

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES
CHAIRMAN
3 GARY PIERCE
COMMISSIONER
4 SANDRA D. KENNEDY
COMMISSIONER
5 PAUL NEWMAN
COMMISSIONER
6 BOB STUMP
COMMISSIONER

7 IN THE MATTER OF THE REVIEW AND
8 POSSIBLE REVISION OF ARIZONA
9 UNIVERSAL SERVICE FUND RULES,
10 ARTICLE 12 OF THE ARIZONA
11 ADMINISTRATIVE CODE.

Docket No. RT-00000H-97-0137

12 IN THE MATTER OF THE
13 INVESTIGATION OF THE COST OF
14 TELECOMMUNICATIONS ACCESS.

Docket No. T-00000D-00-0672

15 **RUCO'S CLOSING BRIEF MATTERS**

16 The Residential Utility Consumer Office ("RUCO") hereby files its Closing Brief in the
17 above-referenced matter.

18 **FACTUAL BACKGROUND**

19 The Arizona Universal Service Fund ("AUSF" or "Fund") was established on September
20 22, 1989. [Decision No. 56639] The AUSF was designed to help offset high basic local
21 telephone rates in rural areas. One half of the AUSF was derived from local exchange carriers
22 based on the number of access lines, and one half was derived from interLATA and intraLATA

1 intrastate minutes of use.¹ On March 24, 1996, the Commission adopted rules which
2 established a new universal service fund mechanism. The AUSF rules expanded the types of
3 telecommunications providers that contribute to the AUSF and changed the criteria for drawing
4 from the fund. In 1997, Docket RT-00000H-97-0137 was opened to again review and revise
5 the AUSF rules.

6 At the Arizona Corporation Commission's ("Commission") August 22, 2000 Open
7 Meeting (Docket No. T-02724A-99-0595), then-Chairman Kunasek requested an investigation
8 into whether access charges for Arizona utilities reflect the cost of access.² In 2000, the
9 Commission opened Docket T-00000D-00-0672 with the intent of analyzing the relationship
10 between the rates charged and the costs incurred in the provision of access service. "Phase I"
11 of the docket addressed Qwest's access charges, and "Phase II" was intended to address
12 access charges for other carriers. By Procedural Order dated December 3, 2001, parties were
13 directed to provide written comments on a number of issues/questions that had been put forth
14 by Staff. After parties filed their responses, Staff, on March 28, 2002, filed its procedural
15 recommendations. By Procedural Order of May 21, 2002, the Commission adopted Staff's
16 proposed procedural schedule. RUCO and other intervenors filed direct testimony on June 28,
17 2002. By Procedural Order of July 8, 2002, the procedural schedule in this matter was
18 suspended.

19 On September 26, 2003, Staff filed a Request for and Expedited Procedural Conference
20 ("Motion") pursuant to the Commission's directive at the September 19, 2003 Open Meeting to

21 _____
22 ¹ Direct Testimony of Ben Johnson PH.D at 3-6.

23 ² See September 5, 2000 Memo from Deborah Scott, Director of Utilities Division ("Staff") opening this Docket No.
24 T-00000D-00-0672. Qwest had opposed the intrastate access charges that the Commission ultimately adopted for
Table Top Telephone Company, arguing that they were not consistent with the access charge rates for other
comparable companies in Arizona. See *also* Decision No. 62840 at 3 (August 24, 2000).

1 review Qwest's intrastate access charges on an expedited basis. Staff's Motion raised several
2 issues that it proposed be considered at the procedural conference. A procedural conference
3 was held on October 14, 2003. At the procedural conference, the Administrative Law Judge
4 requested briefs from the parties on the following issues: 1) the legal requirements for
5 changing access charges pursuant to Scates v. Ariz. Corp. Comm'n, et al. and possible
6 alternatives to deal with such requirements; 2) whether the proceeding should be bifurcated to
7 consider Qwest's access charges apart from those of other local exchange carriers ("LEC");
8 and 3) scheduling proposals for both a bifurcated and non-bifurcated proceeding.

