

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE
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Ratesetting

TO PARTIES OF RECORD IN RULEMAKING 03-08-018

This is the proposed decision of Administrative Law Judge (ALJ) Bushey. It will not appear on the Commission's agenda for at least 30 days after the date it is mailed. The Commission may act then, or it may postpone action until later.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in Article 14 of the Commission's Rules of Practice and Procedure (Rules), accessible on the Commission's website at www.cpuc.ca.gov. Pursuant to Rule 14.3, opening comments shall not exceed 15 pages.

Comments must be filed either electronically pursuant to Resolution ALJ-188 or with the Commission's Docket Office. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic and hard copies of comments should be sent to ALJ Bushey at mab@cpuc.ca.gov and the assigned Commissioner. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

/s/ PHILIP SCOTT WEISMEHL FORAngela K. Minkin, Chief
Administrative Law Judge

ANG:eap

Attachment

Decision **PROPOSED DECISION OF ALJ BUSHEY** (Mailed 10/16/07)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Review Policies
Concerning Intrastate Carrier Access Charges.

Rulemaking 03-08-018
(Filed August 21, 2003)

FINAL OPINION MODIFYING INTRASTATE ACCESS CHARGES

I. Summary

This decision reduces intrastate access charges¹ by adopting a cap for mid-size incumbent and competitive local exchange carriers' intrastate access charges. Effective January 1, 2009, all mid-size incumbent and competitive local exchange carriers shall collect intrastate access charges no greater than the higher of the then-effective intrastate access charges of Verizon California Inc. (Verizon) or Pacific Bell Telephone Company dba AT&T California (Pacific Bell). With this effective date, no surcharges will be necessary for the mid-size incumbent local exchange carriers. All Verizon and Pacific Bell intrastate access charge rate increases shall be presented to this Commission as Tier 3 Advice Letter filings.

The surcharges authorized by Decision (D.) 06-04-071 for Pacific Bell and Verizon shall expire on the date the rate freeze on basic residential telephone service is lifted, currently scheduled for January 1, 2009.

¹ The term "access charges" refers to charges imposed by local exchange carriers for use of the local network by interexchange or long distance carriers, which use this switched access to originate and terminate long distance calls to the vast majority of California residential and business customers.

Competitive local exchange carriers will reduce their rates in two steps: (1) Effective January 1, 2008, competitive local exchange carriers shall reduce their intrastate access charges to \$0.025 per minute; and (2) Effective January 1, 2009, carriers shall reduce their intrastate access charge so that their intrastate access charges are no greater than the higher of Pacific Bell or Verizon.

Small local exchange carriers that do not opt in to the Uniform Regulatory Framework shall phase out non-cost-based elements over their next two rate case cycles.

This proceeding is closed.

II. Background

On October 4, 2001, AT&T Communications of California (old AT&T)² filed a petition pursuant to § 1708.5³ seeking a reduction in intrastate access charges. In Decision (D.) 03-08-018, the Commission granted old AT&T's petition and noted that certain components of the access charges are not cost-based or associated with the costs of any specific transport function. In the decision resolving the first phase of the proceeding, D.04-12-022, the Commission decided that should it authorize local exchange carriers to decrease access charges, these carriers would also be authorized to offset any decrease in access charge revenue with comparable increases in revenue for local services by imposing a surcharge on local telephone service.

The Commission resolved Phase II of this proceeding with D.06-04-071, which eliminated the non-cost-based elements of the access charges assessed by

² This refers to AT&T prior to its merger with SBC.

³ All section citations are to the Public Utilities Code, unless otherwise indicated.

the two largest incumbent local exchange carriers, Pacific Bell Telephone Company (now merged with AT&T) and Verizon. That decision also directed the small, mid-sized, and competitive local exchange carriers to submit comments on whether any non-cost-based elements of their respective access charges should also be modified in a Phase III decision.

On March 13, 2007, the proposed decision resolving the remaining Phase III issues was mailed to the parties for comment. Based on the parties' comments and reply comments, the assigned Commissioner and ALJ determined that further procedural actions were required before the record was ready for consideration by the Commission. The proposed decision was therefore withdrawn.

