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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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AZ CORP COMMISSION  
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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-00000H-97-0137

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

Docket No. T-00000D-00-0672

Arizona Corporation Commission

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FURTHER REPLY COMMENTS OF AT&T  
IN RESPONSE TO MAY 16, 2012 PROCEDURAL ORDER

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1 In accordance with the May 16, 2012 Procedural Order, AT&T submits these Reply  
2 Comments regarding the implications of the FCC's November 18, 2011 *CAF Order*.<sup>1</sup>

3 In its opening comments, AT&T addressed the FCC's order and provided its response to  
4 the specific questions raised by the Commission. AT&T's responsive comments addressed  
5 comments filed by other carriers. These previous filings have already addressed the issues  
6 discussed in the responsive comments submitted by Staff and the other carriers. AT&T will not  
7 repeat that discussion here, but instead will focus briefly on a few key points.

8 First, AT&T agrees with Staff that there is no need to address the issue of carrier-specific  
9 access contracts (Question No. 4) because "the *CAF Order* specifically allows and indeed  
10 encourages carriers to enter into contracts for the provision of access service."<sup>2</sup> Second, AT&T  
11 also agrees with Staff that there is no need to address revisions of the AUSF rules (Question  
12 No. 5) at this time.<sup>3</sup>

13 However, with respect to the Commission's supervision of the July 1, 2012 terminating  
14 access reductions ordered by the FCC, AT&T is concerned that if LECs do not provide the data  
15 supporting those reductions to Staff (Staff recommends against such filings), the process of  
16 supervision and implementation will, in the end, be more complex and contentious than it needs  
17 to be. That said, AT&T does appreciate Staff review of tariff changes in the various carrier-  
18 specific dockets at whatever level.

19 The remaining issue before the Commission – and, by far, the most important for Arizona  
20 consumers – is what to do about the rate elements the FCC's order left open, namely originating  
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23 <sup>1</sup> *In re Connect America Fund: A National Broadband Plan For Our Future*, 54 Communications Reg. (P&F) 637,  
2011 WL 5844975 (FCC rel. Nov. 18, 2011) ("*CAF Order*").

24 <sup>2</sup> Staff Comments, at 2.

<sup>3</sup> *Id.*

1 switched access. The question that should guide the Commission in making that decision is  
2 simple: What would be better for Arizona consumers?

3 The answer is clear. AT&T proposes that the Commission direct all Arizona LECs  
4 (AT&T included) to reduce their originating switched access rates for intrastate calls to parity  
5 with their corresponding interstate rates. The evidence in this record – now reinforced by the  
6 FCC’s order – confirms that access reform will benefit consumers. For now, all AT&T  
7 recommends is that the Commission *look* at this modest proposal, particularly given all the  
8 evidence that has already been assembled in this five-year-long proceeding.

9 The alternative proposal, supported by other LECs and by Staff, is to do nothing and  
10 close the docket. Obviously, doing nothing would not benefit Arizona consumers. It could not  
11 possibly benefit Arizona consumers. Thus, none of the do-nothing advocates even *claim* there  
12 are any benefits to their proposal and the bulk of their arguments have nothing to do with  
13 consumers’ interests.

14 Staff contends (at 1) that the Commission should not take any action “[u]ntil the  
15 jurisdictional issues are sorted out.” But, there are no issues to sort out with respect to *this*  
16 Commission’s jurisdiction over intrastate originating access rates. The Commission has  
17 unquestioned authority over those rates. The Commission (and some others) have questioned the  
18 FCC’s jurisdiction to preempt state authority over intrastate rates, but the FCC has not acted with  
19 respect to originating access and it certainly has not preempted the states from doing so. To the  
20 contrary, the FCC expressly preserved state action and took pains to say that “[t]o the extent that  
21 states have established rate reduction transitions for rate elements not reduced in this Order” (and  
22 everyone agrees that originating access rate elements were not reduced in the *CAF Order*),  
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1 “nothing in this Order impacts such transitions.”<sup>4</sup> Further, the FCC made clear that its order does  
2 not “prevent states from reducing rates on a faster transition provided that states provide any  
3 additional recovery support that may be needed.”<sup>5</sup>

4 Moreover, the ongoing appeals regarding the FCC’s authority point out the central  
5 paradox in Staff’s argument. Outside this proceeding, this Commission is saying that it alone,  
6 and not the FCC, can act on intrastate switched access rates. Given that position, it would make  
7 no sense for the Commission to say it will *not* act on intrastate originating access rates and  
8 instead wait for the FCC to act. Likewise, it makes no sense for this Commission to do nothing  
9 for Arizona consumers, because the FCC *might* do something someday about intrastate  
10 originating access rates.