9 The Commission consolidated the AUSF and Access Charge dockets. On October 7,
10 2008, numerous parties filed issue statements which left the Commission with no clear
11 consensus on how to proceed. On October 10, 2008, the parties agreed that no further action
12 should be taken in this consolidated docket until the FCC issued an order on intercarrier
13 compensation that was expected to be issued the following month. At a January 29, 2009
14 procedural conference, the parties again advocated disparate approaches to the issues
15 involved in this docket. Some parties suggested moving forward, while others recommended
16 waiting for further action by the FCC.³ During the summer of 2009, the parties participated in
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19 ³ See September 29, 2009 Procedural Order at 2. RUCO argues that the Commission's rulemaking authority
20 must comply substantially to the rulemaking procedures of the Governor's Regulatory Review Council ("GRRC").
21 See ARS § 41-1057(2). GRRC's procedures require an agency to notice proposed rules to the public along with
22 an economic impact statement and a statement of effect of the rule on small business. RUCO respectfully
23 submits that this rulemaking docket is not a substitute for that process. Although the Commission may examine
24 general policies relevant to access charges and the AUSF, to complete the rulemaking process, the Commission
will need to notice proposed rules and supporting impact statement, and provide a notice and opportunity to
additional public comment pursuant to the requirements of ARS § 41-1057(2). Moreover, changes to rates may
not be effectuated through rulemaking. In order to alter the specific rates of any utility, the Commission will have
to hold a fair value proceeding. See discussion on pages 7-9. Accordingly, RUCO has not submitted proposed
rule changes herein, but restricts itself to a discussion of the policy considerations related to any subsequent
rulemaking.

1 two workshops. A procedural conference was held on September 6, 2009 to again discuss
2 how this docket should proceed. On September 29, 2009, the Commission concluded:

3 There does not appear to be a dispute that access charges and
4 AUSF should be reviewed to reflect the current realities in the
5 communications industry, but after years of discussions among the
6 parties, discovery and workshops, no consensus has emerged
7 about how to proceed, much less on the substantive or policy
8 questions. ... The recommendation to conduct an evidentiary
9 hearing appears to be the best means to make progress with the
10 Commission's investigation in these matters.⁴

11 The Commission also provided a list of 12 issues to be addressed at the hearing.⁵
12 Finally, the Commission established a testimony filing schedule that included filing direct
13 testimony by all parties except Staff and RUCO on December 1, 2009, and by Staff and RUCO
14 on January 6, 2010.

15 **SUMMARY OF THE PARTIES' POSITIONS**

16 Through this proceeding, the parties have essentially reiterated positions that had been
17 advocated several times over the course of these consolidated dockets. Qwest focuses on
18 AUSF issues, and advocates a wire-center targeted support mechanism that would be
19 uniformly applied to rural and non-rural carriers. Qwest also recommends allowing carriers to
20 recover a portion of "additional costs" from end-users. Verizon recommends capping all LEC
21 switched access rates at Qwest's current levels, arguing that any lost revenues should be
22 collected from increased retail rates. Verizon also recommends leaving the existing AUSF
23 system essentially unchanged. ALECA proposes a revenue neutral approach by which lost
24 revenues from reduced access charges would be recouped from a high cost universal service

⁴ *Id.* at 3

⁵ *Id.* at 4-5.

1 program. ALECA proposes to use Qwest's intrastate access rates to set its members' rates.
2 ALECA also does not believe rate cases should be required for its members.

3 AT&T recommends ILECs be required to lower access charges to interstate levels, and
4 capping CLEC rates at ILEC levels. AT&T also recommends a revenue neutral approach
5 whereby rate-regulated carriers can recoup lost revenues from price-capped lines. Sprint
6 asserts that subsidies from access charges are no longer needed, since LECs have expanded
7 the types of retail services they provide over their networks. Sprint recommends setting LEC
8 access rates at interstate levels.