On May 4, 2007, the assigned Commissioner and ALJ issued a joint ruling requiring further procedural steps and seeking comment on additional issues. The ruling directed the mid-size, small, and competitive local exchange carriers to provide notice to their customers of this proceeding and the potential for local service rate increases. Comment was sought on the Commission's decision granting pricing flexibility to AT&T, Verizon, SureWest and Frontier for all services except basic residential service, and the most appropriate means for treating these carriers in this docket. Comments were also sought on using a two-rate case cycle to move the small local exchange carriers to comply with the policy in D.06-04-071, and whether the FCC's interstate access charge cap methodology should be adopted for intrastate charges as well.

The positions of the parties are set out below on the initial issues in this proceeding, as well as the later issues. Today's decision resolves all remaining issues in this proceeding.

III. Commission Decision Eliminating Regulation of Retail Prices

On August 30, 2006, the Commission adopted D.06-08-030 which substantially changed rate regulation for California's four largest incumbent local exchange carriers – Pacific Bell, Verizon, SureWest Telephone, and Citizens Telecommunications Company of California dba Frontier Telecommunications Company of California (Frontier) - by adopting the Uniform Regulatory Framework. With the objective of symmetrically regulating all providers of local exchange service, the decision immediately eliminated all retail price regulations for all business services. Retail price regulation for residential service, with the exception of basic service, was also eliminated. The existing price caps on basic residential service will remain in place until January 1, 2009, after which these four carriers will have unlimited authority to set prices for basic residential service. Geographically averaged residential basic service rates will no longer be required. The Commission's decision also recognized two on-going proceedings that will address basic residential service provided pursuant to the Commission's low income program, Lifeline, and California High Cost Fund B subsidized service.

The decision also relaxed the procedural requirements for these four incumbent local exchange carriers when offering new services and filing tariffs. These carriers can now provide new services with full pricing flexibility. The carriers were also authorized to allow all tariffs to go into effect on a same day

filing, but any tariffs that impose price increases or service restrictions require a 30-day advance notice to all affected customers.⁴

Our decision today reflects the changes adopted in the Uniform Regulatory Framework.

IV. Positions of the Parties

A. Initial Issues

SureWest Telephone and its broadband affiliate, SureWest TeleVideo, opposed eliminating non-cost-based elements from access charges prior to the Federal Communications Commission (FCC) completing its comprehensive review of access charges in Docket No.01-92. The SureWest affiliates agreed, however, that if this Commission were to eliminate the non-cost-based elements, then any reduction in access charge revenue needed to be accompanied by corresponding rate rebalancing.

Frontier and its affiliates⁵ stated that extending the Commission policy developed in Phase II of this proceeding to Frontier and its affiliates would have no effect because their access charges do not have non-cost-based elements. These carriers also supported waiting for the FCC to complete its review of access charges.

⁴ The Commission established three levels of scrutiny for advice letters in D.07-09-019. Tier 3 advice letters, which we adopt in today's decision for Pacific Bell or Verizon intrastate access charge rate increase requests, require a Commission resolution for approval.

⁵ Citizens Telecommunications Company of the Golden State dba Frontier Communications Company of the Golden State, Citizens Communications Company of Tuolumne dba Frontier Telecommunications Company of Tuolumne, Electric Lightwave, Inc., and Frontier Communications of America.

The small local exchange carriers⁶ opposed eliminating non-cost-based elements from their access charges. In addition to recommending that this Commission await final action by the FCC, these carriers pointed out that revenue rebalancing would require them having rate increases ranging from 7% to 47%. These carriers also noted that the Commission's Phase II decision resolved the access charge issue for the majority of the California market, with the small LECs affecting only a "very small share of the total California long distance market."

Pacific Bell and its competitive local exchange carrier affiliates - TCG Los Angeles, Inc., TCG San Diego, Inc., and TCG San Francisco, Inc. - supported extending the Commission's access charge policy to other incumbent and competitive local exchange carriers.

MCImetro Access Transmission Services (MCI Metro) agreed with the Commission's direction in eliminating non-cost-based elements in access charges for all local exchange carriers, and recommended that competitive local exchange carriers' access charges should be capped. The cap should be the access charge imposed by incumbent local exchange carrier in whose territory the competitive local carrier's switch is located.

