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June 3, 2010

VIA ELECTRONIC FILING
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

Re: Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers and the Pennsylvania Universal Service Fund
Docket No. I-00040105

and

AT&T Communications of Pennsylvania, LLC, TCG New Jersey, Inc. and TCG Pittsburgh, Inc. v. Armstrong Telephone Company-Pennsylvania, et al.
Docket No. C-2009-2098380, et al

Dear Secretary Chiavetta:

Enclosed please find the Reply Brief of the Verizon Companies, filed on behalf of Verizon Pennsylvania Inc., Verizon North Inc., Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance, MCImetro Access Transmission Services, LLC d/b/a Verizon Access Transmission Services, and MCI Communications Services, Inc., in the above captioned consolidated matter. Because the Reply Brief includes certain Proprietary information the Public Version of the Reply Brief is being e-filed, with the Proprietary Verizon being provided via overnight delivery.

Please do not hesitate to contact me if you have any questions.

Very truly yours,

Suzan D. Paiva

SDP/slb
Enc.

Via E-Mail and Federal Express
cc: The Honorable Kandace F. Melillo

Via E-Mail and First Class Mail
cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the Verizon companies' Reply Brief, upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (related to service by a participant) and 1.55 (related to service upon attorneys).

Dated at Philadelphia, Pennsylvania, this 3rd day of June, 2010.

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers and the Pennsylvania Universal Service Fund	:	Docket No. I-00040105
AT&T Communications of Pennsylvania, LLC Complainant v. Armstrong Telephone Company - Pennsylvania, et al. Respondents	:	Docket No. C-2009-2098380, et al.

REPLY BRIEF OF VERIZON

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Dated: June 3, 2010

PUBLIC VERSION

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I. INTRODUCTION

The record developed in this case provides no reason for this Commission to continue to permit the Rural Incumbent Local Exchange Carriers ("RLECs") to charge in some cases *more than ten cents a minute* for carriers to originate or terminate calls on their networks, excessive rates that no one disputes are far out of line with those of Verizon and most competitive carriers for the exact same service. Before this Commission again addresses the access rates of other carriers, it must first bring some much needed and long overdue rationality to the RLECs' access rates.

With 66 Pa. C.S. § 3017(a), the Legislature provided a vehicle for this Commission to rebalance the RLECs' access revenue to retail rates in order to reduce access rates in a revenue neutral manner. The RLECs, in return, present the Commission with a false dilemma. By contending that they cannot increase their retail rates to rebalance access revenue, the RLECs claim that the only options are either to require other carriers to continue to pay their high access rates or to require other carriers to replace the access revenue dollar-for-dollar through the state USF. But even though the Commission has given the RLECs their full due process opportunity to present evidence to support these claims, they have utterly failed to do so.

The RLECs' case is long on rhetoric, scare tactics and sheer speculation, but dramatically short on any actual evidence. The RLECs claim that unless they collect excessive revenue from other carriers, in one way (access rates) or another (the USF), they will not be able to meet their purportedly high service costs and face the prospect of "unfunded mandates" and "financial insolvency." (CenturyLink Main Br. at 1; OCA Main Br. at 18-19). But they submitted no studies to prove these alleged costs that they claim they could not recover, nor did they submit any evidence of their financial condition to show that there is any imminent danger of operating at a loss if they rebalance rates as contemplated in Section 3017(a). Similarly, they ask the Commission to cap their residential and business retail rates at very low levels – effectively forbidding any meaningful rate rebalancing – even though the record evidence shows that RLEC customers can afford to pay higher rates and clearly undercuts their arguments against rebalancing access revenues to retail rates.

The record also shows that both of their false choices – continuing the RLECs' excessive access rates or expanding the "hidden tax" on other carriers that funds the USF – will harm consumers and competition and will discourage investment at a time when it is most crucial. The only rational solution to the problem of excessive RLEC access rates, and the only one that is supported by the record and clearly authorized by the law, is to reduce their access rates and allow them the opportunity to rebalance that revenue to retail rates, including a reasonable phase-in if necessary for particular carriers. The RLECs have failed to meet their burden of proving that the Commission should do anything other than what the Commonwealth Court has recognized that Section 3017(c) plainly authorizes – which is to decrease access rates by "making revenue neutral increases to other noncompetitive rates."[1]

II. BURDEN OF PROOF

Most of the parties – including the RLECs themselves – agree that the RLECs have the burden of proof in this case under 66 Pa. C.S. § 315(a), which states that "[i]n any proceeding upon the motion of the Commission involving any proposed or existing rate of any public utility . . . the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility." (*See* PTA Main Br. at 21; CenturyLink Main Br.

1 *Buffalo Valley Tel. Co. v. Pa. PUC*, 990 A.2d 67, 2009 Pa. Commw LEXIS 1728 (Pa. Commw. Ct. 2009), slip op. at 22.

at 14-15; Verizon Main Br. at 9-10; Sprint Main Br. at 21; AT&T Main Br. at 16). In fact, this conclusion is compelled by the Commission's ruling in the Verizon access case.[2]

OTS and OSBA, however, presume that AT&T and the other parties seeking access decreases bear the burden of showing that the current RLEC access rates are unreasonable, and they argue that the status quo must be maintained unless AT&T meets this burden. This erroneous assumption undermines their arguments. For example, OTS concedes that the goal of reducing RLEC access rates and rebalancing the revenue "is not objectionable in theory," (OTS Main Br. at 1), but concludes that the Commission should maintain the status quo because AT&T did not produce cost studies to demonstrate that the RLECs' access rates are "artificially high" and need to be reduced. (*Id.* at 10; *see also* OSBA Main Br. at 2, 10).[3] But the RLECs bear the burden of proving that their current access rates are "just and reasonable" and should be maintained at their current high levels, and the failure to produce any cost study should be held against the RLECs, not against AT&T. The RLECs produced no studies or other real evidence to prove any of the underlying costs that they contend entitle them to be subsidized by other carriers through unreasonably high access rates. Likewise, they produced no evidence of their financial condition or profitability to back up their claims that they could not operate without a guaranteed dollar-for-dollar replacement for any revenue they claim will be lost through access reductions. In short, the RLECs have not met their burden, and therefore their access rates should be reduced, with the opportunity to rebalance the revenue to retail rates pursuant to 66 Pa. C.S. § 3017(a).