9 The Joint CLECs argue that CLEC access rates need not, and should not, be
10 addressed at this time. When CLEC access rates are modified, the changes should be based
11 on cost, rather than interstate rates or Qwest's intrastate rates. Otherwise, according to the
12 Joint CLECs, changes should be based on Qwest's rates from 1999. In any event, the CLECs
13 recommend a gradual, multi-year approach to access charge reform. Finally, the CLECs
14 recommend the Commission set rates for terminating wireless carriers' intrastate, intraMTA
15 calls. Cox recommends the Commission wait for the FCC to finalize its efforts to reform
16 intercarrier compensation arguing that if the Commission moves forward and includes CLEC
17 access rates in the proceeding, it should proceed slowly and allow CLECs to set rates that are
18 higher than corresponding ILEC rates.

19 RUCO asserts there is no pressing, emergent need to modify access charges and that
20 specific modification of charges should not be effectuated in the context of a rulemaking
21 proceeding. Specific modification of a carrier's access charges, if any, should occur in the
22 context of a fair value rate case proceeding. RUCO urges the Commission to reject the
23 requests for revenue neutral modifications because revenue neutrality may insulate carriers
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1 from revenue reductions, but it does not protect customers against rate increases. Instead, if
2 the Commission determines that modifications are in order, RUCO asserts that the changes
3 should ensure that IXCs bear a fair measure of the cost allocation for support of the local
4 network they utilize, and those changes, if any, be implemented gradually. RUCO asserts that
5 the adverse impact on ratepayers who may suffer increased base rates or be required to make
6 AUSF contributions should be mitigated by requiring the IXCs' expanded support of the AUSF.
7 Before undertaking any changes to access rates, RUCO urges the Commission to investigate,
8 in the context of a rate case, the actual costs of network services, the impact on rural
9 ratepayers, the absence of reasonable alternatives, and ensure that carriers' non-regulated
10 services bear a reasonable share of the cost burden.

11 With regard to the AUSF, RUCO requests that if the Commission decides to make any
12 changes to the AUSF, the changes should be competitively neutral, provide support to all
13 carriers that maintain universal service in high cost areas identified by use of an economic cost
14 benchmark, be based on fair criteria which are not skewed in favor of any particular technology
15 and be portable. RUCO further asserts that AUSF support should not be granted on a dollar-
16 for-dollar basis to ameliorate the impact of access rate reductions. The determination of the
17 level of AUSF support should be made in the context of a rate case, and only after considering
18 a carrier's actual need for such funds to mitigate lost revenue from reduced access charges.
19 Lastly, to ensure the viability of the AUSF, the Commission should consider expanding the
20 funds application to other telecom services which benefit from universal service including, but
21 not limited to, interexchange service, wireless service and internet access service.

1 **THE COMMISSION MAY NOT ALTER SPECIFIC ACCESS CHARGES WITHOUT A FAIR**
2 **VALUE PROCEEDING**

3 One of the issues in this proceeding is whether the Commission may alter the specific
4 access rates of LECs without a fair value proceeding. As RUCO has argued consistently, the
5 Commission may examine the general policy issues related to access charges in this rule-
6 making proceeding, but any change to a specific LEC's access rates would require the
7 Commission to determine the fair value of a public service corporation's rate base as part of a
8 proceeding in which the Commission establishes its rates. If this proceeding will result in
9 modifications to any public service companies' access charges, the requirement to determine
10 fair value would apply. Article XV, § 14 of the Arizona Constitution requires that the
11 Commission ascertain the fair value of utilities' property when setting rates.⁶ The Arizona
12 Courts have recognized two exceptions to the fair value requirement: 1.) implementation of
13 interim rates to deal with an emergency, and 2.) the adjustment of rates pursuant to an existing
14 rate adjustor mechanism.⁷ Recently, our Supreme Court ruled that, even if the Commission
15 believes that a determination of fair value is not useful in setting rates, the Constitution
16 requires ascertaining fair value.⁸ Clearly, the determination of a utility's fair value is a
17 mandatory step in establishing rates which may not be undermined or replaced by this rule-
18 making proceeding on AUSF and Access Charges.

22 ⁶ *State v. Tucson Gas*, 15 Ariz. 294, 303, 138 P. 781, 785 (1914); *Simms v. Round Valley Light & Power Co.*, 80
23 Ariz. 145, 151, 294 P.2d 378, 382 (1956); *Scates v. Ariz. Corp. Comm'n*, 118 Ariz. 531, 534, 572 P.2d 612, 615
(App. 1978).

