Qwest Corporation ("Qwest") submits the following reply comments pursuant to the Procedural Order entered in these dockets, dated November 28, 2007.

I. REPLY COMMENTS REGARDING ACCESS

Switched access reform is not specific to a single company or section of the industry.

CLEC access reform is equally as important as the reform that Qwest has already undertaken in Phase I of the Cost of Telecommunications Access Docket. Implicit subsidies create opportunities for arbitrage and allow CLECs to charge unrestrained rates to carriers without any justification. As Qwest has detailed in opening comments, rate restructuring encourages
efficient competition. Eschelon, et al, argues that the revenue generation from this implicit
subsidy is necessary for the financial existence of many CLECs. Certainly, reduction in access
rates lowers revenues, but those are revenues generated from third parties who are not able to
choose whether to terminate calls through that LEC. As Time Warner points out in its
comments, this disparity injures other competitors. Qwest cannot agree, however, with Time
Warner’s mistaken assertion that this docket should further address the access rates of Qwest in
Phase II. The docket must take into account the full range of access charge issues raised in
Qwest’s initial comments. And, with respect to Qwest specifically, Qwest reiterates that its
switched access rates have already been substantially reduced in Phase I of this proceeding.

Eschelon argues that the ACC should wait until the FCC acts in the Intercarrier
Compensation docket. However, the FCC did act on CLEC access rates in the 7th report and
order, and reaffirmed that decision in the 8th report and order. \(^1\) The FCC restricted CLECs from
tariffing rates higher than those of the ILECs with which they compete. At a minimum, the ACC
should bring Arizona CLEC access rates current with FCC orders already in place. This includes
the Carrier Common Line charge (CCL) which was eliminated by the FCC both through the
CALLS plan and in the 7th and 8th report and order for the CLECs. The analysis which Eschelon
calls on the Commission to make for each individual CLEC was rejected by the FCC.

Eschelon also proposes to introduce billing dispute issues into the docket. This is neither
necessary nor appropriate for this inquiry. There are well established processes for resolution of
billing disputes. Bringing these issues into a discussion of access charge rates will simply
unnecessarily broaden and delay the inquiry into the appropriate rate levels for switched access
rates.

ALECA proposes that the full amount of recovery for switched access reductions should
come from the AUSF. Qwest continues to advocate that the Commission should establish a state
wide affordability benchmark and that carriers may only recover costs from the AUSF that are above that benchmark and only after being subject to some form of earnings review. Qwest further describes this proposal in the AUSF portion of these comments.

II. REPLY COMMENTS REGARDING THE ARIZONA UNIVERSAL SERVICE FUND (“AUSF”)

A. Eligibility for AUSF Funding

ALECA has provided seemingly contradictory responses to the question of who may draw from AUSF. In response to Q.1., ALECA stated that only companies defined as rural companies per the 1996 Telecom Act should qualify. However, in response to Q9., ALECA stated that CETCs serving rural areas and small communities may receive AUSF based on the CETCs’ own cost. In response to Q5., ALECA stated “All carriers whose customers pay into the AUSF should have an opportunity to draw from the fund to recover the costs or foregone revenues from providing benefits to the public consistent with universal service objectives.” These positions cannot all be true and confuse the purpose of AUSF. ALECA should clarify their proposal to clearly state what entities are eligible for AUSF. Regardless, Qwest’s position is that all ETCs should be eligible to receive support based on the criteria Qwest provided in its original comments.

Qwest’s position is clear that rural, non-rural, and CETCs are all eligible for AUSF funding subject to certain provisions:

1. Must be an ETC and serve high cost areas of Arizona.

2. ETCs’ basic local service rates in high cost wire centers must meet or exceed a Commission-determined affordability benchmark.
3. ETCs must file a simplified earnings investigation to demonstrate a need for AUSF support.

B. **How should the AUSF surcharges be calculated?**

Of all the parties filing comments on the revenues to be assessed, only Verizon supported the existing methodology. The existing methodology is highly discriminatory, placing 50 percent of the AUSF funding burden on providers of intrastate toll service. Intrastate toll service is an anachronism in the current marketplace. The whole concept of toll versus local service disappears in wireless communications, and is becoming less relevant as consumers chose bundled service for toll calls from a wide range of telephone service technologies. As recognized by ALECA and AT&T, as well as Qwest, the most equitable methodology currently available is to assess all intrastate telecommunications services’ revenues. This includes wireline, wireless, cable telephony, and interconnected VoIP services. Therefore, a single surcharge, rather than a three part mechanism, should be calculated to assess all intrastate telecommunications services' revenue at the same rate at a sufficient level to cover AUSF support.

