Pursuant to the Procedural Order entered in these dockets dated November 28, 2007, AT&T Communications of the Mountain States, Inc. and TCG Phoenix (collectively referred to as “AT&T”) file these comments on access charge reform and possible revisions to the Arizona Universal Service Fund (“AUSF”) Rules.

INTRODUCTION

The Commission has sought comment on a broad array of issues under two related subjects: (i) access charge reform and (ii) universal service. AT&T agrees that the Commission should consider those two subjects together. Access charge reform is long overdue because the current access charges of some carriers still reflect levels of implicit subsidies that are fundamentally inconsistent with today’s telecommunications landscape. Universal service
programs, meanwhile, have been founded on the recognition that such implicit subsidies cannot and should not be maintained in today’s competitive marketplace.¹

It is also quite proper and, indeed, essential that the Commission consider access charge reform and universal service now. The current access charge system creates large implicit subsidies that inflate some carriers’ intrastate switched access charges. To take a few examples:

Terminating intrastate access charges for one ICO are more than 18.4 cents per access minute, or 46 times its 0.4 cent interstate charges, and more than five times higher than Qwest’s corresponding intrastate charges. For originating access, that ICO’s tariffed intrastate rate is 10.4 cents, while its corresponding interstate rate is only 0.4 cents. Likewise, a second ICO has intrastate terminating access charges approaching 5 cents per minute, but only about 2.5 cents interstate. One CLEC has intrastate terminating access charges of over 4.2 cents per access minute, while its corresponding interstate charges are less than half a penny. As a general matter, these relationships hold true for virtually all of Arizona’s ICOs and CLECs throughout the State.

The high access rates promoted by the current system obviously distort Arizona telecommunications prices. They make long distance prices higher than they should be for all Arizonans, including consumers in the Phoenix and Tucson metropolitan areas, because long distance rates are geographically averaged. The implicit subsidies hidden in inflated access charges cause rates for some services (in particular, long distance service) to be over-priced, while other rates (such as local exchange service in rural areas) remain below cost. As a result, the pricing signals being given to Arizona customers are blurred, resulting in consumers shifting

¹ The Commission recognized this link when it initially adopted the Competitive Telecommunications Rules in 1995 (A.A.C. R14-2-1101, et seq.). It provided in those rules that an AUSF should be established. R14-2-1113. The AUSF Rules (R14-2-1201, et seq.) were adopted the following year.
usage to services which may be less economically efficient (because those services are
subsidized) and causing telecommunications-dependent businesses to configure their services to
avoid being saddled with disproportionate subsidy obligations. In addition, high access charges
courage some actors to exploit the system by engaging in arbitrage and traffic pumping
schemes. At bottom, the implicit cross-subsidies inherent in access rates in Arizona are a house
of cards that simply cannot and should not be maintained in today's telecommunications market.

The Federal Communications Commission ("FCC") has already implemented reforms
that have begun to eliminate implicit subsidies from interstate access rates. Several states (such
as New Mexico and Nebraska) have also implemented reforms to reduce intrastate access
charges to more reasonable and sustainable levels. In each state, the commission used interstate
access rates as a benchmark above which rates are presumed to be excessive, and generally these
states allowed carriers to recover the lost revenues through rate rebalancing and/or explicit
universal service subsidies. AT&T recommends that the Commission take the same approach
here by (i) requiring all local exchange carriers, using appropriate and streamlined rate
procedures, to lower their intrastate access rates to the level (and structure) of the corresponding
interstate access rate levels and (ii) allowing carriers to rebalance the revenue reductions with
increases to retail rates and, in certain cases, from AUSF funds. This approach represents a
straightforward step that can be implemented relatively easily and quickly. It will result in more
economically rational prices for wireline services.

Of course, the FCC is considering comprehensive reform for all forms of intercarrier
compensation on a national basis. But there is no sign that comprehensive reform will come any
time soon and in the absence of such national reform there is an urgent need to take action with
regard to intrastate switched access rates. The approach proposed by AT&T here represents a
measured, straightforward step that will make significant progress in correcting the most serious
defects of the present system. It is a step that the Commission can take relatively quickly,
without undue delay or lengthy proceedings.

Universal service reform represents the other side of the coin of access charge reform.
Universal service support is designed to replace the implicit subsidies of the past with explicit
subsidies for basic local telecommunications services where those subsidies are needed. The
funds for that support should come from contributions by customers of all service providers on
an equitable and non-discriminatory basis that mirrors the federal universal service contribution
methodology, because all consumers and all providers benefit from the expansion of the
telecommunications network. As detailed in Section II below, in addition to supporting explicit
recovery for portions of reduced intrastate switched access revenues not recovered through
reasonable rate increases, AT&T also supports AUSF support for carriers of last resort
(“COLRs”) that serve high-cost areas, where there is a demonstrable need for such support to
maintain affordable basic service rates, to the extent such support is not already provided by the
federal universal service fund.

DISCUSSION

1. Access Charge Reform Questions

A. Background

Charges for switched access services generally refer to the price paid by interexchange
carriers (“IXCs”) and other telecommunications service providers to a local exchange carrier
(“LEC”) for the use of its network. It is the LEC that has the local loop and central office switch
that connects an end user to the rest of the PSTN. IXCs need access to this local exchange
infrastructure in order to originate intrastate and interstate long distance calls from customers
served by the LEC, and to complete long distance calls from their own customers to customers
served by the LEC.

Prior to 1996, local telephone service and local exchange carriers were regulated as
natural monopolies. Monopoly service providers were required to provide universal service to
all customers in their assigned territories. They were able to serve high-cost customers (e.g.,
customers in remote rural areas) through a system of "implicit subsidies," under which the rates
paid by some customers were overstated (i.e., in excess of the rates necessary to adequately
recover costs) in order to subsidize understated rates for other customers. Historically, the
intrastate access charges that rural LECs charged to IXC provided implicit
price support for local exchange service.