24 ⁷ *Scates*, 118 Ariz. at 535, 578 P.2d at 616.

⁸ *U S West Communications v. Ariz. Corp. Comm'n*, 201 Ariz. 242, 245 ¶ 12, 34 P.3d 351, 254 (2001).

1 **REVENUE NEUTRAL MODIFICATIONS OF ACCESS CHARGES VIA RULEMAKING ARE**
2 **NOT EXEMPT FROM THE FAIR VALUE REQUIREMENT**

3 A revenue neutral “rebalancing” of rates occurs when rates for some services are
4 increased, while rates for other services are decreased in an approximately equal amount.
5 Some of the parties to this proceeding suggest that the Commission may adopt revenue
6 neutral modifications of access charges without ratemaking as an interim measure pending
7 institution of a rate case or as a final resolution of all matters. RUCO disagrees and asserts
8 that revenue neutral rebalancing of access charges is not exempt from the fair value
9 requirement. The Constitution speaks of “rates and charges” that are to be set with the
10 assistance of a fair value determination. Art. XV, §§ 3, 14. The plain meaning of the terms
11 “rates” and “charges” are prices customers are required to pay for particular services. Even if
12 a rate “rebalancing” holds the overall revenue level of the utility constant, the changes to “rates
13 and charges” for particular services triggers the fair value requirement. In light of these
14 constitutionally-based requirements, RUCO respectfully submits that the Commission’s
15 examination of policy issues regarding access rates may not result in a change to a specific
16 LEC’s rates without company-specific proceedings in which the Commission can ascertain fair
17 value, evaluate the degree to which the general policies determined in the first phase are
18 suitable for the particular utility, and implement new access rates as appropriate.

19 **REVENUE NEUTRAL MODIFICATIONS OF ACCESS CHARGES ARE UNFAIR AND**
20 **UNREASONABLE TO RESIDENTIAL RATEPAYERS.**

21 In addition to sidestepping the ratemaking process, the supporters of revenue neutral
22 modification of access charges also ignore the resulting inequity to ratepayers. As Mr.
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1 Johnson testified, revenue neutrality does not protect customers from rate increases.⁹ Instead,
2 it merely ensures that carriers are insulated from revenue reduction.¹⁰ The rhetoric of revenue
3 neutrality rings hollow, once it becomes clear that these carriers are attempting to not only
4 avoid the normal requirement for rate changes to be adopted in the context of a fair value rate
5 case proceeding, but also attempting to sidestep a detailed examination of growth in
6 unregulated services and the determination of an appropriate allocation of costs between basic
7 local service, switched access service and the various unregulated services, including
8 broadband internet access service.¹¹ Consistent with the law, equity and sound rate making
9 principles, RUCO urges the Commission to consider these factors before approving reductions
10 to access charges which may significantly increase residential rates, particularly in rural areas,
11 where ratepayers are most vulnerable and least able to afford it. Moreover, RUCO urges the
12 Commission to consider that if ratepayers are expected to bear much of the burden of access
13 rate reductions via increases in either local or AUSF rates, then carriers must also absorb
14 some measure of the burden through reduced profit margins or expanded participation in
15 AUSF.

16
17 **IMMEDIATE ELIMINATION OR REDUCTION OF ACCESS CHARGES IS INCONSISTENT
WITH FEDERAL LAW, FEDERAL REGULATION AND LONG TERM GOALS OF THE FCC.**

18 IXC's pay access charges for the origination and termination of long distance calls. As
19 explained in the testimony of Mr. Johnson, when an end user places or receives a toll call, they
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23 ⁹ See Direct Testimony of Ben Johnson, PH.D. at 16-19

24 ¹⁰ *Id.* at 18.

