BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS:

GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

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.

SPRINT'S REPLY COMMENTS CONCERNING THE IMPLEMENTATION OF
THE FCC CONNECT AMERICA FUND ORDER

In accordance with the directive included in the Arizona Corporation Commission's ("Commission" or "ACC") Procedural Orders, issued on March 20, and May 16, 2012, in the above-styled docket, Sprint Communications Company L.P., Sprint Spectrum, L.P. and Nextel West Corp. (collectively "Sprint") respectfully submits these Reply Comments on the impact of the Federal Communications Commission's ("FCC") Connect America Fund Order\(^1\) on these Arizona dockets. Sprint respectfully reserves its

\(^1\) WC Docket No. 10-90 et al., In the Matter of Connect America Fund, Report and Order and Further Notice of Proposed Rulemaking (rel. Nov. 18, 2011), 26 FCC Rcd 17663, (hereinafter "CAF Order").
right to comment on portions of the *CAF Order* not specifically discussed below or in its Initial Comments filed on May 14, 2012.

**Issue 3 – Given the CAF Order, does the Commission need to establish procedures to implement intrastate access reform? And if yes, what procedures are recommended?**

In its Initial Comments filed on May 14, 2012, Sprint emphasized that it is imperative for the Commission to implement procedures necessary to ensure proper implementation and enforcement of the intercarrier compensation reforms required by the FCC’s *CAF Order*. In fact, Sprint spelled-out in detail the actions required on the part of the Commission to ensure the intrastate tariff filings would be in accordance with the FCC’s *CAF Order* (Sprint Initial Comments pages 5-8).

The Initial Comments of AT&T on this issue similarly promote Commission involvement with the intrastate access filings and the corresponding review of those filings to guard against gamesmanship (AT&T Initial Comments pages 8-13). Thus, Sprint agrees with the Initial Comments of AT&T pertaining to Issue 3.

All other parties filing Initial Comments: Cox Arizona Telecom, LLC ("Cox") (page 3), Arizona Local Exchange Carriers Association ("ALECA") (page 2), Esheloni Telecom of Arizona, Inc., Mountain Telecommunications, Inc., and Electric Lightwave, LLC (collectively "Integra") (page 3), Qwest Corporation d/b/a CenturyLink-QC ("CenturyLink"), suggest that procedures to implement intrastate access reform are unnecessary. Sprint disagrees with all of the aforementioned parties, and believes that if the Commission fails to establish the proper procedures, it will clearly invite the opportunity manipulate the tariff filing process.

It should come as no surprise that parties that are net-payers of Arizona intrastate access charges (Sprint and AT&T) support the implementation of procedures to ensure full reform compliance, whereas the net-receivers of access payments (Cox, ALECA,
Integra, and CenturyLink) oppose the idea of a formal plan. The net-payers of access charges wish to assure the intrastate access reductions ordered by the FCC come to their fruition. The net-receivers of access payments have not provided evidence to justify why they should not be required to demonstrate compliance with the CAF Order. Without such a demonstration it is possible intrastate access rates will remain artificially high. The opportunity to game the system should be eliminated by requiring all LECs to demonstrate compliance with the CAF Order.

**Issue 5 – Does the CAF Order impact the AUSF?** Should the Commission proceed with revisions to the AUSF rules? Why or why not? How should the AUSF be revised? Is the current record sufficient to support any revised recommended reforms?

Sprint disagrees with ALECA’s position that the AUSF rules should be revised to allow for a revenue-neutral offset from the intrastate access reductions (ALECA Initial Comments page 3). As expressed in Sprint’s Initial Comments, the CAF Order provides sufficient access revenue recovery via the Access Recovery Charge ("ARC")\(^2\) and explicit support from the Connect America Fund to the extent an ILEC’s eligible recovery exceeds the recovery permitted from the ARC.\(^3\) Further, the FCC concluded that access revenue recovery from the ARC and the Connect America Fund allows the LECs to earn a reasonable rate of return, and therefore established a petition process through which the LECs can request additional support should they believe such relief is insufficient\(^4\) (Sprint Initial Comments page 9).

ALECA’s request that the Commission allow LECs to utilize the AUSF as an avenue to insulate themselves from the effects of reforms adopted in the CAF Order...
directly contradict the FCC’s ruling. The CAF Order recognizes the fact that access rates have historically been set well above cost, and correctly concluded that continuing to subsidize other services through inflated access rates will harm consumers and competition in the telecommunications market. ALECA’s request is nothing more than an attempt to undo the CAF Order reforms in the interest of continuing to inflate their revenue streams at the expense of consumers and other carriers. This Commission should not be persuaded by such misplaced proposals, which directly contradict the CAF Order.

