed on May
11 14, 2012. In that filing Sprint commented that the Commission should seek carrier-
12 specific information regarding the anticipated impact of the FCC’s *CAF Order* for the
13 purpose of ensuring compliance with the required intercarrier rate reductions, and that
14 such information should be provided well in advance of July 1, 2012 tariff effective date
15 mandated in ¶801 of the *CAF Order*. Further Sprint proposed that the carrier-specific
16 information should be submitted on or before May 30, to permit the interested parties to
17 perform a review of the data prior to the actual July 1, 2012 tariff effective date. In
18 addition, all ILECs should provide information, and all interested parties should be
19 permitted to review the information of these carriers to assist the Commission with
20 ensuring compliance with ¶801 of the *CAF Order*. Moreover, since CLECs must
21 benchmark to the ILEC rates on July 1, 2012, it is imperative that CLECs be granted the
22 opportunity to review the ILEC information prior to that date.

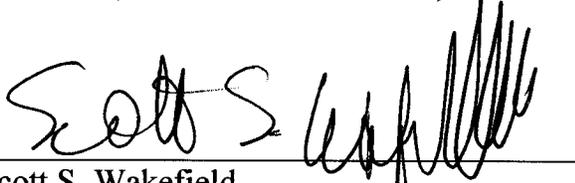
23 All other parties filing Initial Comments: CenturyLink, ALECA (page 5), Integra
24 (page 4), and Cox (page 5) submitted comments opposing the gathering of carrier-
25 specific information.

Similar to Issue 3 above, this is a situation where the parties who are the net-
payers of intrastate access charges (Sprint and AT&T) support the collection of carrier-

1 specific information to ensure the FCC's access reform plan is appropriately
2 implemented, and the net-receivers of access payments (Cox, ALECA, Integra, and
3 CenturyLink) resist the need to provide documentation in support of the access tariff
4 filings. This rate transition is much too important to the industry to ignore. A thorough
5 review is essential to ensure compliance with the *CAF Order*.

6 Respectfully submitted this 15th day of June, 2012.

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