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2 *AT&T Communications of Pennsylvania, Inc. v. Verizon North Inc.*, C-20027195 (Opinion and Order entered January 8, 2006) at 20-21 (available on Commission website).

3 Mr. Kubas conceded at the hearing that OTS relied in part on its assumption that AT&T bore the burden of proof when it formulated its arguments. (Tr. at 552).

III. THE RLECS' INTRASTATE SWITCHED ACCESS RATES SHOULD BE REDUCED

The RLECs do not deny that their intrastate switched access rates are extremely high compared to what Verizon and competitive carriers charge for the exact same switched access service. In contrast to the prevailing 1.7 cent per minute rate, the average RLEC charge is over 5 cents a minute and some RLECs charge more than 10 cents a minute. (Verizon Main Br. at 11-12). The RLECs do not deny that these high access rates serve as a vehicle to obtain revenue from other carriers to support the RLECs' operations. The RLECs do not deny that it "has been and continues to be the intention of this Commission . . . to gradually lower intrastate access charges."[4] In fact, PTA states that it "do[es] not oppose further intrastate access reductions," but it contends that it should recover the same revenue on a dollar-for-dollar basis from other carriers in a different way through the USF. (PTA Main Br. at 2). CenturyLink and OCA take similar positions. (CenturyLink Main Br. at 1 ("CenturyLink supports comprehensive and rational access reform"); OCA Main Br. at 2 (OCA "agrees that differences in access rates should be reduced to prevent regulatory arbitrage.")).

The RLECs and the public parties nonetheless raise various arguments urging the Commission to maintain the status quo and indefinitely delay reducing the RLECs' access rates. But these arguments do not withstand scrutiny.

First, they argue that RLEC access rates should stay at their current very high levels because they claim the record shows no customer benefit from reducing those rates. These arguments stem from the short-sighted view that the only way customer benefit could be proven is to show that specific customers in RLEC territory will have a lower overall

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4 8/5/09 Order at 20.

telephone bill after access rates are rebalanced. For example, OTS contends that there is "not a benefit to customers" where some of them will pay a higher bill for basic local service. (OTS Main Br. at 13). CenturyLink likewise contends that the "parties seeking access rate reductions have failed to demonstrate how rural Pennsylvanians will benefit on net given significant rate increases and the upward pressure on rates set into motion by their proposals." (CenturyLink Main Br. at 2). But as Mr. Price explained, these arguments "fail[] to recognize how competitive markets function." (Verizon St. 1. 3 (Price Rejoinder) at 2). The record shows that if the underlying costs of the other LECs and IXCs that provide service to Pennsylvania consumers are reduced through the reduction in the RLECs' unreasonably high switched access rates, those carriers must pass the benefits of cost savings along to their customers, or they will lose customers to those competitors who do. (Verizon Main Br. at 14-19). "Participants in competitive markets seek to distinguish their product offerings from the other providers so as to gain market share relative to their competitors. But no one can predict exactly how a given provider will respond to a decision lowering its costs, because the provider could respond by product innovation, reduced retail prices, improved customer service, or some other creative response." (Verizon St. 1. 3 (Price Rejoinder) at 2).

The benefit of a more rational RLEC rate structure, which would reduce RLEC dependence on revenues from other carriers, is not limited only to those customers currently purchasing standalone basic service from the RLEC. While it is true that the tariffed monthly rate for standalone basic service from the RLEC will be slightly higher if the revenue is rebalanced to those retail rates – but still within the demonstrated range of affordability, as discussed below – customers will benefit in other ways. All customers in

RLEC territory will benefit as competition is enhanced by reducing undue subsidies to RLEC operations, a fact this Commission has already acknowledged.[5] This enhancement of the competitive market will provide them with more robust competitive choices for service and will also put pressure on the RLECs themselves to improve their own service offerings, all of which will benefit customers. Likewise, customers of IXCs throughout the state will benefit as the costs of their serving carriers are reduced, another fact already acknowledged by the Commission.[6] Customers of other LECs, such as the Verizon ILECs, will benefit when their serving carriers no longer have to divert as much revenue to support the RLECs' operations. (Verizon St. 1.2 (Price Surrebuttal) at 13). In short, just because the record does not show that specific end users are certain to have a lower telephone bill at the end of the day does not mean that there are no benefits from reducing access rates, as the Commission has already concluded. As the Pennsylvania Supreme Court observed in approving a public benefit finding in another context, this Commission's "decision to accept a likelihood of longer-term benefits in lieu of more immediate price concessions is grounded in the same philosophy as the General Assembly's decision to move from cost-based to price-cap regulation — both decisions appear to incorporate the underlying understanding that, in a

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5 *Access Charge Investigation per Global Order of September 30, 1999*, Docket Nos. M-00021596, etc., (Opinion and Order entered July 15, 2003) ("*7/15/03 RLEC Access Order*") at 10 (available on Commission website) (recognizing that as RLEC access rates are reduced "competitors are better able to compete for local and long distance customers in an ILEC's service territory" and "CLECs are better able to compete with ILEC local service rates that have been kept artificially low as a result of the access charge subsidies.")

6 8/5/09 Order at 20 ("[i]t has been, and continues to be the intention of this Commission, since the *Global Order* of 1999, to gradually lower intrastate access charges so as to allow for greater competition in the intrastate and interexchange toll markets.")

competitive environment, market forces will constrain price and encourage valuable innovation," a policy that is "entirely rational."[7]

Second, these parties argue that RLECs must be permitted to charge very high access rates in order to ensure that toll providers (IXCs) contribute to the costs of the local loop. (*See* OCA Main Br. at 1; OTS Main Br. at 14). OCA mischaracterizes Verizon's proposal as being "based on the false premise that carriers should obtain *all* of their revenue from retail customers" and accuses Verizon of ignoring the fact that "[w]holesale customers are also customers of the company," as if Verizon would not have access rates contribute *anything* toward overall operating costs (or loop costs). (OCA Main Br. at 47) (quoting OCA St 1-S at 5) (emphasis added). But no party is contending that the RLECs should be precluded from recovering *any* loop costs through access rates; the issue is that the RLECs are recovering *too much* of those costs from other carriers and should be recovering more from their end users. The record shows that many of the RLECs charge huge carrier common line charges to the IXCs, in some cases more than what they charge to their own end user for stand-alone basic service each month over the same line. (*See* AT&T Main Br. at 23). It is not reasonable to expect the IXCs to contribute more toward the alleged costs of the loop each month than the local service customer contributes. For example, Ironton Telephone Company charges $17.99 per line per month (over $215 per year) to the IXC as a carrier common line charge, but has come forward with no evidence to show that this extremely high charge is necessary to recover a *reasonable* portion of its loop costs. Remarkably, Ironton, like other RLECs, literally charges more to its competitors than its own customers. (Tr. at 582) (admitting that Ironton charges $13.50 for stand alone basic