¹¹ *Id.*

1 typically use a phone line provided by their local exchange carrier.¹² Although the IXC typically
2 bills an end user for the phone call, the IXC normally pays one or more LECs for the use of
3 network facilities which are used in processing the call. These inter-carrier billings are referred
4 to as "switched access charges." The current system of access charges is a continuation of a
5 cost recovery process which has existed since before the AT&T divestiture. Although this cost
6 recovery process has undergone extensive review and modification, it continues to be an
7 important source of revenues for the LECs, and is one of the reasons why local exchange
8 rates remain as low as they are—particularly in rural areas.¹³

9 IXC's assert that the cost of the local loop should fall exclusively upon the local
10 exchange carriers. IXC's assert that they should not be required to pay for using these
11 networks, or at most they should make only token payments for their use of the local networks
12 arguing that their use of the local networks don't "cause" them to be incurred, and/or because
13 their usage is "incidental" to the primary purpose of those networks, and/or because the costs
14 in questions are classified as "non-traffic sensitive" while access charges and retail toll rates
15 are both "traffic sensitive" rates, access rates should be reduced towards zero.¹⁴ According to
16 the IXC's argument, the cost of the loop, drop wire, line card, and channel connection are the
17 incremental cost of providing local exchange service, and none of these costs can properly be
18 considered part of the cost of providing switched access.¹⁵

12 *Id.* at 6

13 *Id.* at 6.

14 *Id.* at 8-9.

15 *Id.* t 8-9.

1 As Mr. Johnson testified, the IXCs' arguments fly in the face of existing law and
2 regulation. Mr. Johnson testified that over 85 years ago, in the landmark decision, Smith vs.
3 Illinois Bell Telephone Company ("Smith"), the U.S. Supreme Court provided its guidance on
4 whether switched access rates should be greatly reduced or eliminated.¹⁶ Writing for the Court
5 on the question of whether the entire cost of the access line could be charged to a single
6 service, Chief Justice Charles Evans Hughes noted as follows:

7 In the method used by the Illinois Company in separating its
8 interstate and intrastate business, for the purpose of the
9 computations which were submitted to the court, what is called
10 exchange property, that is, the property used at the subscriber's
11 station and from that station to the toll switchboard, or to the toll
12 trunk lines, was attributed entirely to the intrastate service.... While
13 the difficulty in making an exact apportionment of the property is
14 apparent, and extreme nicety is not required..., it is quite another
15 matter to ignore altogether the actual uses to which the property is
16 put. **It is obvious that, unless an apportionment is made, the**
17 **intrastate service to which the exchange property is allocated**
18 **will bear an undue burden....**¹⁷

19 As exemplified by the holding in Smith, the law clearly requires a fair apportionment of local
20 exchange costs between the intrastate and interstate carriers who utilize the infrastructure. It
21 would under Smith be unfair and unreasonable to apportion the cost of the local exchange on
22 the local exchange carriers and their ratepayers while holding harmless the interstate carriers
23 who utilize and benefit from the infrastructure.

24 The requirement to fairly apportion costs between interstate and intrastate carriers is
also reflected in federal laws. In the 1996 Telecom Act, Congress reiterated the need to
properly allocate local loop costs between both.¹⁸ Section 254 provides in pertinent part:

¹⁶ See Smith vs. Illinois Bell Telephone Company, 282 U.S. 150, 151 (August 1923).

¹⁷ *Id.* at 151(emphasis added).

¹⁸ 1996 Telecom Act, 47 U.S.C. §254(k)(1996).

1 [T]he States, with respect to intrastate services, shall establish any
2 necessary cost allocation rules, accounting safeguards, and
3 guidelines to ensure that services included in the definition of
4 universal service bear no more than a reasonable share of the joint
5 and common costs of facilities used to provide those services.¹⁹

6 Although Congress hasn't mandated the specific allocation procedures to, or specified
7 exactly how much of the joint costs can be placed onto the basic exchange category, it is
8 obvious that the allocation of most or all of these costs onto local exchange service as
9 suggested by some of the parties to this proceeding, would be contrary to the intent of
10 Congress, as indicated and set forth in Section 254(k) as well as the Smith case.