As demonstrated by the table below, showing tariffed access rates, that system of implicit
subsidies is still embedded in the intrastate access charge structure for many LECs in Arizona.
Intrastate access fees in Arizona are much, much higher than the corresponding interstate fees,
even though carriers use the same facilities to originate and terminate both interstate and
intrastate calls.
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Type</th>
<th>Orig Unit Cost</th>
<th>Term Unit Cost</th>
<th>Average Unit Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qwest-AZ</td>
<td>ILEC</td>
<td>$0.027</td>
<td>$0.035</td>
<td>$0.031</td>
</tr>
<tr>
<td>Qwest-Interstate</td>
<td>ILEC</td>
<td>$0.003</td>
<td>$0.003</td>
<td>$0.003</td>
</tr>
<tr>
<td>Delta</td>
<td></td>
<td>$0.024</td>
<td>$0.032</td>
<td>$0.028</td>
</tr>
<tr>
<td>Citizens-Intrastate</td>
<td>ICO</td>
<td>$0.104</td>
<td>$0.184</td>
<td>$0.144</td>
</tr>
<tr>
<td>Citizens-Interstate</td>
<td>ICO</td>
<td>$0.004</td>
<td>$0.004</td>
<td>$0.004</td>
</tr>
<tr>
<td>Delta</td>
<td></td>
<td>$0.100</td>
<td>$0.180</td>
<td>$0.140</td>
</tr>
<tr>
<td>Valley-Intrastate</td>
<td>ICO</td>
<td>$0.102</td>
<td>$0.102</td>
<td>$0.102</td>
</tr>
<tr>
<td>Valley-Interstate</td>
<td>ICO</td>
<td>$0.026</td>
<td>$0.026</td>
<td>$0.026</td>
</tr>
<tr>
<td>Delta</td>
<td></td>
<td>$0.076</td>
<td>$0.076</td>
<td>$0.076</td>
</tr>
<tr>
<td>Accipiter-Intrastate</td>
<td>ICO</td>
<td>$0.035</td>
<td>$0.049</td>
<td>$0.042</td>
</tr>
<tr>
<td>Accipiter-Interstate</td>
<td>ICO</td>
<td>$0.026</td>
<td>$0.026</td>
<td>$0.026</td>
</tr>
<tr>
<td>Delta</td>
<td></td>
<td>$0.009</td>
<td>$0.023</td>
<td>$0.016</td>
</tr>
<tr>
<td>Cox Arizona-Intrastate</td>
<td>CLEC</td>
<td>$0.033</td>
<td>$0.042</td>
<td>$0.037</td>
</tr>
<tr>
<td>Cox Arizona-Interstate</td>
<td>CLEC</td>
<td>$0.003</td>
<td>$0.003</td>
<td>$0.003</td>
</tr>
<tr>
<td>Delta</td>
<td></td>
<td>$0.029</td>
<td>$0.039</td>
<td>$0.034</td>
</tr>
</tbody>
</table>

**Source/Notes:**
- Rates shown above were obtained from Qwest and ICO access tariffs.
- Rates do not include direct trunk transport.
- Assumes 10 miles for mileage sensitive transport rates.
- Assumes 20% of the minutes are tandem routed and 80% are direct routed.
- The average unit cost was calculated by adding originating plus terminating cost and dividing by two.

While such a system of cross-subsidies was sustainable in the protected monopoly market structure of the past, the influx of competitive alternatives in today’s marketplace renders such approaches ineffective and unsustainable. There are several competitive alternatives to traditional switched long distance services (primarily alternatives like cable telephony, Voice over Internet Protocol (“VoIP”) and wireless). Whenever an ILEC’s end user chooses to use an alternative to make long distance calls, the ILEC’s subsidy revenue stream (in the form of access
charges) may be reduced. The retail rates for these competitive alternatives do not necessarily include the same implicit subsidies that long distance service providers are forced to support.

The implicit subsidies in switched access rates—and the economic reactions that they trigger—are harming Arizona consumers and the Arizona telecommunications market. As the market proves time and again, any effort to impose implicit subsidies on one class of customers simply leads those customers to find ways to avoid paying the subsidies. Thus, in recent years, ILECs have lost billions of minutes to services that are alternatives to traditional long distance, in part because of the high access costs for switched access.

The sustainability of implicit subsidies is further threatened in cases where carriers dispute which compensation mechanism should be applied to a given call. For example, with respect to VoIP traffic, certain VoIP providers have asserted that VoIP services are exempt from access charges, and through self-help measures attempt to have their calls treated as local calls.

The disparate regulatory treatment of calls for intercarrier compensation purposes has also strained the reliability of implicit subsidies. For example, with respect to wireless, nearly all of Arizona (including Phoenix, Tucson and Flagstaff) is encompassed by a single Metropolitan Trading Area (“MTA”). Thus, under federal rules virtually all wireless calls that originate and terminate within Arizona are exchanged over local interconnection arrangements and are treated as local calls for intercarrier compensation purposes.

The current structure thus not only artificially overstates the ILECs’ toll rates, but also jeopardizes the universal service that the old implicit subsidies were designed to support.

There is disagreement within the industry as to which compensation mechanism should apply to VoIP traffic as the FCC has not provided clarification. Some carriers assert that such traffic is subject only to reciprocal compensation charges while others assert that it is subject also to switched access charges. As a result of this disagreement, compensation for VoIP traffic is in dispute, which further threatens the sustainability of implicit subsidies contained in access charges.
Above-cost access charges were intended to subsidize the ILEC’s local exchange service. But high access charges may drive consumers to competitive alternatives that do not subsidize the LEC with the same level of intrastate access charges. The flow of subsidies is thereby reduced and eventually the LEC will be unable to sustain local service priced below market rates.

Market forces alone are not sufficient to remove implicit subsidies from intrastate access charges. With respect to originating access, rate averaging prevents market forces from operating to discipline switched access rates. IXC are required by federal law to geographically average interstate rates and, for all practical purposes, are forced to do the same with intrastate rates. Thus, an IXC is unable to pass any unreasonably high originating switched access rates back to the calling party, which means that consumers receive no market signals, in the form of higher prices from IXC subject to higher CLEC access rates, to switch to CLECs or ILECs who charge lower access rates.

For terminating access, the LEC possesses the bottleneck network element which prevents the operation of market forces. For example, if an IXC’s customer seeks to make a toll call to a party receiving local exchange service from a LEC, the LEC collects terminating access from the IXC for use of the LEC’s network to complete the toll call. The IXC carrying the call has no alternative; the call must be delivered to the LEC whose customer is receiving the call. As such, markets alone are incapable of disciplining intrastate access rates.

High switched access rates also engender arbitrage. Carriers that receive access charges have an incentive to increase volumes. The recent, highly publicized “traffic pumping” schemes, which are designed to drive massive volumes of traffic to adult chat lines and similar services (such as free conference call offers) via rural LECs with high switched access rates, serve to
highlight the potential for abuse. Conversely, carriers that pay access charges have an incentive to evade them. High switched access rates create an incentive for “buying” carriers to assert claims that certain types of toll traffic are subject to reciprocal compensation rather than access charges or to generate “phantom” traffic that is difficult or impossible to assign to a jurisdiction. Reforms that bring switched access rates closer to cost will reduce the incentive for such abuse and arbitrage.

At the federal level, the FCC has taken several steps to reduce interstate access charges. Several states have followed the FCC’s lead. In each state, the commission uses interstate access rates as a benchmark for intrastate rates. This approach takes advantage of two facts: (i) the FCC has already reduced the implicit subsidies in interstate rates and (ii) the cost of switching a call, whether it is subject to intrastate or interstate access charges, is the same. These states have also typically allowed carriers to recover the lost access revenues through rebalanced rates or explicit universal service subsidies. To take a few examples:

- In New Mexico, pursuant to N.M. Admin Code § 17.11.10.8, the statewide average switched access rate for originating and terminating intraLATA toll calls is to be reduced effective January 1, 2008 to the level of interstate access rates (in effect as of January 1, 2006) for a state-wide average of only $0.0183 per minute to originate or terminate an in-state long distance call.5 Section 17.11.10.6 provides that the state’s universal service fund is to “includ[e] the implementation of a specific, predictable and sufficient support mechanism that reduces intrastate switched access charges to interstate switched access charge levels in a revenue-neutral manner and ensures universal service in the state.”