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7 *Popowsky v. Pa. PUC*, 594 Pa. 583, 615 (Pa. 2007) (affirming Commission's approval of Verizon/MCI merger).

residential service but $17.99 to the IXC as a carrier charge on the same line). One can only conclude that it and the other RLECs are recovering an *unreasonably excessive* portion of their costs from their access rates. (*See* PTA Exhibit GMZ-12) (listing each PTA company's carrier charge). As the Commonwealth Court observed 10 years ago in reviewing the *Global Order*, "[o]ne of the lessons of this proceeding is that the cost of excessively priced elements must be reduced to a point nearer to actual incremental cost, but not so greatly as to eliminate the support such revenue provides to other areas of the system that need that support."[8] The record shows that the RLECs' access rates are excessively priced and should be moved toward incremental cost, but it also demonstrates that even after the proposed reductions, the RLECs' rates would be priced above cost and provide support to loop costs. (*See* Verizon Main Br. at 20). The RLECs failed to submit any cost study that would show otherwise.

Third, the other parties argue that the RLECs have higher overall costs than other carriers, and thus deserve to charge higher access rates to recover these costs. But the RLECs had the opportunity in this case to present cost studies establishing their costs of providing access service and basic local service today, and to show why they need to charge such high access rates to recover those costs, and they chose not to do so. Instead the RLECs rely on unsupported speculation based on theoretical claims about their costs relative to those of the Verizon ILECs. CenturyLink, for example, argues without any real evidence that its territory is "vastly different" from Verizon's, that its "costs are higher than Verizon's" and that Verizon is better able to withstand competitive losses. (CenturyLink

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8 *Bell Atlantic-Pennsylvania, Inc. v. Pennsylvania Public Utility Commission*, 763 A.2d 440, 480 (Pa. Commw. 2000), *vacated in part on other grounds, MCI WorldCom Inc. v. PUC*, 577 Pa. 294, 844 A.2d 1239 (2004).

Main Br. at 46-47; *see also* PTA Main Br. at 15). OCA likewise contends that "it is reasonable to expect that the cost to serve Philadelphia, for example, is lower than the cost to serve for any of the RLECs." (OCA Main Br. at 28). Just as the PTA's witness Mr. Laffey conceded in Phase One, all of this testimony regarding purportedly high RLEC costs is *purely hypothetical* and the RLECs have presented "no actual costs or actual revenue figures" to back up these statements. (Phase One, Tr. at 493-494). Simply because the RLECs serve rural territories does not establish that they cannot serve their customers adequately while charging access rates at the same level charged by the Verizon ILECs, particularly when they have the opportunity to rebalance the revenue they have been obtaining through access rates to retail rates. If the only relevant consideration in setting the level of access rates is the theoretically "high cost" of serving rural territory, then it should be noted that the Verizon ILECs serve more rural access lines in Pennsylvania than all of the RLECs put together. (Verizon St. 1.1 (Price Rebuttal) at 22). Additionally, the RLECs have presented no financial evidence demonstrating that they are in jeopardy of not being able to continue providing adequate service if their rates are rebalanced.

In a similar vein, PTA contends that the RLECs are entitled to charge higher access rates because they serve more rural areas with lower densities than the average density of Verizon territory, which they contend means that they face much higher costs of service. (PTA Main Br. at 54). But PTA's argument falls apart under closer examination of the facts of record. PTA claims Verizon's density is 193.2 households per square mile,[9] but according to PTA's own exhibit "GMZ 14," there are RLECs that have higher density than Verizon – and therefore under PTA's own theory have lower costs than Verizon – that are

[9] PTA Main Br. at 54. Evidence provided by AT&T in the first phase showed Verizon's density to be 165 households per square mile. (Phase One, AT&T St 1.2 (Panel Surrebuttal) at 21).

charging much higher access rates than Verizon, and even higher than some of the other RLECs. A case in point is Ironton Telephone Company, which PTA's exhibit shows as having a density of 227.3 households per square mile (higher than Verizon's) yet charges the IXCs a carrier charge of $17.99 per line, per month and an average switched access rate per minute of **[BEGIN PROPRIETARY]** **[END PROPRIETARY]**. Conversely, some of the Frontier companies have a $0 carrier charge and very low per-minute access rates, but nonetheless serve areas with very low population densities. (PTA Exhibit GMZ 14). Thus, as Comcast's witness Dr. Pelcovits demonstrated, "excessive intrastate access charges are not being used to provide a targeted subsidy to the RLECs serving the highest cost (i.e., the least dense) areas in Pennsylvania," and rather the RLECs' access rates are "quite random in relationship to density, which wholly undercuts the PTA's key justification for continuation of the present access charge/PA USF scheme." (Comcast Main Br. at 7).

Similarly, PTA contends that its members need to charge higher access rates because they have no "urban customer base" with which to average down costs, in contrast to the Verizon ILECs. PTA speculates the Verizon ILECs have lower average costs because their costs of serving urban customers are lower. (PTA Main Br. at 60). PTA relies on a 13-year-old case to contend that Verizon's urban customers subsidize the costs of serving its rural customers, by way of arguing that Verizon does not need to subsidize those costs with access rates to the same degree that the RLECs do. (*Id.* at 59). But the Commission ruled in that case that the evidence of record was not sufficient for it to conclude that urban rates subsidize rural rates.[10] Moreover, not only have Verizon PA's rates changed since 1996

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10 *Pa PUC v. Bell Atlantic-Pennsylvania, Inc.*, Docket No. R-00963550 (Opinion and Order entered December 16, 1996) at 12.