Verizon West Coast Inc. stated that its access charges do not contain an element named "network interconnection charge or transport interconnection

⁶ Calaveras Telephone Company, Cal-Ore Telephone Company, Ducor Telephone Company, Global Valley Network (Evans Telephone Company), Foresthill Telephone Company, Happy Valley Telephone Company, Hornitos Telephone Company, Kerman Telephone Company, Pinnacles Telephone Company, Ponderosa Telephone Company, Sierra Telephone Company, Inc., Siskiyou Telephone Company, Volcano Telephone Company, and Winterhaven Telephone Company.

charge” and thus extending the policy of D.06-04-071 to Verizon West Coast, Inc., would have “no impact.”

The California Association of Competitive Telephone Companies, (CALTEL) urged the Commission to continue to exclude competitive carriers from consideration in this proceeding. If, however, the Commission decided to impose controls on competitive carriers’ intrastate access charges, then CALTEL’s members would be “willing to be subject to a cap” on such charges, with six conditions: (1) the cap must be set at the incumbent carrier’s access rate plus 10%, (2) maintain tariffing flexibility, (3) charge for equivalent incumbent services, (4) use small or mid-size incumbent rate, not just large, (5) allow rate rebalancing, and (6) allow a three-year implementation period. CALTEL also recommended an interim benchmark rate of \$0.025 per minute for competitive carriers.

In reply comments, Light-Year Innovations recommended that any competitive carrier cap should be set based on the access charges of the small local exchange carriers. Light-Year contended that the levels of buying power, efficiencies, economies of scale, and other business expenses are likely to more closely mirror those of the small carriers rather than the large carriers. It proposed a cap of \$0.04 to \$0.07 per access minute.

MCI Metro agreed in principle with CALTEL’s proposed cap but objected to several of the conditions. MCIMetro observed that CALTEL’s requested charge of 10% above the corresponding incumbent local exchange carrier’s rate was not supported by any rationale, and that it was at odds with the FCC’s pricing policy. MCIMetro was also “puzzled” by CALTEL’s request for rate rebalancing authority, because all competitive carriers have substantial pricing

flexibility and change prices readily. Finally, MCI Metro objected to CALTEL's requested three-year phase in period as being unnecessary and inappropriate.

DRA opposed extending the intrastate access charge policy to the small local exchange carriers due to the likelihood of increased draws on the subsidy mechanism for high-cost small carriers.⁷ DRA supported capping the competitive carriers' access charges.

Qwest Communications Corporation urged the Commission to extend its access charges policy to the small and mid-sized carriers, and to cap the competitive carriers' charges.

Sprint Communications L.P., supported requiring the small and mid-sized carriers to remove non-cost-based elements from intrastate access charges. Sprint also supported the proposed cap for competitive carriers at the access charge for the incumbent carrier in whose territory the competitive carrier is operating, but opposed the proposed 10% adder. Sprint recommended that the Commission's next major reform for intercarrier compensation should be to create a compensation system with only one rate for the termination of all types of traffic. Sprint contended that pricing differentials between, for example, local and toll calls, wireline and wireless calls, are legacies of the historic system, and, if abandoned, would result in lower prices for consumers.

⁷ This fund is called California High Cost Fund A (CHCF-A) and it distributes amounts collected from a surcharge on all intrastate telephone service in California. In order to receive a subsidy from CHCF-A, among other requirements, the carrier must raise its basic service rate to 150% of urban rates.

B. Further Issues

In the May 4, 2007, joint ruling, the parties were directed to comment on aligning the regulatory treatment of Pacific Bell and Verizon with SureWest and Frontier, allowing the small carriers two rate case cycles to phase-out non-cost based elements in their access charges, and adopting the FCC's methodology for capping competitive local exchange carriers' intrastate access charges. The comments and reply comments submitted by the parties are summarized below.

DRA and TURN supported terminating the authorized surcharges for Verizon and Pacific Bell, and any similar surcharges for SureWest and Frontier, on the date these carriers obtain basic residential service pricing flexibility. DRA cited to D.06-12-039, where the Commission terminated a surcharge for undergrounding costs on the date Pacific Bell obtains full pricing flexibility.

Verizon⁸ argued that competitive local exchange carriers' intrastate access rates are unreasonably high, and that some of these carriers are increasing these rates. Verizon recommended that the Commission move promptly to apply the FCC regime to cap these rates. Verizon also supported extending the surcharge methodology currently applicable to Verizon and Pacific Bell to SureWest.

