RECEIVED
MAR 2 6 2009
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

PTA STATEMENT NO. 1

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

Prepared Direct Testimony
of
Joseph J. Laffey

On Behalf of
The Pennsylvania Telephone Association

Served: December 10, 2008

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. My name is Joseph J. Laffey. I am currently employed as a Senior Consultant for ICORE, Inc., 326 South Second Street, Emmaus, PA 18049.

Q. DESCRIBE YOUR BACKGROUND AND EXPERIENCE.

A. I have been involved in the telecommunications business for over 30 years, almost my entire professional career. I began my career in telecommunications as a consultant with John Staurulakis, Inc. In that role, my primary focus was on the development and preparation of Cost Separation Studies. I joined Commonwealth Telephone Company ("Commonwealth") in 1979 and progressed to Vice President of Regulatory Affairs. I have also held similar positions on the senior management teams of both Conestoga Enterprises, Inc. ("Conestoga") and D&E Communications, Inc. ("D&E") (following D&E's acquisition of Conestoga). In addition to traditional regulatory and intercarrier settlement responsibilities, I also oversaw marketing, human resources, and information technology while at Conestoga. I returned to Commonwealth in 2004 as Vice President of Regulatory Affairs, and joined ICORE as a Senior Consultant in 2007.

I have testified before the Pennsylvania Public Utility Commission ("PUC" or "Commission") on numerous occasions. This includes representing Commonwealth in an early 1990 rate proceeding. In addition, I have provided expert testimony addressing Intrastate Universal Service (Docket No. I-00940035) and Intrastate Access Charge Reform (Docket No. I-00960066). I also represented the Pennsylvania Rural Telephone Company Coalition in the Commission's Global Proceeding (Docket Nos. P-00991648 and P-00991649), and was part of the group that designed the Pennsylvania Universal Service Fund ("PAUSF"), which was adopted by the Commission in that proceeding. I have also been an active participant in committees of trade associations like the Pennsylvania Telephone Association and the United States Telecom Association throughout my career.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony is offered on behalf of the Pennsylvania Telephone Association ("PTA"),[1] which is an association of rural local exchange carriers ("RLECs") operating in Pennsylvania. My testimony will demonstrate that the $18.00 residential rate cap and corresponding business rate cap limitations should not be increased for various reasons. Moreover, federal law requires comparability between urban and rural ratcs. I will demonstrate that the rates charged in Verizon's Pennsylvania urban markets and urban markets nationally are lower than the current $18.00 residential rate cap. Also, I will address the concern that universal service penetration levels may be negatively affected if basic local service rates begin to exceed the current $18.00 cap. Lastly, the PTA companies will demonstrate that their existing Alternative Regulation Plans provide the

[1] For purposes of this proceeding, the PTA Companies are: Armstrong Telephone Company - Pennsylvania, Armstrong Telephone Company - North, Bentleyville Telephone Company, Buffalo Valley Telephone Company, Citizens Telephone Company of Kecksburg, Citizens Telecommunications Company of New York, Frontier Communications Commonwealth Telephone Company, LLC (d/b/a Frontier Commonwealth), Frontier Communications of Breezewood, LLC, Frontier Communications of Canton, LLC, Frontier Communications – Lakewood, LLC, Frontier Communications – Oswayo River, LLC, Frontier Communications of PA, LLC, Conestoga Telephone & Telegraph Company, D&E Telephone Company, Hickory Telephone Company, Ironton Telephone Company; Lackawaxen Telecommunications Services, Laurel Highland Telephone Company, Mahanoy & Mahantango Telephone Company, Marianna & Scenery Hill Telephone Company, The North-Eastern Pennsylvania Telephone Company, North Penn Telephone Company, Consolidated Communications of Pennsylvania Company (f/k/a North Pittsburgh Telephone Company), Palmerton Telephone Company, Pennsylvania Telephone Company, Pymatuning Independent Telephone Company, South Canaan Telephone Company, Sugar Valley Telephone Company, Venus Telephone Corporation, Windstream Pennsylvania, LLC, and Yukon-Waltz Telephone Company.

adequate and appropriate process to change rates on a just and reasonable basis, and that a further needs-based test is not required, and would be contrary to incentive regulation.

II. THE RESIDENTIAL RATE CAP SHOULD NOT BE INCREASED

Q. WHAT IS THE CURRENT RESIDENTIAL RATE CAP LIMITATION?

A. The residential rate cap is an upper limit on the weighted average residential local rate(s) that a company may charge to residential customers. It does not include the federal subscriber line charge, E911 fees, relay charges or sales taxes. The local rate cap was initially set by the Commission at $16.00 per line per month and was subsequently increased to $18.00, as I describe further below.

Q. HOW WAS THE LOCAL RATE CAP DETERMINED?

A. The RLECs' local rate cap was first adopted in the Commission's *Global Order*.[2] In disposing of this issue in that proceeding, the Commission adopted the modified "Small Company Plan" of the "1649 Petitioners," a group that included Verizon PA (then Bell Atlantic-PA or "BA-PA") and the Rural Telephone Company Coalition.[3] The "1648 Petitioners" (including AT&T and BCAP, then known as the Pennsylvania Cable and Telecommunications Association) had also endorsed a slightly modified version of the "Small Company Plan." The 1648 Petitioners' Small Company Plan also included language supporting a $16.00 affordability rate cap, and provided that "[f]uture local rate increases, beyond the level of the rate ceiling, will be offset by the USF to ensure that the

---

[2] *Re Nextlink Pennsylvania, Inc.*, Docket Nos. P-00991648 and P-00991649, Order entered September 30, 1999 ("*Global Order*").

[3] *Id.*, 1649 Petition at ¶ 81, agreeing to adoption of the Small Company USF Plan as set forth in Appendix II (the Small Company USF Plan is attached hereto as PTA Exh. JJL-1.

effective residual residential rate ceiling will not exceed $16 (with a proportionate guarantee for business rates)" and that "[i]f insufficient funds exist to cover the new level of USF support to assure compliance with the $16 rate ceiling, the Commission will require that the **USF be increased** to the required level with all contributors paying their respective share of the increase."[4]

The Commission found "that as to all non BA-PA ILECs, a rate ceiling will be implemented which caps the one-party residential local rate of each such ILEC, including charges for dialtone, touchtone, and local usage, at $16.00 per month until December 31, 2003."[5] Those "[s]mall ILECs with average monthly residential one-party rates above $16.00 at the time the Fund is implemented will provide a Universal Service credit in an amount that will effectively reduce the rate to $16.00 with business rates receiving a proportionate credit."[6] Companies with a weighted average residential local service rate below the rate cap may increase up to, but may not exceed, that level.[7]

This cap on the weighted average residential local service rate was subsequently increased to $18.00 per line per month by PUC Order entered July 15, 2003. I will refer to the $18.00 rate cap as the "residential benchmark rate."