(with access rates decreasing and retail rates increasing) but its costs are likely to be different, too. In 1996 – before the advent of local competition and the extensive presence of intermodal (cable, VoIP and wireless) competitors, Verizon PA's predecessor, Bell Atlantic, served **[BEGIN PROPRIETARY]**

, **[END PROPRIETARY]** and provided most or all of the telephone service in its territory. Much of that erosion is expected to have occurred in the urban areas, leaving fewer customers to share in the cost of serving the urban areas themselves, much less to provide "subsidies" to other service areas. But this argument is irrelevant because the issue in this case is not whether Verizon PA's access rates are justified, but whether the RLECs' rates are justified, and the RLECs failed to submit any evidence of their own costs. Simply assuming that Verizon is able to cover its overall cost of providing service (even if that were true) does *not* establish that the RLECs are not *also* able to recover their overall costs. The RLECs' references to Verizon's size and scope are nothing but an irrelevant attempt to divert attention from their own failure to prove their case – a case that is about the RLECs, not about Verizon. The Commission cannot rely on unsubstantiated speculation to conclude that the RLECs' costs justify their current excessive access rates.

Finally, these parties argue that universal service concerns require the Commission to maintain the RLECs' high access rates. (OTS Main Br. at 19). But the RLECs concede that customers throughout their territory – in every exchange – have access to service from competitors at attractive rates. (Tr. at 392; Verizon Main Br. at 54).[11] As ALJ Colwell

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11 PTA makes the wholly unsupported claim in its main brief that the RLECs are the only service provider – in other words that there are no competitive options – for "perhaps, forty percent (40%)" of the RLECs' customers. (PTA Main Br. at 75). But the RLECs provided no evidence of what portion of their customers lack competitive options. Indeed, PTA's witness admitted at the hearing that PTA had not done any studies to quantify where competition exists in Pennsylvania. (Tr. at 675). With the RLECs conceding that competitive options are present in every single one of their exchanges, (Tr. at 392) this

pointed out in response to the RLECs' vague appeals to universal service concerns in the first phase, eventually "the market is meant to rely on competition to keep rates affordable" rather than continuing to "provide subsidies to companies who do not have to prove need," which she observed "will not assist the market in reaching its goals and will, instead, provide barriers to entry for new carriers." (Colwell 7/23/09 RD at 87). If the RLECs were truly concerned that a small subset of their customers required extra attention to universal service needs, they could have presented evidence that would have allowed the Commission to target those people rather than arguing based on vague generalities that they need blanket operating subsidies without presenting any evidence of need.

For the same reason, the vague and unsupported references to unique RLEC regulatory burdens, such as so-called "carrier of last resort" or "COLR" obligations, do not provide a sound evidentiary basis to require other carriers to continue to subsidize RLEC operations through excessive access rates or the USF.[12] (*See* OTS Main Br. at 17; PTA Main Br. at 64). Verizon certainly agrees that, now that competition has taken hold, it is time to eliminate outdated regulatory burdens, and to the extent lightening such burdens would allow the RLECs to operate more efficiently and reduce their own underlying costs, that result would benefit the RLECs, consumers and the competitive market. Unfortunately,

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unsubstantiated guess that as many as 40% of customers lack competitive options is overstated and cannot be relied upon as evidence.

12 These parties cite no statute, regulation or order that imposes such "COLR" obligations, and OTS concedes that this is nothing but the vestiges of the "regulatory compact" of the days before the advent of local competition (where presumably the other side of the "compact" was an exclusive right to serve and guaranteed rate of return). (OTS Main Br. at 17, n. 34). Indeed, the Commission recently recognized that ILEC service obligations "[are] not, strictly speaking, equivalent to the COLR mandate associated with electric and/or gas utilities," noting that *any* carrier classified as an eligible telecommunications carrier ("ETC") under federal law has the same obligation to serve and that ETC designation need not cover an entire ILEC serving area and may be relinquished. *Rulemaking to Amend Chapter 63 Regulations so as to Streamline Procedures for Commission Review of Transfer of Control and Affiliate Filings for Telecommunications Carriers*, Docket No. L-00070188 (Opinion and Order entered April 29, 2010) at 9-10.

the RLECs have presented no evidence of specific burdens from which they should be relieved in connection with a rate rebalancing. Instead, they resort to unsupported hyperbole and scare tactics, threatening that rate rebalancing will be the "final denouement of the RLECs," (PTA Main Br. at 78), that it "will result in unfunded mandates and/or inadequately funded mandates for broadband obligations, will unravel COLR/universal service policy, and will leave Pennsylvania's most vulnerable constituents at risk," (CenturyLink Main Br. at 1) and that the RLECs "would be left with the choice of . . . financial insolvency" if their only alternative was to increase retail basic service rates. (OCA Main Br. at 18-19). But the RLECs failed to avail themselves of the opportunity to present actual evidence of their own financial condition or the profitability (or lack thereof) of their regulated business – although they certainly could have done so if they wished to prove that they are in danger of financial insolvency. And if they had proven such a case, the Commission would have to take some action to ensure that they are not required to operate their regulated business at a loss.[13] But the RLECs should not be heard to oppose rate rebalancing based on unsubstantiated threats and vague appeals to the notion of "universal service."

13 Verizon does not disagree in theory with the discussion at page 51 of PTA's main brief. It is correct that the Commission cannot through regulation force a carrier to operate its regulated business in Pennsylvania at a loss, and that the obligation under Section 1301 to set regulated rates at "just and reasonable" levels includes an obligation to ensure that regulated rates reasonably compensate the carrier for its costs of providing regulated service. The Commission cannot lawfully require a carrier to subsidize its regulated business with unregulated or competitive ventures or with funds from affiliates or out-of-state operations. But the RLECs have not presented any evidence to show that any of them are operating regulated services at a loss or subsidizing them with competitive ventures, and rely on nothing but hyperbole and speculation.

IV. THE RLECS' INTRASTATE SWITCHED ACCESS RATES SHOULD BE REDUCED TO A UNIFORM BENCHMARK EQUAL TO VERIZON PA'S AVERAGE RATE PER MINUTE

A. Rate Levels

Reducing the RLECs' access rates to a uniform benchmark at the level of Verizon's much lower access rates is superior to having them match their own interstate rates, for the reasons explained in Verizon's main brief. (Verizon Main Br. at 21-25). This proposal is also consistent with Chapter 30's requirement of a uniform benchmark for CLECs at 66 Pa. C.S. § 3017(c). AT&T has not established that its proposal of requiring the RLECs to match their own interstate access rates – which vary widely from lower than Verizon's prevailing intrastate rate of 1.7 cents per minute to over 4 cents – is superior to setting a uniform benchmark rate.