- The Nebraska Public Service Commission also adopted parity with the interstate rate structure as its goal. Investigation into Intrastate Access Charge Reform, Application No. C-1628, 1999 WL 135116, *4 (Neb. P.S.C., Jan. 13, 1999). That commission recognized that “[d]ue to the opening of ILEC markets to competition, this subsidization practice [in intrastate access charges] is no longer desirable.” Id. at *2. The commission

---

4 See response to Question 7 infra.
5 The referenced per minute rate based on using the NECA ATS rate as a proxy for rural ILEC interstate switched access.
further found that “[t]he lost support” resulting from reductions in intrastate access charges “may, over a reasonable period of time, be replaced through increases in rates and by state and federal universal service funds.” Id. Beginning in 1999, the Nebraska commission implemented a multi-year reform, and the average rural ILEC rates in the state are now approximately $0.02 per minute.

- In Maine, all carriers are required to true-up their intrastate rates to interstate parity every two years. 35-A M.R.S.A. § 7101-B (2005); ME ADC 65-407 Ch. 280, § 8(B) (“On or before every two years ... all local exchange carriers shall reestablish intrastate access rates that are less than or equal to the interstate rates for that carrier”).

- Likewise, Kansas requires that access fees charged by rural telephone companies be reduced every two years until they reach parity with interstate fees. K.S.A. § 66-2005(c) (“Subject to the commission’s approval, all local exchange carriers shall reduce intrastate access charges to interstate levels as provided herein. ... The commission is authorized to rebalance local residential and business service rates to offset the intrastate access and toll charge reductions.”).

- In New Hampshire, although state law does not mandate intrastate access rate reductions to interstate levels, “as soon as possible after each significant decrease of interstate access charges by the federal government,” the commission is to “consider corresponding reductions in intrastate access charges, taking into account both the disadvantages to customers of intrastate access charges that exceed interstate access charges and the disadvantages to customers of increases in charges for basic service.” N.H. Rev. Stat. § 378:17-a(III). The commission is also to consider “reducing intrastate access charges and increasing basic monthly service charges” for LECs whose intrastate access charges are above the state median and whose basic monthly service charges are below the state median for carriers with similar numbers of telephones. Id.

- In Indiana, if a provider’s rates and charges for intrastate switched access service are at issue in a proceeding before the commission or “included in interconnection agreement or a statement of terms and conditions the commission is authorized to review or approve,” “the commission shall consider the provider’s rates and charges for intrastate ... access service to be just and reasonable if the intrastate rates and charges mirror the provider’s

---

6 In Maine, prior to the initial receipt of support from the Universal Service Fund, a rural LEC must “establish intrastate access rates that meet the requirements of 35-A M.R.S.A. § 7101-B and Chapter 280, § 8 of the Commission’s Rules.” ME ADC 65-407 Ch. 288, § 3.
interstate rates and charges.” IC 8-1-2.6-1.5. The Indiana commission created the Indiana Universal Service Fund as a revenue replacement fund to address revenue lost by a carrier as a result of intrastate access reductions caused by mandatory mirroring of interstate rates, the docket included a minimum local rate as part of the rate rebalancing. See Re Universal Service Reform, Cause No. 42144, 2004 WL 1170315 (Ind. Util. Reg. Comm’n, Mar. 17, 2004).

AT&T proposes that this Commission take the same straightforward approach here. The Commission should establish procedures to require all LECs, incumbents and competitors alike, to reduce intrastate switched access charges to the level of the corresponding interstate rates as detailed herein. In addition, the intrastate rate structure for all access charges should mirror the structure at the federal level. Carriers should then be given the opportunity to recover those revenue reductions through increased retail rates and, in certain circumstances, the Arizona Universal Service Fund (as described in Section II below).

**B. Response to Staff Questions**

1. *Do you believe that the Commission ought to restructure access charges? Please explain your response.*

Yes. As detailed above, intrastate switched access charges in much of Arizona are well above the corresponding charges at the interstate level and in other states. Such high charges

---

7 In the same vein, other states have adopted a parity requirement for carriers electing price or alternative regulation. See I.C.A. § 476.97 (under Iowa law, carriers submitting a plan for price regulation must include a proposal “for reducing the local exchange carrier’s average intrastate access service rates to the local exchange carrier’s average interstate access service rates”; the time frame allowed for the reduction depends on the number of access lines); W.S.A. § 196.196 (under Wisconsin law, the intrastate access rates for utilities electing price regulation may not exceed their interstate rates for similar services; the time frame for implementing the parity requirement depends on the number of access lines in use); Ga. Code Ann. § 46-5-166 (under Georgia law, the switched access rates of LECs electing alternative regulation shall be no higher than for interstate access; the time frame for implementing the parity requirement depends on the number of access lines); NV ADC § 704.6848 (under Nevada law, as a condition of entering a plan of alternative regulation, the provider must “adjust its rates for intrastate switched access . . . to the extent that such elements correspond to the rates for interstate access, so that those rates will be in parity with its rates for interstate switched access at the time of the entry into the plan”). See also NV ADV § 704.68048 (under Nevada law, in order for a small provider of last resort to qualify for universal service funds, “[i]ts rates for interstate and intrastate switched access must be in parity, or the small provider must agree to carry out a plan approved by the Commission designed to achieve parity for those rates within the time specified by the Commission”).
reflect anachronistic implicit subsidies, which are harmful in today’s competitive environment. In comments filed with the FCC, this Commission has recognized the need for reform in the area of intercarrier compensation, including the existing switched access structure. AT&T respectfully submits that it is necessary and appropriate for this Commission to act by taking a measured step as proposed herein, especially in the absence of significant progress on comprehensive reform at the FCC.

2. What recommendation to the Commission would you make regarding how intrastate access charges should be reformed?

The stability of the current system of rates and support for basic voice services in high-cost areas depends on addressing the implicit subsidies in intrastate switched access charges. The Commission should reduce the implicit subsidies currently imbedded in intrastate switched access charges and replace them as appropriate with explicit recovery mechanisms. Several states have reformed access charges by requiring ILECs and CLECs to lower their intrastate access rates to the level of interstate access rates. AT&T proposes that this Commission adopt the same approach and that it also require ILECs and CLECs to mirror interstate rate structures as detailed herein. Carriers should have the opportunity to recover the resulting reductions in access revenues through increases to retail rates. For ILECs that have COLR obligations, revenue recovery may include an intrastate access replacement universal service funding mechanism for their rural and high-cost areas, as is further discussed in Section II below. To maintain access rate uniformity, the Commission should require that future changes in a carrier’s interstate access rates be reflected in the same carrier’s intrastate rates.

---

3. Would you recommend the Commission address both switched and special access in an access charge reform proceeding? If your response is yes, please explain.