Pacific Bell and its affiliated competitive local carriers - AT&T Communications of California, Inc., TCG Los Angeles, Inc., and TCG San Diego - also supported adopting the FCC methodology for capping competitive local exchange carriers' intrastate access rates, with no extended transition period. Pacific Bell also pointed out that the FCC interstate access charge methodology limits carriers to charging only for functions actually provided, not for other

⁸ Verizon California Inc., Verizon West Coast, Inc., MCI Metro Access Transmission Services, LLC, and MCI Communications Services.

related services not used by the purchasing carrier. Pacific Bell and its affiliates contended that carriers subject to the Uniform Regulatory Framework should be able to use their approved surcharge until pricing flexibility is implemented, and then these carriers should be able to choose the means, if any, used to recover lost revenues caused by reducing intrastate access charges.

SureWest sought the same revenue recovery methodology as approved for Verizon and Pacific Bell, but implemented through its own rate design methodology. SureWest also objected to a lengthy phase-in period for competitive local exchange carriers to reduce intrastate access charges. SureWest contended that this would allow those carriers to have a competitive advantage over other carriers that have been forced to reduce these rates and increase local exchange rates.

Telscape Communications contended that capping competitive local exchange carriers' intrastate access charges at the rate charged by the incumbent local exchange carrier operating in the area would prevent competitive carriers from recovering fair and reasonable compensation because the competitive carriers have much higher cost structures than the large incumbent carriers. Telscape supported incremental steps to move any access charges that are beyond a zone of reasonableness gradually down to reasonable levels. Telscape pointed out that the FCC has existing rules that prohibit much of the supposed access charge abuse being carried out by competitive local carriers, and that across-the-board rate caps are not justified.

CALTEL opposed capping competitive local carriers' rates but, should the Commission decide to impose a cap, the intrastate access charges of a mid-sized carrier would be more appropriate than an incumbent local exchange carrier. CALTEL also supported a three-year step-down period, as was adopted by the

FCC when it capped interstate access rates, and opposed the 30-day “flash cut” in the proposed decision. CALTEL indicated that a transition period was the single most important issue for its members.

A coalition of competitive carriers⁹ argued that no evidence supported a determination that incumbent carriers’ intrastate access charges were a reasonable cost proxy for competitive carriers’. These carriers also argued that the competitive carriers lack market power.

Cox California Telecom, L.L.C., dba Cox Communications and Time Warner California LP (Cox Communications) contended that the record did not support reducing competitive local exchange carriers’ rates to that of the incumbent exchange carriers because there is no evidence that the competitive carriers’ rates are too high or that the incumbents are cost-based. Should the Commission elect to do so, however, Cox Communications proposed the following components of a cap:

1. 25% adder to incumbent rate for competitive carriers.
2. competitive carriers have one state-wide rate
3. three-year transition period
4. rates lower than benchmark are reasonable
5. allow competitive carriers to file tariffs with higher rates, subject to protest and
6. option to negotiate higher rates with specific carriers.

⁹ Navigator Telecommunications, LLC, Eschelon Telecom, Inc., and Advanced Telecom.

In reply comments, Cox Communications agreed with CALTEL's proposed initial cap price of 2.5 cents, with 180 days to implement, and a final cap, after three years, equivalent to SureWest's rate of \$0.017670.

Paetec Communications, Inc. stated that no evidence supports the conclusion that competitive carriers' costs to provide intrastate access services are equivalent to the costs incurred by incumbent carriers. Paetec opposed any rate cap, but, if the Commission adopts a cap, it should be phased in over at least a two-year period.

Sprint Communications Company urged the Commission to control intrastate access rates because access service can only be obtained from the end-user customer's local exchange provider. As there is no possibility for a competitive alternative, the Commission must control these prices. Sprint explained that the intrastate access charges imposed by competitive carriers were approximately 66% higher than similar services provided by incumbent carriers. Sprint stated that the New York Public Service Commission resolved this by adopting a "mirror rule" which limited access charges to that of the largest carrier in the market. In this way, all carriers pay each other the same price to terminate each other's traffic. Sprint concluded that the competitive carriers' excessive intrastate access charges were "anti-competitive and anti-consumer market distortions."