AT&T contends that setting a uniform benchmark at the Verizon rate level would "result[] in higher administrative costs and inefficiency" because the RLECs would have to adopt Verizon's rate structure. (AT&T Main Br. at 42). But AT&T misunderstands Verizon's proposal. Verizon did not propose to change the RLECs' rate structure. Verizon simply proposed that they reduce their rates to achieve an average rate-per-minute of 1.7 cents, which could be done without altering the current structure but simply reducing individual rate elements – principally the carrier common line charge. (Verizon St. 1.0 (Price Direct) at 16).

AT&T contends that Verizon's proposal would still leave a disparity between interstate and intrastate rates. (AT&T Main Br. at 42). This is true – at least unless and until further access reductions are made on an industry-wide basis by this Commission or as a result of FCC action. But Qwest's Mr. Easton persuasively explained why a uniform benchmark is a better vehicle to discourage traffic pumping and other arbitrage than matching varying interstate rates. (Qwest St. 1-SR (Easton Surrebuttal) at 4). In fact, Qwest explains that it changed its position away from interstate mirroring to a uniform benchmark because it concluded that the uniform benchmark would better address arbitrage and traffic pumping. (Qwest Main Br. at 6).

Establishing a uniform benchmark will also allow the Commission to address access pricing issues in the future on a uniform and more equitable basis. The Commission should not permit the huge disparity between the RLEC rates and the rates of Verizon and competitive carriers for the exact same service to continue or to be expanded. PTA contends that "there should be no RLEC reductions using a statewide policy that does not also apply to Verizon." (PTA Main Br. at 2). But Verizon has *already* substantially reduced its rates – thus, under PTA's own argument, the RLECs should also be required to reduce their rates to achieve consistency. And while the Commission has recently reopened the Verizon access case, it would be manifestly unfair to reduce Verizon's already low access rates before requiring those RLECs charging five to ten cents a minute for switched access to first reduce their excessive rates to the more reasonable current Verizon level.[14] The Commission should not allow PTA to use the existence of the Verizon case as yet another excuse to delay reducing the RLECs' access rates.

B. Timing

As Verizon noted in its main brief, the record shows that many of the RLECs are able to rebalance the excess access revenue to retail rates without a transition, but that for

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14 CenturyLink's odd insistence that Verizon somehow "lags behind" the RLECs in access rate reform, (CenturyLink Main Br. at 29, 30, 47), is hardly worthy of a response given that Verizon presently charges 1.7 cents per minute or less, while CenturyLink charges 5 cents a minute for what it concedes is the exact same functionality. (Verizon St. 1.1 (Price Rebuttal) at 31). Furthermore, while the RLECs still receive $33 million in annual USF subsidies to "replace" their access revenue Verizon's reductions were done without any USF support.

others the Commission may choose to phase down the access decreases in steps to avoid large retail increases. Verizon does not oppose a reasonable transition or phasing-in of the rebalancing if the Commission deems necessary for particular carriers.

What the Commission should *not* do is adopt plans that are calculated to delay indefinitely the day when any RLEC access rates will be reduced. OCA virtually concedes that its plan is structured to maximize delay and to ensure that RLEC access rates are not reduced in the near future. As OCA explains, it does not advocate that *any* access rate reductions occur until the Commission conducts another proceeding to address the expansion of the USF in size and contributing base, which OCA contends is an essential part of its plan. (OCA Main Br. at 32). Such a proceeding is likely to be drawn out and contentious. (Tr. at 518). PTA likewise suggests not only USF expansion but open-ended technical conferences to try to force the parties to come to a settlement. (PTA Main Br. at 89). Even AT&T has proposed a plan that will result in unnecessary delay by expanding the USF on a temporary basis (which will require a rulemaking, as discussed in more detail below) instead of taking some RLECs' access rates down in steps, where necessary, *without* increasing the size of the USF — which would achieve the same result without the unnecessary complication and potential delay.

Verizon's proposal is the one most likely to lead to fewer procedural complications and more expeditious access reductions, and has the added advantage of being explicitly supported by 66 Pa. C.S. § 3017(a) and the Commonwealth Court's recent opinion in *Buffalo Valley*.

V. REVENUE FROM THE RLECS' INTRASTATE SWITCHED ACCESS RATES SHOULD BE REBALANCED TO RETAIL RATES, IN COMPLIANCE WITH 66 Pa.C.S.A. § 3017

A. Meaning of the Revenue Neutrality Requirement under Section 3017

"Under 66 Pa. C.S. § 3017 the Commission has specific authority to rebalance revenue among noncompetitive services by reducing access rates *and making revenue neutral increases to other noncompetitive rates.*"[15] If access rates are decreased, then the RLEC may estimate, based on current line counts and access minutes of use, the revenue to be lost from that decrease and then make an increase to other noncompetitive rates. The Commission does not guarantee that the rate increases will collect that exact amount of revenue in perpetuity – they might collect less or they might collect more based on changes in line counts – but it provides a fair opportunity to rebalance the revenue to other rates.[16] Contrary to the PTA's assertion, Section 3017(a) says nothing about establishing a perpetual "dollar-for-dollar" replacement of the access revenue. (PTA Main Br. at 49).[17]

Sprint and Comcast are wrong, however, to suggest that the Commission could satisfy its statutory obligation to allow for revenue neutrality by allowing the RLECs an opportunity to increase rates from "non-jurisdictional sources." (Sprint Main Br. at 75; Comcast Main Br. at 9). As Verizon explained in its own main brief, the only reasonable reading of Section 3017(a) in the context of Chapter 30's scheme of alternative regulation is

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15 *Buffalo Valley*, 990 A.2d 67, slip op. at 22 (emphasis added).

16 *PUC v. Verizon Pennsylvania Inc.*, Docket No.s R-00051227 and R-00051228, 2007 Pa. PUC LEXIS 33 (Opinion and Order entered March 22, 2007) (observing that price change opportunity rate increases are an "opportunity" but "not a revenue guarantee.")