Q. ARE THERE OTHER COSTS TO CUSTOMERS FOR LOCAL SERVICE BESIDES THE BASIC RATE?

A. Yes, other charges apply, including:

---

[4] 1648 Petition at 41 (¶ 104) (emphasis added), addressed in the *Global Order* at 48-55, 144-47 (all citations are to the slip opinion).

[5] *Global Order* at 201.

[6] *Global Order* at 51; . The PAUSF credit to the customer was a separate line item on the customer's bill, which, when combined with the single-party residential rate, created a maximum monthly residential rate of $16.00. A proportionate PAUSF credit was also calculated and applied against the monthly single-party business rate to maintain parity between business and residential rates.

[7] *See Global Order* at 202.

- The Federal Subscriber Line Charge ("SLC") ($6.50)
- 911 Surcharge (typically $1.25 - $1.50)
- Relay Service Surcharge ($0.08)
- Federal Universal Service[8] ($0.74)

So, if the basic weighted average residential local service rate set forth in the PUC-approved tariff is $18.00, the actual monthly price to the customer is much higher, at approximately $26.57 plus taxes. The RLECs' experience is that when making purchasing decisions, whether comparison shopping or deciding the affordability of the service in general, the customer considers the total bill, and not just the basic local service rate.

On November 5, 2008, the Federal Communications Commission ("FCC") issued an Order on Remand, Report and Order, and Further Notice of Proposed Rulemaking, one part of which proposes to increase the residential SLC by $1.50 to a total of $8.00 per line per month. Also proposed is the imposition of a monthly $1.00 per line (i.e. per number) rate in lieu of the current revenue-based charge for Federal Universal Service support. Depending on the outcome of that proceeding, a customer's total monthly bill likely will be even higher than it is today.

Q. DO THE PTA COMPANIES SUPPORT THE CURRENT RESIDENTIAL WEIGHTED AVERAGE RATE CAP OF $18.00?

A. Yes. The PTA members believe that the current $18.00 cap should not be modified. Some of the companies have increased their local retail rates such that the weighted

[8] Federal Universal Service charge calculated by applying the most current quarterly contribution percentage of 11.4% against the interstate retail revenue of $6.50 (the Federal Subscriber Line Charge).

average is at or approaching that level. However, raising residential local rates above the current $18.00 cap would have many adverse implications. As for market share, many portions of our markets are very competitive and ongoing market share loss to companies like Verizon Wireless, AT&T Wireless and Comcast would be accelerated. In the portions of our territory where we are the sole provider, residential rates above the $18.00 cap could drive customers off the public switched telephone network, adversely impacting telephone penetration rates, a result wholly counter-productive to the goals of universal service. Thus, raising the residential benchmark rate creates a vicious cycle for RLECs and their rural customers. The higher the residential benchmark rate, the higher the RLEC rates are compared to their urban and suburban counter-parts. This renders the RLECs' rates not only less affordable from the customers' perspectives, but also less competitive from the RLECs' perspective, particularly compared to the RLECs' unregulated or lesser-regulated competitors. And, in turn, this leaves the RLECs with a continuously shrinking customer base over which to recover their authorized revenues, further driving up the prices for the remaining RLEC customers, and so the cycle continues.

Q. WHAT IS THE NATURE OF THE COMPETITION THE PTA COMPANIES FACE?

A. To a great extent, the PTA Companies face in-territory, intermodal competition today principally from wireless carriers, facilities-based CLECs, cable companies and broadband VoIP providers. Wireless providers offer wireless service, which, at least for a growing number of younger generation end-users, is an acceptable substitute for the PTA Companies' local voice service offering. The availability of wireless services is growing, but does not cover the entire state at this point, particularly in the rural territories of the PTA member companies where lack of quality wireless reception still exists. Cable companies are increasingly entering the voice market, but are not ubiquitous either. Cable plant passes approximately 90% of the homes in Pennsylvania, but not all cable companies provide voice service. Thirdly, customers have access to Voice over Internet Protocol ("VoIP") service providers through the broadband connections provided by the PTA companies, as well as the facilities of competing cable companies. Although the PTA companies have no way of measuring actual market loss to these competitors, particularly to "over-the-top" VoIP providers[9] such as Vonage, Skype, Magic Jack, or Oomo, which for the most part operate wholly outside the regulatory framework, most companies have been experiencing measurable line loss, sometimes dramatically, in recent years.

Q. WHAT IS THE LEVEL OF LINE LOSS BEING EXPERIENCED BY THE PTA COMPANIES?

A. Line loss for the PTA companies has been steady. At the time of the Global Proceeding (1998-99), the PTA companies served 855,586 access lines. As of December 2007, these same companies served only 669,836 lines, a loss of over 20%. In the last two years this line loss has averaged 5.3% per year.

Table 1. PTA Access Lines		
Year	Lines	Line Loss %
2005	747,693	
2006	709,678	-5.1%
2007	669,836	-5.6%

[9] "Over-the-top" is a term used to distinguish VoIP providers that use the broadband connections of others, LEC or cable for example, to obtain connectivity to the customer.

While these figures represent average line loss, there are companies that have experienced different results. For a full list of the PTA companies and their access line losses, see PTA Exhibit JJL-2. The two principal reasons for these line losses are customers switching voice service to other providers and customers migrating from Internet dial-up service to broadband service, generally using the RLECs' connections or those of the cable company.

Q. WHAT IMPACT DO YOU ANTICIPATE ON BASIC TELEPHONE SERVICE PENETRATION RATES IF PRICES ARE ALLOWED TO INCREASE ABOVE $18.00?

A. It is likely that increases above the $18.00 benchmark rate would result in declining penetration rates in Pennsylvania. In a proceeding at the FCC, this Commission cogently described the negative impact that subscriber line charge rate increases had on penetration rates.