Intermetro Communications, Inc., stated that it has experienced first-hand abusive practices by a competitive carrier to obtain unwarranted intrastate access fees, and cited to its subsequent lawsuits. Intermetro offered evidence showing that some competitive carriers' intrastate access charges were over twice that of the incumbent carriers, and concluded that the record supported capping competitive carriers' intrastate access rates at the rates charged by incumbent

carriers. Intermetro also asked this Commission to include a requirement, adopted by the FCC, that carriers charge only for services performed. Intermetro explained that some competitive carriers offer only “blended” access rates, which include all switched access functions, which are not needed or performed for all traffic. Finally, Intermetro opposed a lengthy transition period.

Qwest also noted that some competitive local exchange carriers’ intrastate access charges are up to three times that of incumbent local exchange carriers, and that numerous states have adopted the FCC’s methodology.

The small interexchange carriers commented that they preferred to implement an access charge decrease over three rate cycles, rather than two as suggested in the May 4, 2007, ruling, but did not describe any insurmountable practical issues caused by using two rate case cycles.

V. Discussion

Fair competition in the long distance market is a long-standing goal of this Commission. Ensuring fair competition requires that intrastate access charges closely follow actual costs. In D.06-04-071, we determined that Pacific Bell’s and Verizon’s rate elements were not consistent with this requirement, and we eliminated the non-cost-based component of access charges. We also allowed Pacific Bell and Verizon to impose offsetting rate increases to maintain revenue neutrality.¹⁰

¹⁰ Our decision permitting Pacific Bell and Verizon to impose offsetting rate increases was issued prior to the Uniform Regulatory Framework decision. Consequently, those regulatory changes were not reflected in our treatment of Pacific Bell’s and Verizon’s rate changes after January 1, 2009, when the freeze on basic residential rates is expected to be lifted. In today’s decision, we align our treatment of Pacific Bell’s and Verizon’s

Footnote continued on next page

As described below, we will extend the policy established in D.06-04-071 to mid-sized, small, and competitive local exchange carriers but tailor the specific implementation requirements to fit the unique characteristics of each carrier group. Overall, our goal is to offer all carriers a level playing field for intrastate access charges. We will also reflect the regulatory changes adopted in the Uniform Regulatory Framework by making most significant changes effective on January 1, 2009.

A. Mid-Size Carriers – SureWest and Frontier

Frontier states that such an extension of policy is moot as regards to its intrastate access charges because those charges do not include any non-cost-based elements. SureWest has not made the same representation. We will nevertheless extend the policy to both mid-sized local exchange carriers.

Both carriers are included in the Uniform Regulatory Framework and have pricing flexibility for all services other than basic residential service, which is subject to a rate freeze scheduled to be lifted on January 1, 2009.

As noted above, when we ordered Pacific Bell and Verizon to reduce their access charges, we also authorized these carriers to impose a surcharge to recover these “lost revenues.” SureWest and, if warranted, Frontier, could also be eligible for a similar surcharge. As explained below, however, any such surcharge would expire on January 1, 2009. We will make the reductions necessary in SureWest’s and Frontier’s intrastate access rates effective January 1, 2009; consequently, no interim surcharge will be necessary. Until January 1,

surcharge with that of SureWest and Frontier; namely, the surcharge authorization shall expire on January 1, 2009, or when the basic residential rate freeze is lifted.

2009, SureWest's and Frontier's intrastate access rates are capped at the current levels.

In its comments, SureWest explained that while Frontier's intrastate access rates do not have an explicit non-cost based element, such as a NIC or TIC, "non-cost based expenses remain embedded in its access charges as they were never separated into an individual access charge element." To remedy this, SureWest requested that the Commission reduce Frontier's access charges in an amount equivalent to SureWest's reduction.

As we have noted throughout this proceeding, our goal is to bring a level playing field to intrastate access charges. The manner in which these rates have historically been set is not consistent with a strict cost-based ratemaking methodology, and we are not convinced that the NIC and TIC elements fully include all non-cost based components.¹¹

Therefore, to obtain our goal of a level playing field, we will require all mid-sized incumbent and competitive carriers to reduce their intrastate access charges to the higher of Pacific Bell or Verizon, effective on January 1, 2009, or the date that the residential rate freeze is lifted. In this way, all these carriers will be subject to same price cap.¹²

B. Small Local Exchange Carriers

Data filed by the small local exchange carriers show that non-cost-based intrastate access charge rate elements are responsible for substantial portions of

¹¹ The competitive carriers' intrastate access charges are determined without regard to cost.