C. **Should companies be required to file a rate case? If a rate case is not required, what method should be used to determine whether a company should receive AUSF payments?**

ALECA takes the position that rural carriers receiving AUSF support in compensation for high cost loops or foregone access revenues should not be required to undergo individual company rate cases, but rather receive AUSF on a dollar for dollar basis for foregone intrastate access revenues and receive AUSF for high cost loops that exceed 115 percent of the national average loop cost. In order to demonstrate the loop cost, ALECA proposes to utilize the NECA
loop cost reporting tool. ALECA’s proposal is problematic from four perspectives.

First, the purpose of the AUSF is to advance the ACC’s universal service goals, since all telecommunications customers in the state are providing funding for AUSF. The only goal that ALECA discusses in their proposal is increased investment in rural areas. This additional investment, in and of itself, does nothing to advance the 94.2 percent level of penetration for voice grade services that currently exists in Arizona.\(^2\) It is appropriate to demonstrate how the additional investment furthers the goals of universal service and demonstrate that the additional investment provided by AUSF is in the public interest.

Second, the ALECA members are regulated through their rate of return for intrastate services. Given this form of regulation, it is only common sense that any additional revenues derived from the AUSF or revenues received to replace foregone access revenues be justified through some sort of earnings investigation. Qwest has recommended that a simplified earnings investigation process be utilized. To the extent that a carrier has entered into an AFOR agreement with the Commission, something other than the simplified earnings investigation may be appropriate, to the extent that the AFOR agreement recognizes the possibility of receiving support from AUSF.

Third, any federal universal service (FUSF) support that is targeted to the state jurisdiction must be considered in the determination of AUSF, otherwise, double recovery of loop or switch costs will take place. For example, FUSF provides rural carriers with loop costs greater than 115 percent of the national average, but less than 150 percent of the national average, an additional recovery of 65 percent of the costs in this range. If the rural carrier’s loop costs exceed 150 percent of the national average, it receives an additional recovery of 75 percent of the costs above this level. The rural carriers already receive 25 percent of their loop costs through interstate rates and cost recovery mechanisms. Therefore, **100 percent** of a rural

\(^2\) TELEPHONE SUBSCRIBERSHIP IN THE UNITED STATES, Industry Analysis and Technology Division Wireline Competition Bureau Federal Communications Commission, released June 2007 at Table 2.
company’s loop cost in excess of 150 percent of the national average and 90 percent of its loop cost between 115 percent and 150 percent are already recovered through interstate rates and FUSF. Allowing rural companies to receive AUSF for costs in excess of 115 percent of the national average, without considering FUSF, is irrational, and only serves to bloat the AUSF fund and enrich its recipients as the expense of the consumers of telecommunications services in the state of Arizona.

Fourth, the AUSF process should focus initially on the responsibility of carriers to recover the cost from its own end users. Qwest proposes that the Commission develop an affordability benchmark for high cost areas. ETCs should only be eligible for AUSF support to the extent that the rate for basic service in the high cost area meets or exceeds the Commission determined affordability benchmark.

Without adequate controls on qualifications for the AUSF as discussed above, it is possible that the rules will encourage uneconomic investment that does not advance Arizona’s universal service goals. In this situation, AUSF would only advance the financial interests of selected fund recipients. As Qwest noted in its initial comments, the size of the AUSF should be closely monitored to prevent uncontrolled growth.

D. Should the fund allow upfront recovery of construction costs?

Both Verizon and AT&T state that upfront recovery of construction costs should not be allowed because it may provide double recovery of costs in conjunction with FUSF and it may not be available to similarly situated carriers. Additionally, Verizon states that one time funding could impose a hardship on ratepayers through spikes in the surcharge. Qwest disagrees. A properly designed, upfront mechanism will not cause double recovery, nor impose a hardship upon ratepayers. If the one-time AUSF distributions are targeted to extending facilities to potential customers not presently receiving service, or for the amelioration of inadequate service
as discussed by Qwest in its initial comments, these issues are moot. Additionally, the other safeguards that Qwest has suggested, such as accounting for FUSF, use of a simplified earnings investigation, and the use of an affordability benchmark all protect the fund from excessive growth. Allowing upfront recovery in the manner proposed by Qwest goes directly to providing service where it is currently not available or inadequate.

