B E F O R E T H E A R I Z O N A C O R P O R A T I O N C O M M I S S I O N

IN THE MATTER OF THE REVIEW AND POSSIBLE REVISION OF ARIZONA UNIVERSAL SERVICE FUND RULES, ARTICLE 12 OF THE ARIZONA ADMINISTRATIVE CODE

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

Staff of the Arizona Corporation Commission ("Staff") hereby files the Reply Testimony of Wilfred Shand of the Utilities Division in the above-referenced matter.

RESPECTFULLY SUBMITTED this 5th day of February, 2010.

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Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE REVIEW AND POSSIBLE REVISION OF ARIZONA UNIVERSAL SERVICE FUND RULES, ARTICLE 12 OF THE ARIZONA ADMINISTRATIVE CODE

DOCKET NO. RT-00000H-97-0137

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

DOCKET NO. T-00000D-00-0672

REPLY
TESTIMONY
OF
WILFRED SHAND
PUBLIC UTILITIES ANALYST MANAGER
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

FEBRUARY 5, 2010
Q. Please state your name, occupation, and business address.

A. My name is Wilfred Shard. I am a Public Utility Analyst Manager employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Did you previously file Direct Testimony in this proceeding?

A. Yes.

Q. What is the scope of your Reply Testimony in this case?

A. The purpose of the reply testimony is to address the conclusion and recommendations contained in the Direct Testimony of Residential Utility Consumer Office ("RUFCO") witness Dr. Ben Johnson. Staff previously addressed the more significant positions held by the other parties in this proceeding in its Direct Testimony filed on January 8, 2010.

Q. Dr. Johnson states, "At some point in the future, the Commission may need to move forward with access charge reform, and at that time it would be beneficial to have a firm understanding of the issues and options." Does Staff believe that the Commission should move forward with access charge reform?

A. Yes. As stated in the Direct Testimony, most of the participants in the Access and Arizona Universal Service Fund ("AUSF") workshops stated that arbitrage is a possible outcome when discussing potential access charge reform. In addition, the Federal Communications Commission's ("FCC") pending intercarrier compensation reform proceeding is driven by its desire to eliminate unreasonable differences in the rates for access services. It is because of the differences in rates for essentially the same service that Staff has recommended that the Arizona Local Exchange Carrier Association ("ALECA")

1 Direct Testimony Page 48, lines 8 to 10.
members’ rates be set at Qwest intrastate rates. Staff believes that this is a reasonable step in the move toward consistency with interstate rates.

Q. **In addressing the ALECA’s revenue neutrality position, Dr. Johnson states, “There are ample reasons to be skeptical about proposals being made in this proceeding that call for “revenue neutrality.”** Does Staff have a comment on this statement?

A. Yes. Staff has recommended that each carrier be required to show that it, in fact, has no other source of funds to offset switched access charge rate reductions before it is authorized to receive an AUSF surcharge subsidy. Staff has recommended that the rural incumbent local exchange companies be required to file R14-2-103 information to allow the Commission to increase rates to levels that generate additional revenues while ensuring that ratepayers are provided service at reasonable rates.

Q. **Dr. Johnson states, “While internet access is not subject to intrastate regulation (due to Federal preemption), this service uses many of the same fiber and copper cables and other facilities that are used in providing intrastate switched access and basic local exchange service. The Commission should look closely at growth in this service, and evaluate the impact of this growth on the share of network costs which is appropriately borne by intrastate services, including intrastate switched access, and basic local exchange service.”** Does Staff have a comment on this recommendation?

A. Yes. Staff would note that while there are many uses of the network that generate additional revenues for the incumbent local exchange companies (“ILECs”), the costs associated with these services have been removed from the intrastate revenue requirements through the separations process using rules that were instituted by the FCC.

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2 Direct Testimony of Dr. Ben Johnson, Page 49, lines 13 to 14.
3 Direct Testimony Page 49, lines 18 to 23.
Q. Dr. Johnson further states, “The Commission should reject proposals that any switched access reductions must be ‘revenue neutral.’ A policy of “revenue neutrality” is appealing to carriers, since it would protect them from any adverse changes in their revenues, but it is not fair to customers. Revenue neutrality fails to protect customers from bill increases, it fails to ensure that the public interest is protected, and it is not a sufficient basis for waiving the standard requirement for rate changes to be accomplished in the context of a fair return on fair value rate case.”

Does Staff have a response to Dr. Johnson’s position?

A. Staff’s preferred option to address revenue changes resulting from access charge reform is to have the companies file rate cases to support the need for the revenue neutral revenue draw. Staff’s alternative recommendation assumed that even with temporary revenue neutral AUSF funding, the companies would have to file a rate case to justify continued revenue flows funded by a statewide AUSF surcharge.

Q. Dr. Johnson recommends that, “If payments from the AUSF are to be significantly expanded, it would be appropriate to look at options for simultaneously expanding the scope of the fund, to encompass additional carriers and additional services.”

What is Staff’s position on this issue?

A. Staff has recommended that the Commission, in the context of a rulemaking, consider amending the manner in which the surcharge is assessed.

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4 Direct Testimony Page 50, lines 12 to 18.
5 Direct Testimony Page 52, lines 2 to 4.
Q. Dr. Johnson states that “AUSF support should be readily transferable from one carrier to the next, if a customer in a high cost area changes carriers.” Does Staff have a comment on the suggestion that AUSF support be transferrable?

A. Yes. Staff would note that implementation of this recommendation, while theoretically attractive, would likely suffer from some practical shortcomings. In making federal USF support available to wireless companies, the FCC implemented an identical support rule that provided wireless companies with the same level of support as the ILECs. This support was provided without regard to the wireless companies’ costs of providing the service. In addition, the FCC has essentially held the incumbent local exchange companies harmless. If a high cost company lost customers to wireless companies, their support, on a study area basis, does not change. This practice led to significant growth in the revenues required to fund the federal USF. On May 1, 2008, the FCC released an order in which it adopted an interim, emergency cap on the amount of high-cost support that competitive eligible telecommunications carriers (“ETCs”) could receive. As of the effective date of the Order, total annual competitive ETC support for each state was capped at the level of support that competitive ETCs in that state were eligible to receive during March 2008 on an annualized basis. Further, portability from Staff’s perspective means that as a customer changes carriers, the support that follows the customer to the new carrier would be offset by an equivalent reduction in the support provided to the carrier that loses the customer. Staff does not believe that such a provision can be implemented absent the processing of an R14-2-103 filing by a company.

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6 Direct Testimony Page 52, lines 21 to 22.
7 In the Matter of: High-Cost Universal Service Support; Federal-State Joint Board on Universal Service; Alltel Communications, Inc., et al.; Petitions for Designation as Eligible Telecommunications Carriers; RCC Minnesota, Inc. and RCC Atlantic, Inc. New Hampshire ETC Designation Amendment, WC Docket No. 05-337 and CC Docket No. 96-45, Released: May 1, 2008, Para. 1.
Q. Does this conclude your Reply Testimony?

A. Yes, it does.