> The SLC increased dramatically in 2001, the same time period in which penetration rate declines became more noticeable. The decline in penetration rates followed adoption of the CALLS Order not promulgation of the ESP exemption. It was SLC increases that resulted in end-user rate increases which, in turn, affected penetration rates.[10]

It is important to note that the penetration rates cited in that proceeding were from the 2007 Universal Service Monitoring Report. As such, that report included wireless service and other voice services in the penetration rate.[11] The rate increase did not drive LEC customers to new service providers, but rather drove them off of the PSTN.

---

[10] *See In the Matter of Petition of AT&T, Inc. for Interim Declaratory Ruling and Limited Waivers*, CC Docket 08-152, at 25.
[11] 2007 Universal Service Monitoring Report, pp. 6-2 to 6-3.

Q. HOW DOES THE \$18.00 WEIGHTED AVERAGE RESIDENTIAL BENCHMARK RATE COMPARE TO LOCAL SERVICE RATES CHARGED BY OTHER PROVIDERS?

A. The current residential benchmark rate in Pennsylvania is higher than the average national urban rate. Nationally, the FCC's Wireline Competition Bureau's Statistics of Communications Common Carriers' Report released in June 2008 indicates that the most recent average rate for residential local service is \$15.03 per line per month. See PTA Exhibit JJL-3.

To establish the comparability of urban and rural rates in Pennsylvania, I have reviewed the local tariff of Verizon Pennsylvania. In Verizon's most urban areas (Density Cell 1) – Philadelphia and Pittsburgh - residential rates for unlimited local calling are \$15.14 per line per month. In suburban Philadelphia and Pittsburgh (Density Cell 2), these rates are \$15.44 per line per month.[12] Rates paid in rural Pennsylvania must be comparable to those assessed in urban markets like Philadelphia, Pittsburgh, Harrisburg, Scranton, Allentown, Erie, etc. To do otherwise would be in direct conflict with §254(b)(3) of the Telecommunications Act of 1996 ("TCA-96"). This section states that:

> Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available **at**

[12] It should be noted that Verizon also offers a Metropolitan Unlimited Usage plan to their residential customers in Philadelphia, Pittsburgh, and the suburbs of these areas. This plan allows unlimited calling within these cities and also within all of the exchanges that are suburbs of the cities. Because of the extremely high number of access lines included in this toll-free calling area, the rates for the usage plans range from \$21.00 to \$26.00. Since the Pennsylvania RLECs have no comparable service offering, these rates are not included in the analysis.

rates that are reasonably comparable to rates charged for similar services in urban areas.[13]

Verizon's rural rates are also lower. In the Density Cell 3 areas, Verizon's local rates, including Extended Area Service unlimited calling, range from $12.97 to $16.17 per line per month.[14] Residential local service rates in Verizon's most rural exchanges (Density Cell 4) range from $13.37 to $16.57 per line per month. Even on the high end of the range, Verizon does not approach the current residential benchmark rate of $18.00 per line, reinforcing the PTA position that the current $18.00 residential benchmark rate should not be increased.

With the $18.00 per line residential benchmark rate exceeding the national average rate per line per month and the rates charged to the vast majority of Pennsylvania's residents, the benchmark rate should not be increased at this time.

Q. AREN'T THE PTA COMPANIES SIMPLY ARGUING THAT USF SHOULD BE USED TO HELP PREVENT COMPETITIVE LOSSES?

A. No, that is not the purpose of USF, nor is it the contention of the PTA companies that support should be used to help the companies price their products on a more competitive basis. The PTA companies ask this Commission to consider that under TCA-96, universal service and local competition are, at least, equally important, and the Commission can no more sacrifice universal service for the sake of competition than it can sacrifice competition for the sake of universal service. Local competition has resulted in line loss for the PTA companies, even with the $18.00 per line benchmark rate, so competition in rural areas is vibrant. Increasing the residential benchmark rate

---

[13] *See* 47 U.S.C. § 254(b)(3)(emphasis added).

[14] This range is directly related to the number of access lines that can be called on a toll-free basis.

beyond $18.00, however, runs afoul of § 254(b)(3) and discourages universal service penetration, irrespective of the RLECs' abilities to remain competitive.

III. FUNDING OF RATE INCREASES BEYOND THE RATE CAP.

Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED THE APPROPRIATE TREATMENT FOR THE FUNDING OF RATE INCREASES BEYOND THE RATE CAP?

A. Yes. The Commission, on several occasions, has reiterated that rate increases beyond the rate cap should be recovered from the PAUSF.

In the *Global Order*, the Commission first determined that rate changes exceeding the affordability cap would be recoverable from the PAUSF. As the Commission noted then:

> [A]s to all non BA-PA ILECs, a rate ceiling will be implemented which caps the one-party residential local rates of each such ILEC ... at $16.00 per month until December 31, 2003. **As set forth below, if such ILEC's one-party residential rate is above $16.00 per month, and is found to be just and reasonable by the Commission, the revenue associated with the difference between the rate ceiling and the approved rate will be recovered from the Pennsylvania USF.**[15]

This is the language that was adopted by the Commission from the 1649 Petition. Both the 1648 and the 1649 Petitions supported a Small Company Plan, the terms of which provided that future local rate increases that raised the one-party residential rate above the then $16.00 benchmark would be recovered by increasing the USF to provide recovery from the USF.

In a subsequent settlement between the Commission and the RLECs following the appeal of the *Global Order*, the Commission once again reaffirmed this language. After

[15] *Global Order* at 201 (emphasis added).

the Commission's entry of the *Global Order*, several parties, including the RLECs, filed appeals. One matter of concern to the RLECs was the impact of the *Global Order* on the RLECs' continuing ability to seek rate changes, including PSI rate increases as well as rate rebalancings, under their Chapter 30 Plans. Since the issues raised by the RLECs were more a matter of interpretation of the impact of the PUC's *Global Order*, rather than a full dispute of the PUC's resolution, the RLECs and the Commission were able to resolve their differences through a settlement agreement that ultimately led to the discontinuance of the RLECs' pending appeals. A copy of this settlement is attached to my testimony as PTA Exh. JJL-4.