No. The Commission should focus on intrastate switched access with the objective of reducing implicit subsidies, and offsetting the resulting loss of revenues through increased flexibility in retail rates, increases in state universal service funding, and other support mechanisms as appropriate. This will result in more economically rational prices for switched telephone services.

Special access services, meanwhile, comprise a very different set of services that are subject to a different set of market forces. For example, as described above a switched-access IXC does not control the numbers that its customer will dial. It has little choice but to deliver its customer’s call to the number dialed and to incur whatever terminating access charges apply. By contrast, a special access facility connects two points that are defined by the buyer up front.

Given the controls of the market, there is no need to address special access services here and any attempt to do so would needlessly complicate and delay the implementation of urgently needed reforms in the switched access arena.

4. What is your current recommendation to the Commission on how access charges should be reformed?

As AT&T discussed in Section I.A above, and in response to Questions 1 and 2, intrastate switched access charges should be reduced to the level of the corresponding interstate rates as detailed herein.

5. Please update your response to the questions and issues contained in the 12-3-01 Procedural Order in Docket No. T-00000A-00-0672 to the extent you feel they should be updated.

The essence of AT&T’s comments filed in Docket No. T-00000A-00-0672 is consistent with the recommendations offered here. To take the leading example, AT&T previously
recommended that intrastate switched access rates should mirror interstate switched access rates, and that the existing ILEC switched access rates should be utilized as a cap. Those recommendations are consistent with AT&T’s present proposal to reduce intrastate switched access rates to the level of their interstate counterparts. To the extent that any elements of AT&T’s previous comments are inconsistent with any of AT&T’s current proposals, AT&T’s current comments should control.

6. How would the FCC’s proceeding to reform intercarrier compensation affect the ACC’s actions to reform intrastate access charges?

Since issuing its pending intercarrier compensation proceeding found at CC Docket No. 01-92 in 2001,\(^9\) the FCC has yet to adopt comprehensive intercarrier compensation reform. Although AT&T is steadfast in its view that the FCC and/or Congress should implement intercarrier compensation reform as quickly as possible, and that the Missoula Plan is the appropriate framework for doing so, at this juncture there is nothing to indicate that the FCC or Congress intends to act any time soon. Indeed, given the upcoming federal elections, the issues that are already on the FCC’s agenda, and the complexities of crafting comprehensive national solutions to these issues, it is unlikely that the FCC or Congress will issue meaningful reforms in the near term.

The lack of progress on comprehensive reform at the national level provides an opportunity—and, in fact, a pressing need—for the states to take a step and act on access and universal service reform at the intrastate level. The Commission’s comments opposing the Missoula Plan make clear that this Commission “recognizes that reform is necessary in this area,” and also acknowledges that “intrastate access charges and . . . reciprocal compensation

---

rates are areas within the jurisdiction of State commissions." Several states have also
implemented access charge reforms and this Commission should do the same.

7. Do you believe that the carrier common line switched access charges ought to
eexist? Please provide your rationale for your position on this matter.

No. Regulators at the state and federal levels have recognized the need to eliminate the
carrier common line ("CCL") switched access charge. By way of its CALLS\textsuperscript{11}, MAG\textsuperscript{12} and
CLEC Access\textsuperscript{13} orders, the FCC acknowledged the subsidies inherent in the CCL, the CCL’s
detrimental effect on competition, and the incompatibility of the CCL with the competitive
marketplace and with the requirement for explicit universal service support.

8. Do you think that the notion of implicit subsidies ought to be a component of any
analysis that the Commission conducts?

Absolutely. The driving need for access reform in this State is the fact that implicit
subsidies continue to be included within the intrastate switched access charge structure. Under
its CALLS, MAG and CLEC Access orders, the FCC sought to minimize the subsidies inherent
in interstate switched access. The difference that now exists between intrastate and interstate
switched access charges (i.e., level and structure) is attributable to the presence of implicit
subsidies. The Commission should take a measured step toward elimination of implicit subsidies

\textsuperscript{10} Id.

\textsuperscript{11} Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, CC Docket
Nos. 96-262 and 94-1, Sixth Report and Order, Low-Volume Long-Distance Users, CC Docket
No. 99-249, Report and Order, Federal-State Join Board on Universal Service, CC Docket 96-45,
Eleventh Report and Order, 15 FCC Red. 1292, 12965 ("CALLS Order").

\textsuperscript{12} Multi-Association ("MAG") Plan for Regulation of Interstate Services of Non-Price Incumbent Local
Exchange Carriers and Interexchange Carriers, CC Docket No. 00-256, Second Report and Order and
Further Notice of Proposed Rulemaking, Federal-State Join Board of Universal Service, CC Docket
No. 96-25, Fifteenth Report and Order, Access Charge Reform for Incumbent Local Exchange Carriers
Subject to Rate-of-Return Regulation, CC Docket No. 98-77, Report and Order, Prescribing the
Authorized Rate of Return From Interstate Services of Local Exchange Carriers, CC Docket No. 98-166,
Report and Order, 16 FCC Red. 19613 ("MAG Order").

\textsuperscript{13} In re Access Charge Reform and Reform of Charges Imposed by Competitive Local Exchange Carriers,
Seventh Report and Order and Further Notice of Proposed Rulemaking, CC Docket No. 96-262 ("CLEC
Access Order").
at the intrastate level (just as the FCC has done at the interstate level and as several other states have done) by requiring LECs' intrastate switched access rates to mirror their interstate access rates as detailed herein.

9. **Do you believe that the AUSF ought to pick up any revenue reduction that may occur as a result of the reform of access charges? Please provide the rationale for your response.**

The Commission should continue to preserve universal service in rural and high-cost areas, and to that end it should consider the use of explicit recovery mechanisms to replace the elimination of implicit subsidies from intrastate switched access charges. See Section II below. Carriers should have the opportunity to recover revenue reductions first through flexibility in retail rates before AUSF support is considered. For example, a maximum rate could be authorized with “headroom” to adjust for demonstrated revenue reductions. For ILECs performing COLR functions, it may also be appropriate to consider high-cost support where such support is needed to maintain affordable rates for basic service in rural and high-cost areas. As necessary, the Commission may need to modify its existing rules and/or adopt different adjustable rate structures to permit the pricing flexibility necessary to accommodate the revenue rebalancing.

10. **If you believe that the AUSF ought to pick up any revenue reduction that may occur as a result of the reform of access charges, what parameters would you implement to determine what amount ought to be picked up by the AUSF?**

In lowering price-regulated ILECs’ intrastate switched access rates to interstate levels, ILECs should first be allowed to make reasonable increases in their basic local service rates to an appropriate rate benchmark. Portions of the access reductions which are not recovered through such rate increases should be explicitly recovered through the AUSF for carriers that have COLR obligations.
11. How would you quantify the reductions? Please explain your response to include items such as whether the AUSF amount would be based on current year switched access minutes, on current year access revenues, historical year access minutes, historical year access minutes, etc.