**Issue 9 – Are current rate case procedures adequate, or should the Commission establish procedures for rate of return carriers that are not able to absorb lost access charge revenue?**

Sprint supports several of the statements made by AT&T in its Initial Comments on this Issue. First, AT&T states that the FCC has already established federal recovery mechanism (ARC and CAF funds) to address the terminating access reductions the FCC has ordered (Initial Comments page 15). Second, AT&T states that the FCC explicitly rejected a 100 percent revenue neutral approach to recovery, concluding that the reforms the FCC adopted allowed the incumbent LECs to earn a reasonable return on their investment (Initial Comments page 16). Third, AT&T reasons that the Commission cannot override the FCC’s mechanisms or give carriers a windfall or double recovery above that specified by the FCC (Initial Comments page 16). Finally, AT&T opines that the Commission need not allow carriers to eschew the available federal recovery mechanisms and instead, obtain recovery under some alternative Arizona state mechanism (Initial Comments page 16).

The AT&T comments cited above are in concurrence with Sprint’s Initial Comments that the FCC: (1) Ruled there is not a need to adopt a revenue-neutral approach to allow for the recovery of lost access revenue resulting from the transition of
access charges, and that it had no legal obligation to allow full recovery “absent a showing of taking.” 5; (2) Established “a rebuttable presumption that the reforms adopted in this [CAF] Order, including the recovery of Eligible Recovery from the ARC and CAF, allow incumbent LECs to earn a reasonable return on their investment.” 6; (3) Established “a “Total Cost and Earnings Review,” through which a carrier may petition the Commission to rebut presumption and request additional support.” 7; and (4) Ruled that “the limited recovery permitted will be more than sufficient to provide carriers reasonable recovery for regulated services, …” 8 In addition, Sprint commented that if a rate of return carrier feels that the ARC and CAF Funds establish by the FCC’s CAF Order do not allow for a reasonable recovery for lost access revenues, the proper procedure is for the carrier to rely upon the FCC’s “Total Cost and Earnings Review” appeal process to seek additional recovery.

On the other hand, CenturyLink argues that an alternative to the rate case process should be considered to allow for the recovery of access reductions, and ALECA argues for a streamlined process within the existing rules that allows for a revenue neutral filing (Initial Comments page 5). These arguments ignore the FCC’s ruling in the CAF Order which explicitly rejected a revenue-neutral approach, and the FCC’s establishment of the presumption that the ARC and CAF Funds allow for reasonable recovery of reduced access revenue, as discussed above. Such arguments are nothing more than an attempted end run around the reforms adopted in the CAF Order. Because the CAF Order provides sufficient alternative recovery for access revenue reductions it mandates, Arizona does not need to provide alternative recovery.

5 See CAF Order, ¶ 924.
6 See Id.
7 See Id.
8 See Id.
Issue 10 – Should the Commission seek carrier-specific information about the anticipated impact of the FCC’s CAF Order on carrier revenues? If yes, for all carriers, or, e.g., only from rate of return carriers?

Sprint supports the Initial Comments of AT&T on Issue 10. In particular, AT&T urges the Commission to direct all LECs to provide carrier-specific information underlying their implementation of the FCC-ordered terminating access reductions. AT&T reasons that such information will ensure the access reductions are implemented properly, and that such information will allow the Commission to assess the impact of the CAF Order on carrier revenues (Initial Comments page 17).

AT&T’s arguments are in alignment with Sprint’s Initial Comments filed on May 14, 2012. In that filing Sprint commented that the Commission should seek carrier-specific information regarding the anticipated impact of the FCC’s CAF Order for the purpose of ensuring compliance with the required intercarrier rate reductions, and that such information should be provided well in advance of July 1, 2012 tariff effective date mandated in ¶801 of the CAF Order. Further Sprint proposed that the carrier-specific information should be submitted on or before May 30, to permit the interested parties to perform a review of the data prior to the actual July 1, 2012 tariff effective date. In addition, all ILECs should provide information, and all interested parties should be permitted to review the information of these carriers to assist the Commission with ensuring compliance with ¶801 of the CAF Order. Moreover, since CLECs must benchmark to the ILEC rates on July 1, 2012, it is imperative that CLECs be granted the opportunity to review the ILEC information prior to that date.

All other parties filing Initial Comments: CenturyLink, ALECA (page 5), Integra (page 4), and Cox (page 5) submitted comments opposing the gathering of carrier-specific information.

Similar to Issue 3 above, this is a situation where the parties who are the net-payers of intrastate access charges (Sprint and AT&T) support the collection of carrier-
specific information to ensure the FCC’s access reform plan is appropriately implemented, and the net-receivers of access payments (Cox, ALECA, Integra, and CenturyLink) resist the need to provide documentation in support of the access tariff filings. This rate transition is much too important to the industry to ignore. A thorough review is essential to ensure compliance with the CAF Order.

Respectfully submitted this 15th day of June, 2012.

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