In the settlement, the PUC re-affirmed its commitment to allow RLECs to recover from the PAUSF any revenue difference that resulted from an authorized rate increase or rate rebalancing that resulted in a weighted average residential rate that exceeded the residential benchmark rate. Again, in unambiguous, straight-forward language, the Commission agreed as follows:

> In the event that the intrastate rate increases and/or revenue neutral rate rebalancing results in rates above the $16.00 per month cap for residential and corresponding business rates established in the Global Order and the Commission has deemed these rates to be just and reasonable, USF-participating ILECs are permitted to recover the difference from the interim Pennsylvania USF.[16]

The Commission formally approved this Settlement Agreement at its May 11, 2000 public meeting, and when no party challenged the Commission's action, the Court upon praecipe of the RLECs discontinued the RLECs' appeals.

---

[16] PTA Exh. JJL-4 at 2.

Q. HOW DID THE RLECS' CHAPTER 30 PLANS ADDRESS RATE INCREASES BEYOND THE RATE CAP?

A. The majority of RLEC Chapter 30 Plans, specifically those that were pending or filed after the PUC's entry of the *Global Order*, included the *Global Order* directive that allowable revenue increases beyond the rate cap limitations are to be funded by the PAUSF. These Chapter 30 Plans were approved by the Commission with the following language:

> Pursuant to the *Global Order* entered September 30, 1999, the Commission instituted a transitional universal service funding mechanism, i.e. the Pennsylvania USF, with a projected termination date of December 31, 2003. During the pendency of the Pennsylvania USF, **the Company retains the right to change and rebalance its intrastate rates in accordance with the PSP**, and if such rates are found to be just and reasonable, they shall be permitted to become effective. Further, **should the new rates exceed the $16.00 monthly residential rate ceiling** and applicable business rate ceiling established in the *Global Order* for the duration of the Pennsylvania USF, **the Company is permitted to recover the revenue difference arising from application of the Global Order rate ceilings from the Pennsylvania USF.**[17]

These plans were fully litigated before the PUC, with the Office of Trial Staff ("OTS"), Office of Consumer Advocate ("OCA"), Office of Small Business Advocate ("OSBA"), and AT&T Communications of Pennsylvania, Inc. ("AT&T") all participating. No party opposed this language.

This language was the subject of a PUC discussion on reconsideration addressing those plans. In a March 30, 2000 Order, the PUC clarified that "we shall permit USF-recipient companies to recover the difference between the $16.00 residential and

---

[17] *See*, for example, Alltel Pennsylvania (now Windstream) Alternative Form of Regulation and Network Modernization Plan, Part 3.D, "Consumer Protections," at ¶ 2 (emphasis added). For reference to the specific language in all Commission-approved Chapter 30 plans on file at the Commission, the RLECs request that the Plans be recognized as public documents from which official or judicial notice of facts may be taken pursuant to the Commission's regulations at 52 Pa. Code §§5.406 and 5.408, respectively.

corresponding business rate caps from the interim Pennsylvania USF provided that the new rates are found to be 'just and reasonable.'"[18]

Q. WAS THIS ISSUE ADDRESSED AGAIN SUBSEQUENTLY?

A. Yes, in 2002, the PUC opened another investigation, at Docket No. M-00021596, to continue its access reform and universal service efforts on behalf of all ILECs, including Verizon. While Verizon's access reform was ultimately bifurcated, the RLECs' further investigation eventually culminated in a Joint Access Proposal to further reduce access rates through additional rounds of revenue-neutral rebalancing of access and local rates. The Commission approved the Joint Access Proposal by Order entered July 15, 2003. In this Order, the Commission approved increasing the residential weighted average benchmark rate limitation from $16.00 to $18.00, and further addressed the implication of this rate cap limitation on the PAUSF. As stated in paragraph 4 of the elements of the Joint Access Proposal, as attached to and approved in the PUC's Order:

> **Any approved future increases in rates above the $18.00 rate cap for any ILEC shall also be recoverable from the USF under the exact same terms and conditions as approved in the Global Order**. For example, if ILEC A's R-1 rates are currently $17.25, then their customer is billed $17.25 but receives a credit of $1.25 from USF, receiving a net bill of $16.00. ILEC A could, as of December 31, 2004, implement the provisions of Paragraph 3 hereof, increase its rates, if justified, by $2.00 to $19.25, charge its customers $19.25, reflect a credit of $1.25 to its customers, receive $1.25 from the USF, and then send a net bill to its customers of $18.00. If ILEC A justified an R-l rate of $20.25, then it would be entitled to $2.25 from the USF and will send a net bill to its customers of $18.00.[19]

---

[18] *Petition of the following Companies For Approval of an Alternative and Streamlined Form of Regulation Plan and Network Modernization Plan*, Docket Nos. P-00981425 et al. (Order entered March 30, 2000) at 51 ("*March 2000 Order*").

[19] See PTA Exh. JJL-5 attached (PUC Order entered July 15, 2003, Attachment A Joint Access Proposal, Elements Paragraph 4)(emphasis added).

Q. IN SUMMARY, DO THE RLECS ALREADY HAVE AN EXISTING RIGHT TO GO TO THE PAUSF AS PREVIOUSLY APPROVED BY THE COMMISSION IN ORDER TO RECOVER REVENUES RESULTING FROM RATES THAT WOULD EXCEED THE $18.00 RESIDENTIAL BENCHMARK RATE?

A. Yes. It is clear that the RLECs possess a right to obtain rate increases from the Fund based upon:

(1) The creation of the PAUSF in the *Global Order* by the Commission's adoption of the Small Company Universal Service Plan, including the parameter that allowed revenues from rates that would be above the benchmark to be recovered from the PAUSF;

(2) The RLECs' discontinuance of their appeal of the *Global Order* as a result of their settlement with the Commission clearly affirming that right, that the Commission has already approved the right of the RLECs to recover from the PAUSF revenues resulting from rates that would exceed the rate cap; and

(3) The history of the development of the RLECs' Chapter 30 plans, as well as the express language of the plans.