¹² Small carriers that are subject to cost-of-service ratemaking will justify the cost basis of their intrastate access charges as part of their general rate cases.

certain carriers' revenue requirements. Abruptly altering this long-standing arrangement could lead to sharp rate changes and customer confusion or dissatisfaction. No party, however, has presented a convincing rationale for exempting these carriers from the otherwise applicable policy against non-cost-based elements in intrastate access charges.

We will, therefore, extend our policy to the small local exchange carriers but will move these carriers towards compliance with our policy through gradual rate changes.

The small local exchange carriers shall include in their next regularly scheduled rate case filing a long-term plan for fully implementing our policy requiring intrastate access charges to be based on cost, as well as a proposed first step towards such implementation.¹³ The long-term plan shall extend for no more than two rate case cycles to allow these carriers to phase in our policy.¹⁴

The small local exchange carriers are not currently included in Uniform Regulatory Framework. Should any such carrier become regulated under the Uniform Regulatory Framework, then our access charges policy as set forth above for SureWest and Frontier should be implemented concurrently as well.

C. Competitive Local Exchange Carriers

The record shows allegations of competitive carriers imposing excessive intrastate access charges, and that the purchasing carriers are unable to seek alternatives to terminating the call traffic. When confronted with similar

¹³ Any carrier that does not have a scheduled general rate case filing shall file a long-term plan no later than 3 years after the effective date of this order.

¹⁴ If feasible, any small carriers currently in the rate case process may supplement their rate case filing to include the required long-term plan.

allegations with interstate access charges, the FCC adopted a rule that all carriers must charge the rate of the competing incumbent carrier. Many parties support a similar rule for California intrastate access charges, and no party has shown that such a rule would be unworkable in California.

Consistent with our interest in creating a level playing field for all carriers to compete to serve customers, we will adapt the FCC's approach and require that all carriers¹⁵ charge no more than the higher of Pacific Bell's or Verizon's then-effective intrastate access rate. This limitation shall take effect on January 1, 2009, or the date that the residential rate freeze ends.

As an interim step, we will adopt CALTEL's recommendation for a cap of \$0.025, effective January 1, 2008, for the competitive carriers.

VI. Conclusion

Our primary objective in this proceeding is to ensure that California's long distance markets remain competitive and working to the benefit of California customers. This order resolves the remaining questions set forth in R.03-08-018 and brings uniformity to intrastate access charges. This proceeding should be closed.

VII. Hearings Are Not Required

No hearings are necessary as there are no disputed issues of material fact.

VIII. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure.

¹⁵ Other than those regulated on a cost-of-service basis.

Comments were filed on _____ and reply comments were filed on _____.

IX. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Maribeth A. Bushey is the assigned ALJ in this proceeding.

Findings of Fact

1. The intrastate access charges of the small, mid-size, and competitive local exchange carriers may include rate elements which are not based on cost.

2. In D.06-04-071, the Commission eliminated non-cost-based elements from the intrastate access charges of Verizon and Pacific Bell.

3. In D.06-08-030, the Commission adopted the Uniform Regulatory Framework which gave Pacific Bell, Verizon, SureWest and Frontier immediate rate flexibility for all prices, other than basic residential service, and the rate freeze for basic residential service is expected to be lifted on January 1, 2009.

4. For small local exchange carriers, the rate changes necessary to maintain revenue neutrality include up to a 47% increase.

5. Doing intrastate access charge cost-of-service studies for each competitive and mid-sized local exchange carriers is inefficient and unnecessary; the access charges of the largest incumbent local exchange carriers are a reasonable upper limit for intrastate access charges.

6. There are no disputed issues of material fact pending in this proceeding.

Conclusions of Law

1. No hearings are necessary.

2. To the extent practical, intrastate access charges should be uniform. Cost-based charges from the small carriers are not included in this requirement.

3. In D.06-04-071 the Commission adopted a methodology for calculating revenue reductions attributable to the elimination of non-cost-based elements in access charges, and a surcharge to recover this amount. Authorization for this surcharge is not necessary when the residential rate freeze expires, currently scheduled for January 1, 2009.