11 CenturyLink also misses the point when it argues (at 4) that AT&T seeks originating  
12 access reform “because of the pending appeal of the *CAF Order*” or “to address the contingency  
13 of what may or may not happen with the appeal.” That is not true. AT&T seeks originating  
14 access reform for the same reason it has advocated reform throughout this proceeding: because  
15 the overwhelming weight of the evidence in this docket (now bolstered by the FCC’s findings in  
16 the *CAF Order*) shows that reform will benefit Arizona consumers. The FCC’s order gives this  
17 Commission *more* reason to act on originating access. It expressly permits and indeed invites  
18 states to act on originating access.<sup>6</sup> Further, by taking care of recovery mechanisms for  
19 *terminating* access reductions at the federal level, the FCC has made it much easier for this state  
20 to implement *originating* access reductions.

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23 <sup>4</sup> *Id.*, ¶ 816 n.1542.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

1           The Commission should also reject CenturyLink’s baseless assertion (at 4) that “the state  
2 would . . . be out of synch with federal requirements” if it adopted originating access reform.  
3 The reality is exactly the opposite. Right now, Arizona is way *out* of synch with federal  
4 requirements. CenturyLink and other Arizona LECs charge much higher originating access rates  
5 for in-state calls than they do for interstate calls. In addition, Arizona is even farther out of step  
6 with the FCC’s ultimate goal that originating access move to a bill-and-keep framework.  
7 AT&T’s proposal is that Arizona put itself *in* synch with federal requirements by directing LECs  
8 to reduce their intrastate originating access rates to parity with the corresponding interstate rates.  
9 If CenturyLink truly wanted Arizona to be in synch with federal requirements, it would be  
10 supporting AT&T, rather than trying to preserve the existing disparity between state and federal  
11 rates.

12           Finally, it is stunning that CenturyLink would now try to re-argue the merits of access  
13 charge reform. Over a decade ago, this Commission found that access reductions would benefit  
14 Arizona consumers. And after five years of assembling evidence in this proceeding, virtually all  
15 parties (including CenturyLink) agreed that access reform would benefit consumers. The FCC  
16 reached the same conclusion, holding that reform of terminating access alone would bring “pro-  
17 consumer, pro-innovation” relief in excess of \$1.5 billion a year (and that is a conservative  
18 estimate).<sup>7</sup> Yet now, CenturyLink makes the baseless claim (with no evidentiary support) that  
19 “[i]f originating access is reduced, *all* Arizona customers will bear the financial impact of local  
20 exchange carrier revenue recovery, just so IXCs can reduce their cost of connecting to *their*  
21 customers.”<sup>8</sup>

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23 <sup>7</sup> *CAF Order*, ¶ 14.

24 <sup>8</sup> CenturyLink Comments, at 4.

1 CenturyLink's assertion is wrong on multiple levels. Most importantly, CenturyLink  
2 ignores the fact that today Arizona customers already bear the financial impact of LECs' access  
3 charges – not only because they pay more for long-distance and wireless service, but also  
4 because they bear the brunt of reduced innovation, distorted competition and wasteful arbitrage  
5 that the access charge regime has caused.<sup>9</sup> The point of access reform is to give consumers relief  
6 from these hidden costs.

7 Second, the benefits of access reform are not limited to IXC's, as CenturyLink asserts.  
8 Elementary economics tells us – and history has shown time and time again – that when IXC's  
9 “reduce their cost of connecting to their customers,” consumers are the beneficiaries, because  
10 retail prices go down and competitive choices go up.<sup>10</sup> Staff acknowledged in its pre-filed  
11 testimony that “[a] reduction in toll rates is a benefit” of access reform.<sup>11</sup>

12 Third, as AT&T has explained in previous comments, CenturyLink's professed concern  
13 about “the financial impact of local exchange carrier revenue recovery” is unfounded, because  
14 the revenue recovery for originating access reform is likely to be small now that the FCC has  
15 already shouldered the burden of revenue recovery for terminating access reform at the federal  
16 level. Further, CenturyLink has not provided any evidence as to what “impact” such “recovery”  
17 would have. Again, all AT&T asks is that the Commission *consider* the benefits of originating  
18 access reform.

## 19 CONCLUSION

20 For the reasons set forth in AT&T's initial and responsive comments, the Administrative  
21 Law Judge should issue a procedural order after the review and implementation of the

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22 <sup>9</sup> CAF Order, ¶ 9.

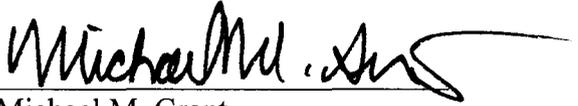
23 <sup>10</sup> AT&T-1 (Aron Direct, Public), at 58-67 & Figs. 5, 6.

24 <sup>11</sup> S-1 (Shand Direct, Public), at 12.

1 terminating access reductions are complete, soliciting comments from the parties on their  
2 proposals for originating access reforms.

3 RESPECTFULLY SUBMITTED this 2<sup>nd</sup> day of July, 2012.

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