Q. SHOULD THE RESIDENTIAL BENCHMARK BE MAINTAINED THROUGH SUPPORT FROM THE PAUSF?

A. Yes, for all the reasons previously discussed. The Commission has agreed in several contexts that increases beyond the residential and business rate cap limitations should be supported by the PAUSF and, indeed, this language was codified into many Chapter 30 Plans. The point of the benchmark rate is not to limit the operation of the revenue setting mechanism, price cap or rate of return, but rather to set local service rates at "just and reasonable" levels. Maintaining support of the benchmark rate through the PAUSF also helps stem the reduction in telephone penetration rates that Pennsylvania has been experiencing, as this Commission has previously noted to the FCC.[20]

The PTA RLECs have served rural Pennsylvania consumers for over a century. They provide quality telecommunications service in the rural areas of the Commonwealth where the sparse population densities and high costs of service rendered telephone service less profitable. As even this Commission has recognized in its comments before the FCC, the RLECs have the carrier of last resort obligations in these rural areas, where competitors have made inroads but, in reality, will never provide ubiquitous service. Higher benchmark rates will result in fewer customers from which to recover costs, stretching the RLECs' carrier of last resort abilities and the remaining customers both to their financial limits.

Finally, failure to fund rates above $18.00 through the PAUSF may also run contrary to federal law at Section 254(b) (3) of the Telecommunications Act of 1996.

[20] For example, on June 21, 2007, the PA PUC filed Reply Comments with the FCC at Docket Nos. WC 05-337 and CC 96-45, addressing the proposed interim, emergency cap on high-cost support. In those Reply Comments, the PA PUC supported a generic freeze on all federal high cost support because, as stated, "increased costs are undermining overall penetration rates for telecommunications services, particularly in Pennsylvania." PA PUC Reply Comments at 3. While supporting a freeze for both CETCs and RLECs, the PA PUC nevertheless recognized that CETCs "are not subject to the same conditions as other incumbent carrier recipients[,]" and that "[r]ural carriers have complex rate structures that rely on federal support [and r]ural carriers have different obligations as well. These include the obligation to provide service ubiquitously throughout their respective study areas and to expand broadband deployment. CETCs do not have these obligations." PA PUC Reply Comments at 3-4. The PA PUC expressed similar sentiment in its August 21, 2008 Comments filed in response to the AT&T Petition for Interim Declaratory Ruling and Limited Waivers Regarding Access Charges et al. at FCC Docket Nos. CC 08-152, CC 01-02, WC 05-337, CC 96-45, WC 99-68, WC 07-135, and WC 04-36. Noting that "Pennsylvania has witnessed telephone penetration rate declines after the FCC's CALLS Order[,]" the PA PUC expressed concern over what would happen under a proposed "'federal benchmark mechanism' if the benchmark rate is higher than the $18 benchmark rate for basic residential local exchange service in the areas served by rural ILECs in Pennsylvania. ... Increased rates impact the ability to buy basic telephone service, especially at lower-income levels." PA PUC Comments at 6. A copy of the PA PUC's reply comments and comments before the FCC is attached to my testimony as PTA Exh. JJL-6.

The $18.00 benchmark rate is already set higher than the national average for urban residential local service and the rates charged by Verizon throughout Pennsylvania.

Q. WILL THIS SUPPORT TO RLECS HAVE AN ANTI-COMPETITIVE IMPACT?

A. No. The PTA companies have many regulatory burdens associated with their traditional (and continuing) role as providers of last resort. Among the segments of the voice telecommunications industry, including our major competitors -- wireless, cable voice, broadband ("over-the-top") VoIP -- only the LECs are regulated. Both wireless and VoIP (including cable voice and "over-the-top") are expressly excluded from PUC regulation under state law. This means no rate or service regulation, as well as no requirement to file for regulatory approval of merger applications and the like. There are no statutory requirements to provide service through an entire geographic territory. These obligations imposed upon the LEC have been deemed to serve the public interest as defined by the General Assembly and the Commission. It should not be surprising that these requirements impose substantial costs upon the RLECs and, although quantification would be difficult, if not impossible, they certainly justify universal service support. Unless and until government removes these uneven cost burdens, support to meet them is appropriate.

IV. NEEDS-BASED TESTS ARE ALREADY IN PLACE

Q. SHOULD THE COMMISSION APPLY A NEEDS-BASED STANDARD BEFORE ALLOWING PAUSF SUPPORT FOR RATE INCREASES IN EXCESS OF THE $18.00 RESIDENTIAL BENCHMARK RATE?

A. No, not beyond the needs-based test already defined in the Plan. The RLECs' Commission-approved Chapter 30 Plans define the economic standards to be employed in determining the allowable revenues and rates. If the application of the rate formula results in rates in excess of the rate cap limitations established by the Commission, then PAUSF support should be provided to ensure affordable rates to end-user customers. For RLECs operating under a Simplified Ratemaking Plan ("SRP"), the companies' return on common equity determines the allowable rate level. For price cap RLECs, the companies' Price Stability Mechanism ("PSM") determines the allowable revenue increase. The application of these two economic standards is the Chapter 30 methodology for determining just and reasonable rates.

Q. IN YOUR OPINION, DO THESE ECONOMIC STANDARDS UNDER THE RLEC CHAPTER 30 PLANS CONSTITUTE A NEEDS-BASED TEST FOR PAUSF SUPPORT?

A. Yes. RLECs under Chapter 30 cannot arbitrarily adjust rates and create the need for additional PAUSF support. This is true for any rate adjustment, not just for an increase beyond the rate cap limitations. Any RLEC's request to increase revenues must meet the standards described in the RLEC's Commission-approved Chapter 30 Plan. For those RLECs under a SRP, the RLEC's return on common equity must support a need to increase rates to a level deemed appropriate by the Commission. On the other hand, PSM-derived revenue increases must be consistent with the inflation-based (GDP-PI) price cap formula. RLECs covered by a price cap plan are no longer tied to a rate of return analysis as a measure of financial need. The percent change in GDP-PI is the substitute measure of these companies' economic need under alternative regulation. Price Cap RLECs cannot increase rates by an amount not provided for by their Chapter 30 price cap formula. In my opinion, the SRP and PSM formulas constitute a needs test for PAUSF support. Only if the formulas resulting in weighted average residential rates are above the $18.00 benchmark rate, should PAUSF support be provided to assure that affordable and competitive end-user rates are maintained and Pennsylvania customers are protected.

Q. IN THIS PROCEEDING, THE COMMISSION IS CONSIDERING THE ESTABLISHMENT OF AN ADDITIONAL NEEDS-BASED TEST TO BE APPLIED TO RATE INCREASES BEYOND THE RESIDENTIAL BENCHMARK CAP FOR PAUSF SUPPORT. IS THIS NECESSARY?