4. The small carriers should have two rate case cycles to implement this policy, unless a carrier opts in to the Uniform Regulatory Framework, then the carrier should comply with the requirements for the mid-sized and competitive carriers.

5. The mid-sized and competitive local exchange carriers should be limited to collecting intrastate access charges no greater than the higher of Pacific Bell's or Verizon's then-current intrastate access charges, effective January 1, 2009, or the date on which the residential rate freeze is lifted.

6. The competitive local exchange carriers shall charge no more than \$0.025 per minute to originate or terminate intrastate access, effective January 1, 2008.

7. Pacific Bell and Verizon should submit any proposed changes to intrastate access charges as a Tier 3 advice letter or application, with notice to all parties to this docket as well as any other required notice, and a Commission resolution or decision must be issued for approval of the request.

8. This decision should be effective immediately.

9. This proceeding should be closed.

FINAL ORDER

IT IS ORDERED that:

1. Effective January 1, 2009, or the date that the residential rate freeze is lifted for the large and mid-sized incumbent local exchange carriers under the Uniform

Regulatory Framework, SureWest Telephone, Citizens Telecommunications Company of California dba Frontier Telecommunications Company of California, and all California-certificated competitive local exchange carriers shall impose intrastate access charges no greater than the higher of Pacific Bell Telephone Company dba AT&T California (Pacific Bell) or Verizon California Inc. Intrastate access charges are defined as the following switched access rate elements: end office switching which may include a set up fee, tandem transport and switching, and information surcharge.

2. The intrastate access rates of SureWest Telephone and Citizens Telecommunications Company of California dba Frontier Telecommunications Company of California are capped at current levels until December 31, 2008 or the date which the residential rate freeze is lifted.

3. Effective January 1, 2008, all California-certificated competitive local exchange carriers shall impose intrastate access charges no greater than \$0.025 per minute for originating or terminating call traffic. Such carriers shall file and serve Tier 1 advice letters to implement any required intrastate access charge reductions. The advice letter filing shall include a statement signed by a corporate officer stating under penalty of perjury that the carrier's intrastate access charges are lower than or equal to \$0.025 per minute.

4. To implement any intrastate access charge changes required for January 1, 2009, carriers with intrastate access charge structures identical to the higher of Pacific Bell's or Verizon's may file a Tier 1 advice letter. All other carriers shall file a Tier 2 advice letter, which shall include documentation demonstrating that their intrastate access charges are no greater than the higher Pacific Bell or Verizon. The documentation shall include an electronic spreadsheet that calculates composite access rates under the carrier's rate structure and Pacific

Bell's or Verizon's rate structure, using the same assumptions, e.g., length of call and transport distance.

5. The surcharges adopted in Decision 06-07-041 for Pacific Bell and Verizon California Inc. shall terminate on the date the freeze on basic residential service is lifted, currently scheduled for January 1, 2009.

6. Pacific Bell and Verizon shall submit any proposed changes to intrastate access charges as a Tier 3 advice letter or application, with notice to all parties to this docket as well as any other required notice, and a Commission resolution or decision must be issued for approval of the request.

7. Each small local exchange carrier shall eliminate any non-cost-based rate elements from its access charges and shall include in its next general rate case filing a long-term plan to bring its access charges into compliance with our cost-based policy and a proposal to implement the first step in the plan in the immediate rate application. The plan shall extend for no more than two rate case cycles. If feasible, carriers currently processing a general rate case may supplement the current rate case filings to include a long-term plan. Small carriers that do not have a scheduled rate case filing shall file a long-term plan no later than three years after the effective date of this order.

8. Any small local exchange carrier that becomes regulated under the Uniform Regulatory Framework shall comply with the requirements for mid-size local exchange carriers.

9. No hearings are necessary for this phase of this proceeding.

10. Rulemaking 03-08-018 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

INFORMATION REGARDING SERVICE

I have provided notification of filing to the electronic mail addresses on the attached service list.

Upon confirmation of this document's acceptance for filing, I will cause a Notice of Availability of the filed document to be served upon the service list to this proceeding by U.S. mail. The service list I will use to serve the Notice of Availability of the filed document is current as of today's date.

Dated October 16, 2007, at San Francisco, California.

/s/ ERLINDA PULMANO
Erlinda Pulmano