The Commission should establish a base-year period that predates a Commission order, such as 2007. Carriers would use their base-period demand and revenue to determine how much intrastate switched access revenue would need to be recovered. To illustrate, if the carrier’s intrastate terminating switched access rates were reduced by 10 cents per minute, and it had 50,000 terminating minutes in the base year, the revenue to be replaced would be $5,000. See also Section II.B, Question 12.

12. Provide an estimate of the effect on access revenues for your company if access charges are reformed in the manner that you recommend to the Commission.

AT&T is prepared to provide the Commission with the proprietary information it would need to make judgments about access rate reform and revenue rebalancing. However, such information is highly sensitive and must be protected from AT&T’s competitors. To permit all carriers to make meaningful disclosures, the Commission should first take the following steps:

- determine which carriers should provide the requested information;
- enter a protective order to cover competitively sensitive information; and
- provide clear direction to carriers regarding the source and compilation of data, so that each carrier provides comparable information that will allow for “apples-to-apples” analysis.

13. For companies that provide access service, please provide the dollar amount of revenues from intrastate switched access charges that you received by rate element, by month, for the period July 1, 2006 through June 30, 2007.

AT&T is prepared to provide the Commission with this information. However, the information is highly sensitive and proprietary. To permit all carriers to make meaningful
disclosures, the Commission should first take the steps outlined in response to Question 12 above.

14. For companies that purchase access service, please provide the dollar amount of the payments for switched access charges that you made (by company, rate element, and by month) for the period July 1, 2006 through June 30, 2006.

AT&T is prepared to provide the Commission with this information. However, the information is highly sensitive and proprietary. To permit all carriers to make meaningful disclosures, the Commission should first take the steps outlined in response to Question 12 above.

15. Should additional considerations be taken into account when restructuring and/or setting access charges for small rural carriers? Please explain your response.

Yes. Small rural carriers serve high-cost areas and often obtain a greater share of their revenue from access charges than larger or urban carriers. Therefore, access reform can have a greater impact on such carriers. To the extent that data shows this effect, the Commission may make certain judgments regarding:

(1) the amount of access revenue that should be rebalanced into retail rates versus an access replacement, or high-cost, AUSF mechanism; and

(2) if a transition period is appropriate, whether the duration of a transition period should be prolonged for small rural carriers.

16. Please comment on any other issues you believe may be relevant to the Commission's examination of intrastate access charges.

Neither access reform nor universal service reform can be accomplished without the other. The historical and natural linkages of these two areas (and their relation to legacy subsidies) must be addressed in a coordinated and comprehensive fashion.
17. Are there other issues besides the rate restructuring and costing issues raised herein that should be addressed by the Commission in this Docket?

It is possible that other issues may be raised by other parties in their comments or may arise as new market or regulatory developments occur. AT&T may address other issues interrelated to access rate and AUSF reform as they arise.

18. Are there other State proceedings and/or decisions that you would recommend the Commission examine in this docket? Please attach any relevant State commission decisions to your comments.

As previously mentioned, the FCC’s CALLS, MAG and CLEC Access orders are useful resources in understanding the need for and the path toward access reform. In addition, several other states have used interstate access rates as a cap on intrastate rates. The applicable state rules and statutes are referenced in Section I.A above.

19. One of the stated objectives of the Qwest Price Cap Plan was to achieve parity between interstate and intrastate access charges. Is this something that should be looked at by the Commission in this proceeding?

Definitely. As previously discussed herein, AT&T proposes that intrastate switched access charges be lowered to mirror interstate access charges in terms of level and structure as detailed herein. As Qwest is in the midst of a three-year access rate reform program, the Commission should add that, at the earliest appropriate time, Qwest’s intrastate switched access charges should be further reduced to interstate levels. At that time, Qwest should be given the pricing flexibility that will allow it to recover access revenue reductions. Only then will all Arizona LECs operate on the same level playing field for access services.

20. Parties who desire that switched access charges be reformed often state that switched access charges in general, and the CCL rate element in particular, contain implicit subsidies. Do you agree with this statement?

Yes, as discussed in the Background to this section, and in response to Questions 1 and 7.
21. Do you believe that the Commission should quantify implicit subsidies:
   a) At all?

   No. There is no need for this Commission to engage in a detailed analysis or ratemaking to quantify the amount of implicit subsidies contained in current intrastate switched access rates. Such an analysis would be extremely difficult, time-consuming, costly and would unduly delay the implementation of reforms that are urgently needed now. The Commission should instead take the straightforward approach of following the actions already taken by the FCC to reduce implicit subsidies, by lowering all LEC intrastate switched access rates to interstate levels and requiring that intrastate switched access rates be structured in the same manner as interstate access rates as detailed herein. LECs utilize the same network functions in the provision of interstate and intrastate switched access services. Any interstate and intrastate rate differences are unjustified and harmful to the Arizona telecommunications market.

   b) As part of this proceeding?

   No. See response to part “a.”

   c) As part of proceedings that address each carrier individually?

   No. See answer to part “a.”

22. If you believe that the Commission should quantify implicit subsidies, what is the appropriate cost standard to be used to determine whether access charges are free of implicit subsidies?

   As stated in response to Question 21, AT&T does not believe it necessary or desirable for the Commission to conduct laborious and time-consuming cost analysis to attempt to determine the amount of implicit subsidies. Instead, as a measured step in intercarrier compensation reform, the Commission need only reduce intrastate switched access rates to the corresponding interstate rate levels as detailed herein.
23. *What issues do you believe should be addressed in a proceeding to determine whether and to what extent intrastate access charges ought to be reformed?*

The issues discussed herein should serve as the starting point for intrastate access reform. AT&T may address and/or recommend new issues as they are identified.

24. *Do you believe that there is a difference in the costs of providing interstate switched access service versus intrastate-switched access service? In your response, please include a description of how costs are defined in your response and how those costs relate to costs allocated to the intrastate jurisdiction under the FCC's current rules.*

No. Arizona LECs utilize the same network functions in the provision of interstate and intrastate access services. Any interstate and intrastate rate differences are unjustified and harmful to the competitive Arizona telecommunications market.

25. *Should the Commission address CLEC access charges as part of this Docket?*

Yes, as stated in response to Question 1 above, the Commission should reform access charges for all LECs in Arizona. With respect to CLECs, high access charges constitute an exorbitant subsidy flowing from the Arizona toll market to individual CLECs. These CLECs are using high access charges to shift costs onto their competitors (both ILECs and IXCs). And as discussed in Section I.A above, market forces alone are not sufficient to discipline such charges.

II. Universal Service Issues

A. Background

As noted above, historically universal service was funded by various implicit subsidies embedded in the rates of the local exchange carrier. Implicit subsidies were previously sustainable because a carrier could charge some consumers (such as urban business customers) rates for local exchange and exchange access service that significantly exceeded the cost of providing service and then use the rates paid by those customers to implicitly subsidize service to
others. But, in today’s competitive markets, implicit subsidies can no longer be sustained. A carrier that attempts to charge rates significantly above cost to one class of customers will lose many of those customers to a competitor, because rational new competitors can target service to more profitable customers without having to build into their rates the types of cross-subsidies that have been required of incumbent carriers that serve all customers. Such price competition is beneficial to customers, but also means that competitors’ entry into the lowest cost, highest profit market segments will dismantle the pillars of implicit subsidies (high access charges, high prices for business services, and the averaging of rates over broad geographic areas) resulting in a destabilized universal service funding base.