17 While customer attrition is not unexpected in a competitive market, the Commission could account for that factor in designing the rate rebalancing. For example, the RLECs could have argued for a rate rebalancing that made an adjustment for prospective line loss in some fashion, such as a true-up based on updated line counts, but again, they did not take the opportunity to present evidence or arguments on this point and instead continue to resist any meaningful rebalancing. *See, e,g, PUC v. Verizon Pennsylvania Inc.,* Docket No.s R-00051227 and R-00051228, 2007 Pa. PUC LEXIS 33 (Opinion and Order entered March 27, 2008) (adopting true-up mechanism for annual price change filing).

that the RLEC must be given the opportunity to rebalance revenue to other regulated rates within the noncompetitive basket of services, as this would keep the rate changes revenue neutral within the set of those services for which the Commission has authority to regulate rates. (Verizon Main Br. at 27). Moreover, while Comcast is factually correct in stating that the RLECs have not demonstrated a "need" to offset the access reductions with corresponding retail rate increases, (Comcast Main Br. at 1), under Chapter 30's regulatory scheme the RLECs are not required to demonstrate such a need in order to be permitted the opportunity to rebalance revenue among noncompetitive rates.

OCA is also wrong in asserting that increased support from the USF is integral to revenue neutrality under Section 3017(a). (OCA Main Br. at 35). As Verizon explained in its main brief, neither 66 Pa. C.S. § 3017(a) nor any other portion of Chapter 30 provides for decreases to noncompetitive revenue to be offset by a carrier-funded state USF. Had the Legislature wished to provide for a state USF as a means to provide revenue neutrality, it could have and would have said so. (Verizon Main Br. at 27-28). OCA and the RLECs may be dissatisfied with the way the statute is written, but the Commission cannot exceed the authority provided to it under the statute.[18]

B. Rate Increases

The RLECs and OCA go to great lengths to argue that the RLECs cannot or should not increase their retail rates for noncompetitive services, and that the only choices before the Commission are either to leave the RLECs' access rates at their current excessive levels or to increase carrier subsidies to the RLECs from the USF. But the parties' opposition to

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[18] *See, e.g., Feingold v. Bell of Pa.*, 477 Pa. 1, 383 A.2d 791 (1977).

providing an opportunity for reasonable RLEC rate increases does not survive closer scrutiny and is not supported by record evidence.

As Verizon explained in its main brief, neither the $17.09 residential rate cap argued by OCA, the $18.94 rate cap argued by the PTA, nor the effective $18 rate cap argued by CenturyLink, is supported by record evidence. (Verizon Main Br. at 28-35). As explained, these parties argue that their rate caps are necessary to keep residential rates "affordable" and "comparable" to Verizon's rates. But the parties concede that the only record evidence on affordability does not support a rate level lower than $23, (Tr. at 508-509), and Verizon explained that the record actually shows that the "affordability" level for a residential basic service rate based on the same evidence is as high as $34.[19] (Verizon Main Br. at 35). Therefore, the *only* argument that the RLECs and OCA rely upon to support their very low rate caps is the purported need to keep RLEC residential rates "comparable" to Verizon's.[20] But as Verizon explained in its main brief, the Commonwealth Court specifically rejected the premise upon which they rely for this argument by holding that Section 254(b)(3) of the federal Telecommunications Act (47 U.S.C. § 254(b)(3)) does not constrain this Commission's authority to set intrastate rates and therefore does not require the RLECs' rates to be limited based on comparability to Verizon's.[21] ALJ Colwell also rejected the

19 These parties rely on the testimony of OCA witness Colton from Phase One. Mr. Colton's testimony also shows that the affordability level can be expected to increase over time. From 2004 to 2008 Mr. Colton's calculations show his affordability level increasing by $2 to $4. (Phase One, OCA St. 2 (Colton Direct) at Schedule RDC-5).

20 PTA concedes that its "comparability" argument is founded only on Section 254(b) of the federal Telecommunications Act. (PTA Main Br. at 69). PTA contends that 13 states have adopted some sort of comparability standard, (*id.*), but by definition this must mean that 37 other states have not done so. PTA has not disclosed whether any of those states have state statutes requiring comparability – which Pennsylvania does not.

21 *Buffalo Valley,* 990 A.2d 67, slip op. at 34 (accepting this Commission's argument that Section 254(b) pertains to federal universal service and is not a mandate to state commissions).

comparability argument, as PTA concedes. (PTA Main Br. at 72).[22] While OCA purports to rely on provisions from Chapter 30's declaration of policy to support its "concepts of comparability and affordability," it is notable that the word "comparability" does not appear in any of the portions of Chapter 30 quoted by OCA. (OCA Main Br. at 9). But in any event, even if comparability were relevant, Verizon explained that using a more reasonable margin and a comparison to urban rates[23] (which is the only relevant comparison under the federal statute) would yield a comparable residential rate level of nearly $25. (Verizon Main Br. at 33).[24] Further, these parties do not even attempt to explain how the record could support limiting increases to business rates to the same dollar level as residential rate increases – particularly where they are arguing that other carriers should subsidize their operations to allow them to avoid raising their comparatively low business rates. (Verizon Main Br. at 35-37). The OCA itself concedes that "the Commission must exercise care to ensure that its decision is supported by substantial evidence in the record." (OCA Main Br.

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22 *See* Colwell RD at 82, n. 18.

23 OCA claims that Verizon's urban retail rates are "too high" and so the Commission should look instead to comparability with Verizon's rural rates. (OCA Main Br. at 41). But the statute upon which OCA relies only refers to comparability to "urban" rates. Moreover, as Mr. Price explained, OCA's argument that Verizon's urban residential rates "may be too high" because the commission has not conducted a cost study is baseless and pure speculation. Verizon is regulated under Chapter 30 and its rates are not set based on cost, and have not been regulated based on costs since the early 1990s. Moreover, Dr. Loube himself admits that "[t]o determine comparable rates, it is necessary to review the *rates* of other carriers in Pennsylvania," not those carriers' underlying *costs*. (OCA St. 1-S (Loube Surrebuttal) at 28) (emphasis added). In any event, if it were relevant to consider underlying costs to determine a reasonable RLEC rate, then OCA should be looking to the RLECs' costs, not Verizon's. (Verizon St. 1.3 (Price Rejoinder) at 12-13).