III.  REPLY COMMENTS REGARDING LIFELINE ADMINISTRATIVE EXPENSES

In response to Question 21, Verizon raised the concern that "substantially increasing the size of the AUSF should be avoided, unless clear benefits to Arizona residents are evident."

Based on program eligibility data provided by the Arizona Department of Economic Security, the ETCs have projected that 400,000 households could be added to the Lifeline program if DES were to provide automatic enrollment for Lifeline concurrent with their enrolling an individual in a qualifying program. This addition of 400,000 households would result in $38 million in Federal benefits being paid to Arizona residents enrolled in the Lifeline program.

Qwest believes allocating approximately $325,300 in AUSF funds in order to get an estimated $38 million in Federal funds paid to Arizona residents would be an appropriate use of the AUSF and provides a "clear benefit to Arizona residents", as suggested by Verizon.

RESPECTFULLY SUBMITTED this 4th day of February, 2008.

QWEST CORPORATION

By:  
Norman G. Curtright
4041 N. Central Ave., Suite 4100
Phoenix, Arizona 85012
Telephone: (602) 630-2187
Fax: (602) 235-3107
Attorney for Qwest Corporation
Original and 15 copies of the foregoing
were filed this 4th day of February, 2008 with:

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

COPY of the foregoing mailed/-paneled
This 4th day of February, 2008 to:

Jane L. Rodda
Administrative Law Judge
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007
jrodda@cc.state.az.us

Ernest G. Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007
ernestjohnson@cc.state.az.us

Christopher Keeley, Chief Counsel
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007
ckempley@cc.state.az.us

Maureen A. Scott, Esq.
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007
mscott@cc.state.az.us

Michael W. Patten
Roshka Heyman & DeWulf, PLC
400 E. Van Buren Street, Suite 800
Phoenix, AZ 85004
mpatten@rhd-law.com

Thomas Campbell
Michael hallam
Lewis and Roca LLP
40 North Central Avenue
Phoenix, AZ 85004
Attorneys for Verizon
tcampbell@lrlaw.com
mhallam@lrlaw.com

Mark A. DiNunzio
Cox Arizona Telkom, LLC
MS: DV3-16, Bldg. C
1550 West Deer Valley Road
Phoenix, AZ 85027
Mark.dinunzio@cox.com