Universal service fund (“USF”) support mechanisms are thus founded on the recognition that while universal service remains a desirable public policy, implicit subsidies are no longer a sustainable way to achieve that policy in today’s hyper-competitive telecommunications markets. Thus, in today’s competitive environment, explicit support mechanisms, funded in an equitable and nondiscriminatory manner by all providers and all customers, are necessary to replace the loss of implicit subsidies and allow for the continuation of affordable and reasonable priced universal service.

Often, when asked to describe what a Universal Service fund should be, a respondent lists the same series of adjectives, such as “competitively neutral,” “explicit,” “cost-based” and “revenue neutral.” The differences lie in how to properly apply those broad policy goals in practice. AT&T examines those issues, and Staff’s questions, under the following general subjects: (i) what should be funded, (ii) who should receive USF support and (iii) where the funds should come from.

1. **What Is Funded**
The threshold question is to decide what the Fund should support. As discussed above, the AUSF should be designed to explicitly recover portions of intrastate access rate rebalancing not recovered through reasonable retail rate increases. AT&T also supports utilizing the AUSF to support providers serving as carriers of last resort in high-cost areas where such support is needed to maintain affordable rates for basic service.

Under this latter “high-cost support” approach, a carrier’s support should be determined by computing its revenue requirement whereby the carrier would recover the cost of plant extension or build-out to unserved areas over the life of the assets. Thereafter, each year, for each supported carrier, the carrier’s support would be determined by (i) the carrier’s revenue requirement as developed by a cost model; (ii) the amount of federal universal service high-cost support the carrier received (if any); and (iii) the revenues attributable to the customer through the carrier’s retail rates as defined by the high-cost benchmark. The carrier would receive in AUSF support the difference between the carrier’s revenue requirement on the one hand and funds received in federal USF high-cost support plus retail revenues on the other. The process would be similar in many ways to the concept proposed by ALECA.

In restructuring the AUSF, the Commission should ensure that carriers receiving AUSF funding do not receive duplicated support for the same costs or facilities from the federal USF. AT&T’s proposed high-cost distribution methodology addresses this issue.

2. High-Cost Support Should Be Provided Only to Carriers of Last Resort

To the extent that the AUSF is also used to provide high-cost support, such support should be limited to carriers meeting a specific set of criteria, including a requirement that the carrier accept the obligation to serve as a COLR: that is, the requirement to be ready and able to
provide a specified level of basic service to all customers in its designated area. Carriers should be free to use alternative technologies to meet their COLR obligation, so long as the technology provided the required minimum level of service. The basic level of service should generally mirror the federal requirements found in 47 C.F.R. § 54.101(a)(1-9). This level of service would include, among other things: (i) voice grade access to the public switched network, (ii) local usage, (iii) access to emergency services, (iv) access to operator services and (v) access to interexchange services. COLRs should also be required to provide Lifeline (discounted rate) service to customers having low incomes.

It is critical that cost support be limited to COLRs. Universal service is about serving customers that are not profitable (because the cost of providing service would exceed an affordable rate) and such customers would not receive service absent some support. A carrier that does not serve as a COLR will simply pick and choose those customers that it deems profitable and ignore those customers that it finds unprofitable. Providing support to those carriers results in less real public benefit (because non-COLR carriers will still not extend service to the highest-cost, unprofitable customers where support is needed most) and more windfalls (where the non-COLR receives a subsidy for serving a customer it would have profitably served anyway). Further, the carrier that does undertake the COLR obligation is disadvantaged if subsidies also go to competing carriers that serve only profitable customers.

14 On the other hand, to the extent the AUSF is structured simply to replace the implicit subsidies that are removed from access revenues, all ILECs that reduce their access charges as a result of access reform could technically be eligible for AUSF support.
3. Arizona USF Funding Should Be as Broad-Based as Possible, Should Be Competitively Neutral, and Over the Longer Term Should Mirror Any Future Changes to the Federal USF Contribution Methodology.

The funds to be used for universal service support should come from all telecommunications providers and customers, on an equitable, non-discriminatory and competitively neutral basis. Federal law mandates that “[e]very telecommunications carrier that provides intrastate telecommunications services shall contribute, on an equitable and nondiscriminatory basis” to the preservation and advancement of universal service. 47 U.S.C. § 254(f). As a policy matter, all providers and all consumers benefit from expanding the reach of the public telecommunications network, so all providers and all consumers should bear their fair share of the cost of maintaining such service throughout Arizona.

The existing AUSF contribution methodology may impose disproportionate burdens on certain categories of service providers. Currently, the AUSF rules specify that one-half of AUSF funding is to be borne by “Category 1” providers (largely local exchange carriers and wireless carriers), on the basis of access lines and interconnecting trunks, respectively, and one-half of AUSF funding is to be borne by “Category 2” service providers, i.e., providers of intrastate toll service (or other service providers as permitted under R14-2-1204(B)(3), on the basis of intrastate toll revenues.15 Not only does a different contribution methodology apply depending on the type of service provider and service, but perhaps more importantly, the 50-50 allocation of AUSF funding responsibility may bear no relationship to the providers’ level of activities in Arizona relative to one another, if such activities were uniformly measured.

As a general matter, AT&T believes that the contribution methodology employed for the AUSF (and all state USFs) should mirror that of the federal USF. Consistency between federal

15 See R14-2-1204.
and state funds facilitates carrier administration and compliance within the confines of the

carriers’ system limitations. Carrier federal USF contributions are currently based upon a

percentage of interstate/international retail (end user) telecommunications revenues. However,

changes to the federal USF contribution methodology have been under consideration for some
time; specifically to move to a numbers- and connections-based contribution methodology.

AT&T supports such a change. Therefore, if in the future the FCC adopts such a contribution

methodology, AT&T recommends that the Commission review the AUSF contribution

methodology to mirror any change to the FCC’s new contribution methodology, and allow a

reasonable transition period to allow carriers to implement such a change. Even before the FCC

acts, however, the Commission should consider implementing a more equitable contribution

methodology for the AUSF. To that end, AT&T is collecting more data and anticipates

providing a more refined recommendation for such a methodology in the next round of

comments.