A. No. The creation of a needs-based test for PAUSF support is unnecessary and would be inconsistent with the RLECs' approved Chapter 30 Plans. As described above, under Chapter 30, RLECs cannot change rates in an arbitrary or indiscriminate manner. Revenue and rate changes must be consistent with the economic and financial formulas, rules and criteria outlined in each RLEC's Chapter 30 Plan. These formulas, rules and criteria provide the standards which the Commission must use to evaluate revenue changes, including those that propose a rate that is beyond the benchmark rate. I also emphasize that the benchmark rate limitations calling for PAUSF support are not for the protection of the RLECs. The rate cap limitations resulting from the benchmark rate are for the protection of the end-user customers, and ultimately for the protection of universal service in Pennsylvania.

Q. IF THE COMMISSION FOUND THAT AN ADDITIONAL NEEDS-BASED TEST IS REQUIRED, HOW SHOULD SUCH A TEST BE DESIGNED?

A. As "telecommunications" has evolved beyond simply landline voice service, regulation has become more complicated. This was one of the fundamental reasons for conversion to price caps, which avoids cost separation issues. Fairly identifying an intrastate cost of voice service for any company is difficult. Assets and costs are used to provide inter/intrastate and regulated/unregulated services. Federal access rates are set for many of the companies using the NECA average schedule methodology, which is a composite of all participating companies, not the individual companies themselves. As noted in the April 24, 2008 Order, this process does not "jurisdictionalize" the operations of an individual company. Additionally, there are both state and federal USF revenues received by the RLECs.

Any financial "needs" test designed should be as simple and easy to administer as possible without requiring cost/investment prudency determinations, imputed costs/revenues, or complicated separations studies, for example. Any calculation should provide specific and predictable support amounts, taking into account the RLECs' requirement to provide and maintain as carrier of last resort a ubiquitous communications network for voice communications, as well as being a major network provider for wireless transport and broadband connectivity. As noted in this testimony, the PTA is not supporting a further needs-based test beyond what is reflected in their Plans. I am advised by counsel that if changes were made to the Plans, the agreement of the individual companies would be required.

Q. WOULD THE APPLICATION OF A NEEDS-BASED TEST FOR PAUSF SUPPORT BE CONSISTENT WITH PRICE CAP REGULATION AND CHAPTER 30?

A. No. At the outset of Chapter 30 regulation, all RLECs opted for some form of alternative or streamlined regulation in lieu of the traditional needs-based test that existed under Chapter 13 of the Public Utility Code. Those choosing alternative regulation through price caps and the PSM eschewed the safety net provided by rate of return regulation in exchange for annual, formulaic revenue change opportunities that tied their economic needs to the performance of the gross domestic product price index. Price Cap incentive regulation allowed them the opportunity to achieve operating efficiencies that would produce better service, lower prices, and improved earnings necessary to carry out their broadband service commitments. In exchange for alternative or streamlined regulation, all RLECs agreed to make broadband technology universally available throughout their service territories by 2008 or, in the case of Windstream Pennsylvania, by 2013.

The introduction of a further needs-based test based upon some form of rate of return regulation for the price cap companies at this time to justify PAUSF support would be inconsistent with the goals of incentive regulation and contrary to the spirit of Chapter 30. Most of the RLECs will have completed their broadband service commitments by December 31, 2008. They certainly have every right to expect that the ratemaking provisions of their Chapter 30 Plan will be permitted to operate as approved. Again, I emphasize that the PAUSF support above the $18.00 benchmark rate is for the protection and benefit of end-user customers. As stated previously, TCA-96 mandated that Universal Service support be provided to ensure that rates in rural, insular and high cost areas remain affordable and reasonably comparable to rates charged for similar services in urban areas. There is nothing in TCA-96 that requires any needs test be met before such support is provided. Once an RLEC's revenue entitlement under its Chapter 30 Plan formula causes local rates to exceed the benchmark rate, PAUSF should be provided to assure customers pay only affordable rates, so that universal service within Pennsylvania is maintained.

Q. SHOULD THE PENNSYLVANIA UNIVERSAL SERVICE FUND GROW, DECREASE, OR REMAIN THE SAME?

A. The PAUSF likely will increase in the future. First, the Fund cannot simply be waived away without an impact upon access rates. The Fund, as approved by the Commission, stipulates that, in the event the Fund is discontinued, then access rates will increase to recover the revenue shortfall. Per the Small Company Plan, as attached to the 1649 Petition: "If the Fund is permitted to be dissolved with no alternative funding established, residential and business Universal Service Credits will be eliminated, and toll and access rates will immediately return, at a company's option, to their pre-funded levels pursuant to a compliance filing."[21] However, access rates are not at issue in this proceeding.

Secondly, although also outside the scope of this investigation, if access charges were to be decreased further, the effect would be to increase the Fund, absent further increases in local rates. As noted previously in my testimony, increases in local rates beyond the current $18.00 per line benchmark rates should not be passed on to consumers. Act 183 makes it clear that access charges cannot be decreased without revenue neutrality, in other words, without equal offsetting increases to either the Universal Service Fund or local rates.

[21] PTA Exh. JJL-1 at 4-5 (¶ 5) and 8 (¶ 11(g)).

Thirdly, to the extent an RLEC seeks to recover rate increases from the Fund, as advocated in this testimony, the key to recovery of any additional distribution would be to either increase the contribution rates from the already existing carriers or increase the base of funding to include additional carriers, specifically, cellular carriers and VoIP providers. This latter option is the PTA's preference. However, the Commission has ruled that the issue of additional funding sources is also beyond the scope of this investigation and, therefore, I will not belabor the point.

Q. WHAT IS THE CURRENT SIZE OF THE BANKED AMOUNTS?

A. Most, if not all the plans, contain a four year "use it or lose it" provision. Authorized revenue increases banked beyond four years are "zeroed out" and extinguished. The present level of banks is public information and set forth in PTA Exhibit JJL-7, which was provided by the Commission's Bureau of Fixed Utility Services. No RLEC at this point, with the exception of Denver & Ephrata and related companies, has sought to recover monies above the $18.00 cap from the Fund, although as noted elsewhere in my testimony, the RLECs have had a clear right to do so. Further, the RLECs must first increase their weighted average residential rate up to the $18.00 benchmark rate before they could receive any recovery from the PAUSF.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does at this time, and I reserve the right to file further testimony. Thank you.