24 PTA erroneously contends that the "most recent" national average rate for residential local service is $15.03. (PTA Main Br. at 72). In fact, Verizon explained in Phase One that PTA was citing an outdated 2006 figure, and that based on the FCC's 2008 "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Services" the average rate was $15.62 at that time. (Phase One, VZ St. 1.1 (Price Rebuttal) at 35). Mr. Price also explained that the FCC has cautioned against relying on a national average and uses a very wide range of rates that can be considered "comparable" to urban rates nationwide, the upper end of that which is as high as $36.52. (*Id.* at 35-36 and Exhibit 3). Moreover, the FCC average is merely an average of existing rates whose levels may themselves have been kept artificially low by regulatory policies that pre-date today's competitive market, and therefore have no relevance in defining affordability. (*Id.*)

at 15). But if the Commission were to rely on the arguments of the RLECs and OCA to limit RLEC rate increases for the purpose of requiring other carriers to subsidize the RLECs (and thus avoiding the need for such increases), such a decision would not be supported by substantial evidence and would be reversible on appeal.

Not only are the constraints on the RLECs' residential and business retail rates advanced by the RLECs and OCA not supported by record evidence, but, as OSBA observes, rate caps "effectively treat all of those customers as 'low income' customers, in need of monthly assistance to pay their telephone bill." (OSBA Main Br. at 26). The Commission can provide for low income customers through programs like Lifeline, and can also explore other methods to target assistance to customers who actually need it, as ALJ Colwell recommended. But these arguments do not justify blanket subsidies to the RLECs.[25]

Likewise, the Commission cannot require other carriers to continue to support the RLECs simply to prevent them from having to make the difficult decision of whether to avail themselves of Chapter 30's opportunity to increase rates in the face of competition. PTA contends that its members cannot be required to increase its rates because they will lose lines to competition if they charge higher rates, and so its members should receive revenue from other carriers to replace the revenues they might have generated through retail rate increases.[26] (PTA Main Br. at 77). But Chapter 30 does not require the RLECs to

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[25] Customers eligible for Lifeline service already pay approximately $11 less than the ordinary customer for basic local service. (Phase One, Tr. at 135).

[26] PTA claims that its members on average have suffered a 17% decline in access lines over three years. (PTA Main Br. at 77). Actually, PTA's brief contains a mathematical error. The 17% decline was calculated by taking the difference between 717,935 and 841,981 and dividing by 717,935, but it should have been divided by 841,981. The correct percentage is 15% (14.7%). But the Verizon ILECs – the carriers that the PTA expects to subsidize their operations – have suffered line loss of **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** since 1999. (Verizon St. 1.1 (Price Rebuttal) at 19).

increase rates; it only provides them with the opportunity to do so if they choose. Further, the Commission cannot assume, without any evidence of RLEC finances or profitability, that refraining from raising rates to the full extent permitted by law will necessarily render them insolvent or unable adequately to serve their customers. The RLECs had multiple opportunities to make that case with evidence, but failed to do so.

C. Pennsylvania USF

Neither the record nor the law supports the proposition that the Commission should impose a "hidden tax" on the intrastate access revenue of other regulated Pennsylvania telephone carriers to replace the RLECs' access revenue by expanding the state USF. As Sprint correctly recognized,"[t]his is not reform at all and will do nothing to protect consumers," who "ultimately bear the burden for these overcharges" to other carriers either through excessive access rates or through the USF. (Sprint Main Br. at 81-82). As Comcast observed, "[t]he Commission should not simply substitute another form of transfer payment, i.e., USF distributions, for uneconomic access charges." (Comcast Main Br. at 7-8).

Not only would transferring the revenue to the USF fail to address the problem before the Commission, because it would still allow the RLECs to collect too much revenue from other carriers through a different vehicle, but replacing revenue from the RLECs' access rates with revenue from the USF would also dramatically increase the funding burden on other regulated carriers, including the Verizon ILECs. While the RLECs demand revenue neutrality for themselves, they propose to take $100 million or even more[27] each year from those other carriers without any means of revenue replacement for the contributing carriers – companies like the Verizon ILECs that also provide local service and

[27] OCA admits that its proposal would increase "the pay-out of the PA USF" by "approximately $64.3 million," which would increase the total fund to about $100 million. (OCA Main Br. at 20).

face even greater competitive pressures than the RLECs. This scheme would be harmful to the customers of the contributing carriers and to the competitive market. (Verizon Main Br. at 46-50).

Creating a huge new revenue guarantee for the RLECs on the backs of other carriers is also not authorized by law. The current USF was created in the very different legal and factual environment of ten years ago. Under today's version of Chapter 30, the Commission cannot conclude that it has statutory authority to expand the USF to fund new access reductions. (Verizon Main Br. at 43-45). But even if it did have such authority (which it does not), and even if the facts supported the expansion of the fund (which they do not), the Commission's current USF regulations determine the size of the fund each year based on the "[p]rior year's size of fund minus the estimated surplus from the prior year or plus any shortfall from the prior year," 52 Pa. Code § 63.165(b), and so the fund could not be expanded to cover new access reductions without a rulemaking proceeding to change this regulation. (*Id.*)

In the face of this record against the expansion of the USF to fund future RLEC access reductions, the other parties' briefs muster no convincing support for their proposition.

OCA contends that the USF should replace RLEC access revenue because "all users of that network have a responsibility to support the network." (OCA Main Br. at 52). But Verizon submitted uncontroverted evidence showing that moving the access revenue to the USF would have *the exact opposite effect*, skewing the burden disproportionately to carriers that are not necessarily users of the network, and certainly not in any proportion to their use of the network. Rather than having carriers pay access charges in proportion to their minutes of use or presubscribed lines on the RLECs' network, the USF simply takes a percentage of carriers' intrastate revenue, even if most or all of that revenue was earned through business that has nothing to do with using the RLECs' network. (Tr. at 512). This skewing of the burden away from the IXCs and onto carriers in a manner that is wholly unrelated to their use of the RLECs' networks is evidenced by the fact that the Verizon ILECs today pay $5.4 million of the $63 million in access charges that are the subject of OCA's proposal (based on their use of the RLECs' networks to originate or terminate calls), but if that revenue is transferred to the USF then the Verizon ILECs would pay $32 million of the $63 million under the calculation methodology set forth in this Commission's USF regulations – a net increase in Verizon's funding burden to the RLECs of nearly $27 million, although there is no claim that Verizon will somehow increase its use of the RLEC networks by that order of magnitude. (Verizon Main Br. at 47). Although Verizon pointed out this inequity in its testimony, OCA does not even attempt in its main brief to explain why the Commission should so dramatically increase the Verizon ILECs' share of the burden of funding the RLECs' operations, nor does it address the serious impact of this proposal on the consumers in Verizon's territory or on Verizon's ability to cover the costs of its own regulated operations.