B. Answers to Staff Questions

1. What should the fund look like?

To the extent that the AUSF provides high-cost support, the AUSF should most

appropriately provide support for costs, primarily loop and switching costs, to COLRs to allow

for the provision of basic service at affordable rates in high-cost areas. As described above,

high-cost support should be available only to carriers that undertake COLR obligations. For

non-rural carriers, the calculation of costs (to determine which areas are high-cost areas, and to
determine the amount of support necessary to compensate the COLR) should be done at the wire

center level (or a smaller geographic area). Costs vary by geographic area, and if costs are
calculated over larger regions, some high-cost areas might be missed because they are “averaged
out” by lower-cost areas in the same region. The calculation of costs for an efficient carrier could be linked to the FCC’s Synthesis Model or to the output of a state specific model. For rural carriers, support should be linked to the carrier’s annual NECA loop cost filing and possibly USAC Local Switching Support data. The AUSF support calculation should also account for federal USF high-cost support payments received by a carrier to avoid duplication of support: in essence, the AUSF should support that portion of federal USF costs above the federal cost benchmark, or state established benchmark, that is not already supported at the federal level.

2. **What revenues should be assessed?**

   See Section II.A.3 above regarding the AUSF funding methodology.

3. **What should the AUSF reporting requirements be?**

   All contributors to the AUSF should be required to submit and/or maintain for audit purposes sufficient information to verify that their contributions were correctly calculated. All providers that receive support should be required to submit and/or maintain for audit purposes sufficient data to calculate the support due and to ensure that the amounts paid to them were correct: for example, the number of customers served in high-cost areas multiplied by the applicable support amounts for those areas. Carriers may also need to report cost information if additional information is required beyond that available from NECA and USAC. In addition, if the AUSF is structured to serve as an access revenue replacement mechanism, carriers would need to provide information on the change in their intrastate access rates and their “base period” intrastate access minutes.
4. *What should the rules be for companies serving high-cost areas?*

It is unclear what “rules” are referenced by this question. To the extent the Commission is seeking information as to the rules for receiving support, AT&T proposes that support be limited to eligible telecommunications carriers that undertake the COLR obligation in the specified area. Further, the carriers should provide the required minimum level of basic service as determined by the Commission.

5. *Should all carriers be treated the same regardless of service area or technology used?*

Generally speaking, yes. However, there should be minimum eligibility thresholds for receiving AUSF high-cost support. First, the carrier should provide the required minimum level of service as defined by the Commission, regardless of what technology it uses to provide that service. Second, the carrier should be required to undertake the obligation of being a COLR in an area or areas designated as high-cost by the adopted cost model or methodology.

6. *What revisions to the existing AUSF rules should be made?*

The Commission should make revisions to the existing AUSF rules to clearly set forth the support structure described above. In particular, the Commission should adopt rules specifying (i) the method for determining the appropriate surcharge, (ii) the method for determining which areas are high-cost areas and for calculating the monthly support amounts and (iii) the requirements for carriers to qualify for support (i.e., the required minimum level of service to be provided, and the COLR obligation).

7. *Should the fund allow upfront recovery of construction costs?*

No. To the extent the Commission decides to use the AUSF as a high-cost support mechanism, the recovery of construction costs (particularly loop costs) should be based on a
determination of costs and should account for costs recovered from the federal USF High Cost Loop Fund, Safety Net Fund and Interstate Common Line Support. Support payments should be paid monthly on a per-line basis. It is important to account for the time lag built into the federal cost recovery mechanism. If AUSF support is paid up front, the Commission would be unable to deduct federal USF support (which is paid after the fact), so the carrier would then receive a double recovery when it receives its federal support. The coordination of benefits is important to avoid double recovery of the costs by a carrier.

8. Should a company be required to meet a set of criteria before they are allowed to obtain AUSF revenues to compensate it for reductions in access revenues resulting from access charge reform?

Yes. See discussion in response to Questions 4 and 5 above.

9. Should AUSF funding be available to competitive eligible telecommunications carriers?

For intrastate access reform purposes, AUSF support should not be necessary for a competitive eligible telecommunications carrier (to the extent it experiences a decrease in access revenue), given that competitive carriers have pricing flexibility that incumbents do not have.

To the extent that the AUSF also provides high-cost area support, support should be available only to eligible carriers that can provide the required minimum level of service and that undertake the obligation of being a COLR. In any given high-cost area, however, there should be only one COLR.

10. Should AUSF funding be provided to companies that are not certified as eligible telecommunications carriers?

No. High-cost support should be limited to those eligible telecommunications carriers that undertake the obligation to be a COLR. In addition, the Commission may apply other criteria or requirements for eligible carriers. In the case of AUSF support to offset intrastate
access charge reductions, support would technically be available to all carriers reducing their rates to the extent they are not able to raise their basic service rates to offset the intrastate access reductions; however, since competitive ETCs would generally have pricing flexibility, such AUSF support should not be necessary.

11. Should companies be required to file a rate case to obtain AUSF revenues?

Not necessarily, although if rates are to be adjusted, certain information (including rate base value) may be required. To the extent the AUSF would be used to compensate for serving as a COLR in high-cost areas, the amount of support can be determined by comparing cost (as determined by federal USF data, rather than through a rate case) to the corresponding revenue amount. To the extent the AUSF would be used to replace revenues lost due to the elimination of implicit subsidies, the applicable carrier would need to provide data demonstrating the loss of revenue.

12. If a rate case is not required, what method should be used to determine whether a company should receive AUSF payments?

To the extent the AUSF is to support the recovery of cost in high-cost areas, federal USF data on loop and switching costs could be used to develop estimated costs related to supported services. The resulting cost would then be compared to the corresponding federal benchmark; any excess cost not already supported by federal law would be reimbursed by the AUSF.

Under a revenue replacement approach, the accepted methodology is for carriers to compute a support payment based on the following calculation: [the reduction in access charge per minute] multiplied by [the minutes of use in a previous base period, for example the year preceding the change in access charge rules]. The base period minutes can be fixed at the time
of the access charge reduction, and based on volume before the reduction was made. The
support payment is typically paid in monthly installments.

13. Should the AUSF rules be amended to allow for the provision of telephone service
in unserved or underserved areas?

The AUSF rules currently allow for the provision of telephone service in unserved or
underserved areas. However, the AUSF does not provide additional support or incentives to a
carrier that expands service into these areas. To the extent that the AUSF is structured to provide
support for COLRs serving high-cost areas, as discussed above, it could appropriately provide
support for expansion into unserved or underserved areas, and the AUSF rules should be
amended to set forth the requirements for receiving support and the methodology for determining
the support amount, as noted in response to Question 6.

14. Should the AUSF rules be amended to allow for incentives to companies to
provide telephone service in unserved or underserved areas?

Yes, as described in response to Questions 6 and 13, the AUSF rules should be amended
so that the AUSF serves as a high-cost support fund. However, the AUSF should not provide a
one-time lump sum incentive to a carrier. The federal USF provides a mechanism for significant
cost recovery of expansion costs for most of the carriers in Arizona. If the Commission adopts a
high-cost support structure for the AUSF, carriers would have a mechanism to recover expansion
costs over the life of the asset which are not covered by the federal USF.

15. Should the AUSF rules as proposed by ALECA be adopted?

ALECA recognizes the need for access charge reform and should be commended for
seeking ways to achieve that reform. However, the Commission should not adopt ALECA’s
proposal, as it is currently framed, for three reasons. First, ALECA does not suggest the removal
of common line cost recovery from access charges. Common line cost recovery is a form of
implicit subsidy, and the FCC has recognized that it is inappropriate to use a traffic sensitive mechanism (the common line charge) to recover costs that are not traffic sensitive.  