11 Some of the parties argue that immediate reduction of access charges is essential. In
12 its recently issued executive summary of its proposed National Broadband Plan, the FCC does
13 not reflect the same urgency argued by some parties.²⁰ To the contrary, the FCC's goals
14 include *inter alia*:

- 15 1. The goal to create the Connect America Fund to support the
16 provision of affordable broadband and voice with at least 4Mbps
17 actual download speeds and shift up to \$15.5 billion over the
18 next decade from the existing Universal Service Fund to support
19 broadband.
- 20 2. To transition \$4.6 billion of the "legacy" High Cost component of
21 the USF designed to support primarily voice services to the CAF
22 over 10 years; and
- 23 3. Reforming intercarrier compensation which provides implicit
24 subsidies to telephone companies by eliminating per-minute
charges over the next 10 years and enabling adequate cost
recovery through the CAF.²¹

23 ¹⁹ *Id.*

24 ²⁰ See Exhibit Cox-3, Executive Summary of National Broadband Plan at XI-XIII.

²¹ *Id.*

1 Clearly, the FCC recognizes that the reform in intercarrier compensation (i.e. access
2 charges and the USF) needs a transition period and will take place over at least a 10-year
3 period of time. Given the FCC's stated goals, RUCO submits that the extreme and immediate
4 shift of cost responsibility suggested by the IXCs would be contrary to the clear intent of the
5 FCC's stated goals, as well as the federal case law and regulation. RUCO further asserts that
6 the elimination or severe reduction in access charges as proposed by the IXCs would force
7 local exchange service to bear more than a reasonable share of the joint and common costs of
8 facilities used in providing local, access, and other services.

9
10 **THE COMMISSION SHOULD CONSIDER POLICY GOALS ENUMERATED BY DR. JOHNSON IN DETERMINING ACCESS CHARGE MODIFICATIONS**

11 RUCO asserts that in determining the need to modify access charges, the Commission
12 should consider the overriding policy goals aimed at ensuring the availability of quality
13 telecommunications services at the lowest possible cost, while ensuring and encouraging
14 economic growth and technological advancement.²² Mr. Johnson testified that the policy goals
15 are:

- 16 1. the preservation and promotion of affordable, high-quality, universal basic
17 telecommunications service;
- 18 2. the maintenance of fair, just and reasonable rates or inter-customer equity;
- 19 3. the maintenance of reasonable level of rate continuity;
- 20 4. the promotion of economic efficiency, technological innovation; and
- 21 5. the encouragement of effective competition.²³

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23 ²² See Direct Testimony of Ben Johnson, PH.D. at 15.

24 ²³ *Id.* at 15-29.

1 Mr. Johnson further testified that in considering these policy goals, the Commission should not
2 seek to achieve one of the goals to the exclusion of all others, but that caution and moderation
3 should guide the Commission's analysis. He testified, and RUCO recommends, that goals of
4 economic efficiency should not take precedence over consideration of rate continuity and
5 avoidance of disruptive rate changes.

6 **CONCLUSION**

7 Based on the foregoing, and mindful of the policy goals identified by Dr. Johnson, RUCO
8 makes the following specific recommendations:

- 9 1. The Commission should not change its long-standing practice of allocating only a
10 reasonable portion of loop costs and other non-traffic sensitive joint and common
11 costs to basic local exchange services. Many of the proposals offered by other
12 parties would allow toll and switched access customers to avoid paying a reasonable
13 share of the fixed costs of the local exchange networks which make these services
14 possible. This is fundamentally unfair to local exchange customers. Proposals
15 which go too far in shifting the cost burden away from AT&T, Verizon and the other
16 interexchange carriers should be rejected.
- 17 2. Drastic rate increases should not be imposed on ratepayers—particularly those
18 living in rural areas, who do not have adequate alternatives.
- 19 3. To the extent the Commission is persuaded to move forward with changes to
20 switched access charges, the Commission should take care to ensure that individual
21 customers are not affected excessively. The Commission should not look at overall
22 average impacts—it should consider the impact on customers in specific locations,
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1 and those who use relatively little toll service (and thus will gain little benefit from any
2 toll rate reductions that may result from access charge reform).

3 4. While rate continuity does not preclude rate change, the changes should be
4 implemented gradually and be well justified. More specifically, the Commission
5 should consider phasing in changes to cost allocations, or reductions to switched
6 access rates, to ameliorate the adverse impact on ratepayers who will be forced to
7 pay higher local rates, or make increased payments into the AUSF.