Scott Wakefield, Chief Counsel
Residential Utility Consumer Office (RUUCO)
1110 West Washington Street, Suite 220
Phoenix, AZ 85007
sakefield@azruco.gov
<table>
<thead>
<tr>
<th></th>
<th>Jeffrey Crockett</th>
<th>Michael M. Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bradley S. Carroll</td>
<td>Gallagher &amp; Kennedy</td>
</tr>
<tr>
<td></td>
<td>Snell &amp; Wilmer, LLP</td>
<td>2575 East Camelback Road</td>
</tr>
<tr>
<td></td>
<td>One Arizona Center</td>
<td>Phoenix, AZ 85016</td>
</tr>
<tr>
<td></td>
<td>Phoenix, AZ 85004</td>
<td>Attorneys for AT&amp;T</td>
</tr>
<tr>
<td></td>
<td>Attorneys for ALECA</td>
<td><a href="mailto:mmg@gknet.com">mmg@gknet.com</a></td>
</tr>
<tr>
<td></td>
<td><a href="mailto:jcrocket@swlaw.com">jcrocket@swlaw.com</a></td>
<td></td>
</tr>
<tr>
<td></td>
<td><a href="mailto:bcarroll@swlaw.com">bcarroll@swlaw.com</a></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Dan Foley</td>
<td>Charles H. Carrathers, III</td>
</tr>
<tr>
<td></td>
<td>Gregory Castle</td>
<td>General Counsel South Central Region</td>
</tr>
<tr>
<td>7</td>
<td>AT&amp;T Nevada</td>
<td>Verizon, Inc.</td>
</tr>
<tr>
<td></td>
<td>645 E. Plumb Lane, B132</td>
<td>HQE03H52</td>
</tr>
<tr>
<td></td>
<td>P.O. Box 11010</td>
<td>600 Hidden Ridge</td>
</tr>
<tr>
<td></td>
<td>Reno, NV 89520</td>
<td>Irving, TX 75015-2092</td>
</tr>
<tr>
<td></td>
<td><a href="mailto:Dan.foley@att.com">Dan.foley@att.com</a></td>
<td><a href="mailto:Chuck.carrathers@verizon.com">Chuck.carrathers@verizon.com</a></td>
</tr>
<tr>
<td></td>
<td><a href="mailto:Gc1831@att.com">Gc1831@att.com</a></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Arizona Dialtone, Inc.</td>
<td>Joan S. Burke</td>
</tr>
<tr>
<td></td>
<td>Thomas W. Bade, president</td>
<td>Osborn Maledon, PA</td>
</tr>
<tr>
<td></td>
<td>717 W. Oakland Street</td>
<td>2929 North Central Avenue, Suite 2100</td>
</tr>
<tr>
<td></td>
<td>Chandler, AZ 85226</td>
<td>Phoenix, AZ 85012</td>
</tr>
<tr>
<td></td>
<td><a href="mailto:tombade@arizonadialtone.com">tombade@arizonadialtone.com</a></td>
<td>Attorneys for Time Warner Telecom</td>
</tr>
<tr>
<td></td>
<td></td>
<td><a href="mailto:jburke@omlaw.com">jburke@omlaw.com</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>OrbitCom, Inc.</td>
<td>Lyndall Nipps</td>
</tr>
<tr>
<td></td>
<td>Brad VanLeur, President</td>
<td>Vice President, Regulatory</td>
</tr>
<tr>
<td></td>
<td>1701 N. Louise Avenue</td>
<td>Time Warner Telecom</td>
</tr>
<tr>
<td></td>
<td>Sioux Falls, SD 57107</td>
<td>845 Camino Sur</td>
</tr>
<tr>
<td></td>
<td><a href="mailto:bvanleur@svtv.com">bvanleur@svtv.com</a></td>
<td>Palm Springs, CA 92262</td>
</tr>
<tr>
<td></td>
<td></td>
<td><a href="mailto:Lyndall.nipps@twtelecom.com">Lyndall.nipps@twtelecom.com</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Arizona Payphone Association</td>
<td>Dennis D. Ahlers</td>
</tr>
<tr>
<td></td>
<td>C/O Gary Joseph</td>
<td>Associate General Counsel</td>
</tr>
<tr>
<td></td>
<td>Sharenet Communications</td>
<td>Eschelon Telecom, Inc.</td>
</tr>
<tr>
<td></td>
<td>4633 West Polk Street</td>
<td>730 Second Avenue, Suite 900</td>
</tr>
<tr>
<td></td>
<td>Phoenix, AZ 85043</td>
<td>Minneapolis, MN 55402</td>
</tr>
<tr>
<td></td>
<td><a href="mailto:garyj@nationalbrands.com">garyj@nationalbrands.com</a></td>
<td><a href="mailto:ddaughters@eschelon.com">ddaughters@eschelon.com</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Nathan Glazier</td>
<td>Dennis D. Ahlers</td>
</tr>
<tr>
<td></td>
<td>Regional Manager</td>
<td>Associate General Counsel</td>
</tr>
<tr>
<td></td>
<td>Alltel Communications, Inc.</td>
<td>Integra Telecom, Inc.</td>
</tr>
<tr>
<td></td>
<td>4805 E. Thistle Landing Drive</td>
<td>730 Second Avenue, Suite 900</td>
</tr>
<tr>
<td></td>
<td>Phoenix, AZ 85044</td>
<td>Minneapolis, MN 55402</td>
</tr>
<tr>
<td></td>
<td><a href="mailto:Nathan.glazier@alltel.com">Nathan.glazier@alltel.com</a></td>
<td><a href="mailto:ddaughters@eschelon.com">ddaughters@eschelon.com</a></td>
</tr>
</tbody>
</table>
Drain Kippen