OCA attempts to explain away the problem by contending that its proposal is conditional and that it would only agree to RLEC access reductions if the Commission also commits to use the USF to cover the revenue *and* determines to expand the USF contributing base to include wireless and VoIP carriers. According to the OCA, if the Commission does not adopt all portions of its plan, then no access reductions should occur. (OCA Main Br. at 51). As discussed above, this position only serves to reveal the OCA's plan for what it really is – a delay tactic calculated to put off RLEC access reductions indefinitely. Surely years will pass before issues surrounding the OCA's plan to expand the USF are fully litigated, and even then it may well be found that the Commission lacks authority to expand the USF either in terms of size or funding base, or both. Meanwhile, the OCA would have the RLECs continue both to charge their five-cent-a-minute and higher access rates and to collect a disproportionate amount of revenue from other carriers. This is not a real proposal, but simply a creative way of arguing for continued maintenance of the status quo.

PTA claims that the RLECs are entitled to USF funding any time their access rates are reduced because USF funding was available in all prior access rebalancings. (PTA Main Br. at 79). But this claim is not factually correct. The current USF was sized specifically based on the RLEC access reductions following the 1999 *Global Order*. When the RLECs reduced access rates through a settlement again in 2003, the size of the fund was not increased. Instead, the RLECs rebalanced the revenue through retail rate increases and shifted some of the USF receipts among the carriers with the overall size of the fund staying the same. Verizon has engaged in substantial access rate reductions since the *Global Order* and *none* of those reductions were off-set with USF funding. Instead, Verizon either rebalanced the revenue to retail rates directly through retail rate increases or indirectly through the use of negative price change opportunities under its alternative regulation plan, opportunities that might otherwise have been used to reduce regulated retail rates. (Verizon St. 1.1 (Price Rebuttal) at 45-46). There is no basis for the PTA to argue that the RLECs have an absolute entitlement to USF funding any time they rebalance access rates. To the contrary, when it reopened this case the Commission "remind[ed] the Parties who rely on the PaUSF that access charge reform in Pennsylvania may or may not depend upon the continuation of the PaUSF" and "we are not constrained by the PaUSF for access charge reform." (12/10/09 Order at 23). Indeed, one of the express purposes of this investigation was to consider "any and all rate issues and rate changes that should or would result in the event that disbursements from the Pennsylvania Universal Service Fund are reduced and/or eliminated."[28] The PTA itself contends that the Commission cannot "tak[e] private property without just compensation," (PTA Main Br. at 51), but then it proposes that the Commission do just that by forcing other carriers to turn their revenues over to the RLECs through the state USF, and does not explain how this scheme is not a "taking" of the private property of Verizon and the other contributing carriers.

Even AT&T, which advocates a transitional use of the USF to immediately reduce RLEC access rates but phase in over a number of years the offsetting rate increases for some carriers, has not faced the flaws in the USF portion of its proposal. While AT&T urges the Commission to avoid a "lengthy process" and not to use "compliance and implementation issues . . . as a basis to delay any reform actually being realized," (AT&T Main Br. at 62), AT&T's own proposal to create a transitional USF will foster the exact type of delay AT&T seeks to avoid. AT&T contends that "[t]here is no need for a rulemaking to increase the size of the USF when the increase is as a result of access reductions," (AT&T Main Br. at 62), but this conclusion is simply wrong, as evidenced by the plain language of the regulations which limit the size of the fund to the size of the previous year's fund. As a practical matter, increasing the assessments to the state USF will require a rulemaking and will bring in

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28 *Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers and the Pennsylvania Universal Service Fund*, Order Instituting Investigation, Docket No. I-00040105, entered December 20, 2004 at Ordering ¶ 1 (available on Commission website).

unnecessary administrative complexity to this case and the potential for continued litigation, appeals and delay, particularly if the Commission attempts to expand the contributing base. By far the simpler approach, if it is concluded that a transition period is needed for some RLECs, is to leave the revenue in their access rates and take those rates down in defined steps over a period of time. There is no reason to add the complexity and extra step of first transferring the revenue to the state USF. Moreover, transitioning the revenue to another carrier-funded source does not address the problem at hand – which is reducing the RLECs' dependence on revenues from other carriers – and so is not needed.

AT&T also fails even to acknowledge in its main brief the fact that AT&T stands to benefit – at the substantial expense of the Verizon ILECs and their customers – by transferring the revenue out of access rates to the state USF, even on a temporary basis. For the same reasons discussed above with regard to OCA's proposal, AT&T's proposal to temporarily increase the USF by $19.6 million would shift the funding burden away from the IXCs and to the Verizon ILECs and their customers. If the $19.6 million is transferred to a "temporary" USF under the same rules that apply to the current USF, the Verizon ILECs would pay $10 million of that $19.6 million, where they would only have paid $1.5 million if the revenue stayed in access rates – a net increase in the Verizon ILECs' funding burden of $8.5 million. (Verizon St. 1.2 (Price Surrebuttal) at 12). Simply put, the AT&T transitional USF proposal would benefit AT&T at the expense of the Verizon ILECs and their customers, and there is no public benefit making that approach superior to one that simply steps down the access rates over time.

In short, whether on either a permanent (OCA) or temporary (AT&T) basis, no party has demonstrated any public benefit to increasing the state USF by tens of millions of dollars to fund RLEC access reductions, and the record shows that such an expansion would be bad for consumers and for competition and is not authorized by current law.

VI. GENERAL LEGAL ISSUES

Verizon has already set forth its position on retroactivity and compliance in its main brief. As outlined in that brief, a compliance period is needed to finalize the details of each RLEC's rate rebalancing after the Commission provides guidance on the larger issues. This compliance period should be made as simple as possible and should not serve to delay access reductions.

VII. CONCLUSION

For the foregoing reasons, the Commission should reduce the RLECs' intrastate access rate and rebalance the revenue to retail rates, as described above, but should reject any proposals to increase the current USF for purposes of funding the rebalancing.

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