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

PTA Exhibit
of
Joseph J. Laffey

On Behalf of
The Pennsylvania Telephone Association

Served: December 10, 2008

PTA Exhibit JJL-1

APPENDIX II

SMALL COMPANY UNIVERSAL SERVICE FUND SETTLEMENT

CONTENTS

SETTLEMENT

A. The Need for Resolution

1. One of the major issues presented at Docket Nos. I-00940035 and I-00960066 has been the identification of any subsidies to support Universal Service, and whether and how to move and/or supplant any existing implicit subsidies in local exchange carrier access and toll revenue streams.

2. One of the fundamental issues in the Universal Service debate has been the development of a cost model. The Commission has been investigating several cost proxy models that various parties have proposed for use in establishing a Fund. However, to date, a cost proxy model has not been perfected to the point of accurately reflecting the cost of providing Universal Service for any company, but particularly so for the smaller and rural companies. Moreover, for the smaller, rural telephone companies, the FCC has stated that a four year transition period is required to investigate properly the issue of Universal Service cost development.[79]

3. In the Access Charge Investigation at Docket No. I-00960066, many of the parties have contended that carrier access charges are one of the sources of subsidy for basic universal services, and proposals have been made to reduce this subsidy and/or make it "explicit."

[79] *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order released May 8, 1997.

4. From the standpoint of the smaller incumbent local exchange carriers, this Settlement Agreement proposes a means to reduce access and toll rates for the benefit of the end-user customer and in order to encourage greater toll competition, while at the same time continuing to maintain the affordability of local service rates. Pennsylvania can and should take steps toward implementing access and toll rate reform and begin addressing subsidy levels now. The settlement proposal advanced herein will take those steps without the need to become embroiled prematurely in the debate over hypothetical costing models and bring to an end the costly litigation in the Universal Service and Access Charge investigation dockets.

B. Summary of Terms

5. This portion of the Settlement Agreement proposes to resolve all of the open issues applicable to the Small ILECs[80] and Bell Atlantic-Pennsylvania ("BA-PA"), at Docket Nos. I-00940035, L-00950105, I-00940034 and I-00960066, in a pragmatic, but equitable, manner that provides benefits to all

[80]The Small ILECs include ALLTEL Pennsylvania, Inc., Armstrong Telephone Company - PA, Armstrong Telephone Company - North, The Bentleyville Telephone Company, Buffalo Valley Telephone Company, Citizens Telephone Company of Kecksburg, Citizens Communications Services Company, Commonwealth Telephone Company, Conestoga Telephone and Telegraph Company, Denver and Ephrata Telephone and Telegraph Company, Deposit Telephone Company, Frontier Communications of Breezewood, Inc., Frontier Communications of Canton, Inc., Frontier Communications of Lakewood, Inc., Frontier Communications of Oswayo River, Inc., Frontier Communications of Pennsylvania, Inc., The Hancock Telephone Company, Hickory Telephone Company, Ironton Telephone Company, Lackawaxen Telephone Company, Laurel Highland Telephone Company, Mahonoy & Mahantango Telephone Co., Marianna & Scenery Hill Telephone Company, The North-Eastern PA Telephone Company, North Penn Telephone Company, North Pittsburgh Telephone Company, Palmerton Telephone Company, Pennsylvania Telephone Company, Pymatuning Independent Telephone Company, South Canaan Telephone Company, Sugar Valley Telephone Company, Venus Telephone Corporation and Yukon Waltz Telephone Company.

involved parties and promotes the public interest. A general summary is set forth below.[81]

a) A Universal Service Fund of approximately $20.5 million will be established. The effective date of the Fund is July 1, 1999.

b) All telecommunications service providers (excluding wireless carriers) will contribute to the Fund on the basis of their intrastate end-user telecommunications revenues. The Small ILECs and BA-PA will not implement an end-user surcharge to recover their Fund contributions.

c) All Small ILECs, which include all ILECs other than Bell Atlantic, Sprint and GTE, will be Fund Recipients. The Fund will be used to fund the immediate rate rebalancing needs of these smaller, rural local exchange carriers.

d) The Small ILECs will restructure and reduce their access and toll rates, as follows:

1) Intrastate traffic sensitive switched access rates and structure (including local transport restructure) will be converted to interstate switched access rates and structure in effect on July 1, 1998.

2) The carrier common line ("CCL") charge of the Small ILECs will be restructured as a flat-rate Carrier Charge ("CC") and reduced to an

[81] The precise terms and conditions of the settlement are set forth in Section C hereto and in Appendix A which is attached hereto. The terms and conditions set forth in Section C and Appendix A govern in the event of any ambiguity or conflict with this summary.

intrastate rate of approximately $7.00 per line.[82] Further reductions are possible in the first year of the Fund if needed to pass through to ratepayers the full benefit realized from the Fund as well as reductions in terminating access costs.

3) The Small ILECs also will be given the opportunity to reduce their toll rates to an average rate not lower than $.09 per minute.[83]

4) The Small ILECs also will be permitted to increase their residential one-party basic, local rates up to an average monthly charge of at least $10.83, to the extent necessary to offset the reduced toll rates. This change affects only eight companies. Any excess needed to fund the toll rate reduction is designed to come from the Fund.[84]

5) Small ILECs with monthly residential one-party basic, local rates above $16.00 at the time the Fund is implemented will provide a Universal Service credit in an amount that will effectively reduce the rate to $16.00 with their business rates receiving a proportionate credit. See Appendix A, Exhibit 1, page 4.

6) If the Fund is permitted to be dissolved with no alternative funding established, residential and business Universal Service Credits

---

[82] This tariff rate change, and all others described in this Settlement Agreement, shall be made as compliance filings pursuant to any Pa. P.U.C. Order approving this Settlement Agreement and shall be permitted to be effective on ten (10) days notice.

[83] There is no expectation, express or implied, that a toll rate of $.09 per minute will be sufficient to meet competition throughout the life of the Settlement Plan. In fact, numerous interexchange carrier toll plans are substantially below $.09. However, $.09 was chosen as appropriate to the size of the Fund. Nothing in this Settlement Agreement or Appendix A precludes a Small ILEC from proposing lower toll rates in individual proceedings.