Second, ALECA proposes adding the same flawed language that is currently found in the Oklahoma rules (and that was recently removed from the Arkansas statutes and rules), which allows a carrier to recover any decrease in federal USF support, even if the decrease is the result of a decrease in the carrier’s own revenue requirement or a revenue neutral rule change (which by its nature would already be offset by revenues).

Third, the language in ALECA’s proposed rule is unclear as to whether the carrier’s Interstate Common Line Support (“ICLS”) would be considered in calculating support from the state. It is important to include ICLS because the embedded loop costs developed by NECA represent the total loop cost and the carrier’s interstate loop cost recovery should be considered in determining the level of intrastate support for loop cost.

16. Should competitive bidding be a component of AUSF implementation?

To the extent that the AUSF is intended to make explicit the universal service subsidies implicit in intrastate access reform, there would be no place for a competitive process. However, competitive processes may be worth considering for purposes of selecting a COLR, and determining any necessary accompanying support, for area(s) where no existing carrier is ready, willing or able to provide basic service. If the Commission is interested in pursuing such a

---

16 In re Multi-Association Group (MAG) Plan, 16 F.C.C. Rcd. 19613, ¶ 15 (2001) (“We find that the Carrier Common Line (CCL) charge, an inefficient cost recovery mechanism and implicit subsidy, should be removed from the common line rate structure.”).

17 Id. at ¶ 17 (“The Commission has long recognized that, to the extent possible, interstate access costs should be recovered in the manner in which they are incurred. In particular, non-traffic sensitive costs—costs that do not vary with the amount of traffic carried over the facilities—should be recovered through fixed, flat charges, and traffic sensitive costs should be recovered through per-minute charges. This approach fosters competition and efficient pricing.”) (footnote omitted).
procedure, it should solicit comments and/or hold workshops to explore the specific rules for such competitive processes.

17. Should CLECs have to prove a need for AUSF revenues?

As previously discussed above, support should be limited to a single COLR. This would preclude CLECs from receiving AUSF support (except, perhaps, for unserved areas where no existing carrier is ready, willing, or able to provide basic service, and the Commission selects a provider for such areas using competitive processes).

18. What services should be eligible for inclusion in services supported by the AUSF?

The basic level of services to be supported by the AUSF should generally mirror the federal requirements found in 47 C.F.R. § 54.101(a)(1-9).

19. Should AUSF payments be used for line extensions and if so how should eligible costs be determined?

See Section II.A and response to Question 7 above.

20. How should the AUSF surcharges be calculated?

As discussed above, to the extent that the FCC revises the federal USF contribution methodology in the future, AT&T recommends that the Commission mirror the new federal methodology at that time. In the meantime, the Commission should consider adopting an AUSF contribution methodology more equitable than the one currently in place. The current 50/50 methodology may impose disproportionate burdens on certain categories of service providers. AT&T currently anticipates providing a proposal for such a methodology in the next round of comments.
21. Should a program to improve participation in Lifeline and Link-up be supported by AUSF?

Yes. The Commission should review possible changes to the Lifeline program, including the use of state funding to maximize the federal matching support and/or the level of state-provided outreach.

22. Should the enrollment program recommended by the ETCs be implemented or is there another more cost-effective method for increasing Lifeline and Link-Up participation?

The use of an automatic enrollment process, as proposed by the ETCs, could be a reasonable means of increasing enrollment. However, the Commission may instead decide that the use of a third-party administrator (similar to the approach used in Texas) would be a better solution.

23. Is the funding mechanism for the enrollment program recommended by the ETCs appropriate, should the cost be borne by the ETCs as a cost of doing business and being an ETC or is there some other method of funding that would be better?

The use of AUSF funding to cover the costs of mechanizing enrollment is a reasonable solution. The cost of Lifeline is not and should not be considered a “cost of doing business” for carriers, but instead a form of subsidy that should be made explicit.

24. Are the projections for potential Lifeline and Link-Up customers reasonable or is there other data that would increase or decrease the cost/benefit estimates contained in the ETC’s Report? Please provide such data.

The projections provided by ETC do not appear unreasonable on their face, but it is difficult to know or project the impact of Lifeline program changes. The Commission should consider alternative data sources, but AT&T does not have any data of its own.
25. **Should the recommendations in the ETC's Report be implemented, how should the AUSF rules be modified to address the enrollment program and the payments that would be made to the Department of Economic Security ("DES") for its participation?**

To the extent that the Commission decides to establish an automatic enrollment process, the rules necessary for such a process should be developed in a workshop setting that would allow the review and discussion of other states efforts at implementing a similar process.

26. **Should there be a “cap” on the payments that could be made to DES for its participation in the enrollment program and, if so, how might such a cap be determined?**

As stated in response to Question 22 above, the use of a third-party administrator might be preferred. Under that approach, the contract between the state and the third-party administrator would establish the amount of administrative expense ahead of time. The third party, not the state, would then bear the risk that costs might exceed the expected amount.

27. **Should there be some form of a “sunset clause” that would end the enrollment program and, if so, what would the appropriate criteria be for ending the program?**

No. The Commission should not establish an automatic sunset. Instead, the program should be reviewed every two to three years to determine if changes (including the elimination of automatic enrollment) should be made.

28. **To what extent do other states promote enrollment in Lifeline and Link-Up as recommended in the ETC's Report and to what extent have such state efforts been effective, both from an enrollment and cost perspective?**

The extent to which other states promote Lifeline and Link-Up varies from very limited to very extensive with varying levels of success. The suggestion, by the ETCs, to directly involve a state social services agency is not unprecedented, but more states are tending to opt for a third-party administrator. It is unusual to suggest that the Department of Revenue be involved.
The effectiveness of states’ efforts and the cost benefits vary based on a number of factors, not the least of which is local culture. In some areas, households would rather forego a phone, or skip a meal or walk to save the cost of gas, rather than take a handout. In other areas, people jump at discounted phone service. In other words, it is difficult to predict the success of a state’s efforts to promote Lifeline or to compare the effectiveness of one state’s plan to another because of the many cultural differences in the states.

29. To what extent have communication services from the non-ETCs, such as prepaid wireless offerings as one example, become the service of choice for eligible Lifeline customers who otherwise may have subscribed to an ETC’s Lifeline service?

AT&T does not have information sufficient to answer this question at this time.

RESPECTFULLY SUBMITTED this 7th day of January, 2008.

Isabelle Salgado
Gregory Castle
AT&T NEVADA
645 East Plumb Lane, B132
P.O. Box 11010
Reno, Nevada 89520

- and -

Demetrios G. Metropoulos
MAYER BROWN LLP
71 South Wacker Drive
Chicago, Illinois 60606
Original and 15 copies filed this 7th day of January, 2008, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copies of the foregoing mailed this 7th day of January, 2008, to:

All parties who have filed requests to remain on the service list