8 5. While the proposal of revenue neutrality put forth by many of the participants to this
9 proceeding appears palatable, it isn't an adequate basis for developing access
10 reform. Revenue neutrality does not protect customers from rate increases; instead,
11 it merely ensures that carriers are insulated from revenue reductions. It results in
12 rates that are unfair and unreasonable. Consistent with equity and sound
13 ratemaking principals, if ratepayers are to be expected to bear much of the burden of
14 access rate reductions via increases in the AUSF or increased local rates, then
15 carriers must also absorb some measure of the burden through reduced profit
16 margins or expanded participation in AUSF.

17 6. The Commission should carefully investigate the facts before approving increases to
18 the price of basic local service. Although this Commission does not have jurisdiction
19 over the rates charged for unregulated ancillary services like broadband internet,
20 video service and wireless service, it does have authority and a Constitutional
21 obligation to ensure that local rates are set at fair and reasonable levels, consistent
22 with reasonable cost allocation principles. Interstate access and other unregulated
23 services use a lot of the same network facilities that are used in providing basic local
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1 exchange service, and these unregulated services should bear a reasonable share
2 of the costs of the shared network facilities. Broadband internet and other
3 unregulated services have been growing rapidly; this growth has financially
4 benefited the carriers who provide these services over many of the same network
5 facilities that are used in providing basic local exchange service. Yet there has been
6 very little information provided in this proceeding concerning this subject, or the
7 extent to which these growing services are being allocated an appropriate share of
8 the common network costs.

9 7. Basic local telephone service should not bear an excessive share of the fixed
10 network costs—either directly through higher local rates in rural areas, or indirectly
11 through higher payments into the AUSF. While it is appropriate for the Commission
12 to consider the possibility of making some reductions to intrastate switched access
13 rates, the Commission should not assume that any such reductions must be offset
14 by increases of exactly the same magnitude through changes to the AUSF or local
15 rates—particularly when these carriers have been experiencing growing revenues
16 from internet access and other unregulated services, which can and should bear a
17 reasonable share of the cost burdens in question.

18 8. To best support the interest of universal service, any increase in AUSF funding
19 should be tightly targeted at carriers serving customers in the highest cost portions
20 of the state. AUSF payments should be competitively neutral, providing support to
21 all carriers that are helping to maintain universal service in these high cost areas,
22 based upon appropriate criteria which are not skewed in favor of any particular type
23 of carrier or technology. AUSF should be portable to promote effective competition.

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- 1 9. To better identify high cost areas, for AUSF purposes, the Commission should
2 choose an economic cost benchmark. This is far superior to reliance on embedded
3 cost calculations, and also preferable to a revenue benchmark (which would be the
4 second best choice). The economic cost benchmark should be based on a
5 percentage which exceeds the statewide average by some defined percentage,
6 thereby concentrating support on areas with the highest costs.
- 7 10. Before considering expansion of AUSF funding, the Commission should look at the
8 beneficial effects of declining costs and growing use of the carriers' network facilities
9 in providing internet access and other non-jurisdictional services.
- 10 11. If the Commission determines to utilize the AUSF as a source of replacement funds
11 to ameliorate the impact of access rate reductions, carriers should not automatically
12 receive a dollar of dollar offset of lost revenue. Carriers should have to demonstrate
13 a need for replacement revenues from the AUSF—preferably under the auspices of
14 a fair value rate case proceeding, in which appropriate cost allocations and other
15 revenue sources are considered.
- 16 12. Last, the Commission should look at the options for expanding the revenue base
17 used in the AUSF funding process to include additional carriers, to determine the
18 magnitude of each carrier's contributions into the fund by taking into consideration
19 additional telecom services which benefit from universal service including, but not
20 limited to interexchange service, wireless service, and internet access service.

1 RESPECTFULLY SUBMITTED this 9th day of July, 2010.

2
3 

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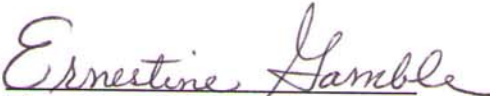
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