[84] Nothing in this Settlement Agreement or Appendix A precludes any local exchange carrier from proposing greater local exchange rates in individual proceedings. Further reductions to a level not below $.09 will be provided by the Fund and ITORP expense savings.

will be eliminated, and toll and access rates will immediately return, at a company's option, to their pre-funded levels pursuant to a compliance filing.

6. Nothing in this Settlement Agreement or Appendix A precludes any Party from seeking rate increases or decreases not specifically outlined herein.

7. Approval of the rate structure changes proposed in this Settlement Agreement will be a dramatic first step by the Pennsylvania Public Utility Commission in undertaking Universal Service Funding and access charge reform for the Small ILECs and BA-PA. The changes proposed are not the end of the road, but a strong beginning which is needed to address these issues.

8. The collection and distribution of the Fund and the uses for which it is to be applied are set forth in Appendix A hereto.

9. The participants to this Settlement Agreement estimate that the access charges of Small ILECs will be reduced by over $15 million. This is a significant reduction in access service charges which have historically generated a subsidy to local service and which have not been materially reduced since originally established over ten years ago. Moreover, if the reductions are passed through to end user customers by the interexchange carriers, as they have stipulated in this Settlement Agreement, the reductions will result in significant customer savings.

10. The Small ILEC toll rates, which have also been a source of subsidy, will be reduced by an estimate of approximately $10.6 million annually, thereby producing additional customer dividends.

C. Specific Terms and Conditions

11. This Settlement Agreement proposes to resolve the aforementioned pending dockets from the standpoint of the Small ILECs and BA-PA on the following terms and conditions.

a) A Universal Service Fund will be established on the terms and conditions described in full in Appendix A and Appendix B hereto, which is incorporated herein by reference.

b) The Commission will issue the proposed regulations for implementation and administration of the Universal Service Fund, in the form set forth in Appendix B hereto, which is incorporated herein by reference.

c) In addition to the rate changes described in Appendix A that are applicable to the Small ILECs, Bell Atlantic and the Small ILECs shall be permitted to restructure their intrastate CCLC as a flat-rate Carrier Charge ("CC") to be recovered from all toll carriers on a proportional minutes of use basis. The CC will be implemented on a revenue neutral basis for all Small ILECs in a manner similar, but not identical, to that proposed by Sprint in its Main Brief in the Access Charge Investigation,[85] including the imputation into the revenue pool of the CCL revenues associated with the Small ILECs and BA-PA toll minutes and the allocation of recovery on the basis of all originating and terminating minutes. Such rate changes will be filed as compliance filings pursuant to the Commission's Order approving this Settlement Agreement to be effective July 1, 1999. Consistent with the provisions of the Public Utility Code, the Commission shall permit such tariffs to become effective or, should a complaint be filed or investigation instituted, permit the tariffs to go into effect subject to the resolution of such complaint or investigation.

d) The Small ILECs and BA-PA shall be entitled to recover intraLATA presubscription costs from the interexchange carriers pursuant to the Commission's Order at I-00940034, entered on December 14, 1995. The direct, incremental costs associated with implementing presubscription shall be recovered, subject to an annual true up/down, from the interexchange carriers operating in Pennsylvania over a three year period based upon each interexchange carrier's share of total originating and terminating intrastate toll minutes of use.

e) During the term of this Agreement, the Small ILECs shall not be required to pass any imputation test, unless all interexchange carriers operating in Pennsylvania agree or are lawfully required to comply with the same exact imputation test as may be imposed on the local exchange carriers.

f) The Small ILECs which have filed Chapter 30 Plans prior to the date of this Settlement Agreement which Plans contain provisions relating to the cost of universal service may provide embedded cost data in support of any

---

[85]Specifically, this proposal is solely limited to restructuring the CCLC, and does not include any NTS cost recovery from existing TS rates. In addition, no intrastate SLC will be implemented. See Sprint/United

tariff rate changes permitted under the terms of such Plans. Further, with respect to the Small ILECs which have Chapter 30 Plans pending before the Commission at the date of this Settlement Agreement, the intrastate access charges to be established pursuant to the approval of this Settlement Agreement shall be considered just and reasonable rates for the purpose of resolving such Plans.

g) The Commission will initiate a proceeding on or about January 2, 2003, to determine how the aforesaid fund/pool shall be reduced or otherwise modified. If the Fund is permitted to be dissolved with no alternative funding established, residential, business, toll and access rates will immediately return, at the companies' option, to their pre-funded levels pursuant to a compliance filing.

h) This Settlement Agreement completely resolves all of the issues in Docket I-00940035 (Universal Service Investigation); Docket L-00950105 (Universal Service Rulemaking); and Docket I-00940034 (Presubscription Cost Recovery) from the standpoint of BA-PA and the Small ILECs. No cost proxy model will be selected by the Commission for submission to the Federal Communications Commission for use in connection with federal universal service funding. Nothing herein shall prevent the Commission from generally investigating costing methodologies; provided, however, that the Universal Service Fund established hereunder shall be unaffected thereby.

Main Brief at 7-10.

i) This Settlement completely resolves all of the issues in Docket I-00960066 (Access Charges), including all issues of payphone subsidies and the removal thereof, where applicable, from access charges for BA-PA and the Small ILECs. In all respects, the Commission will terminate this docket and mark it closed upon final approval of this Settlement.

APPENDIX A

TERMS AND CONDITIONS OF UNIVERSAL SERVICE FUND

I. SIZE AND ASSESSMENT OF UNIVERSAL SERVICE FUND CONTRIBUTION

A. All telecommunications service providers (excluding wireless carriers) will contribute to the Universal Service Fund ("Fund").

B. Bell Atlantic-Pa., Inc.'s ("BA-PA") contribution share to the Fund shall be capped at $12 million per year to support the funding requirements of the participants.

C. The total size of the Fund and the contributions of other telecommunications providers shall be calculated as follows:

1. The total size of the Fund in the initial period on an annual basis will be equal to $12.0 million divided by BA-PA's percentage of the total intrastate (Pennsylvania) end-user telecommunications revenues for the preceding calendar year (BA-PA assessment percentage),[86] as shown:

1999 Fund	=	$12.0 million / BA-PA assessment percentage
	=	$12.0 million / 56.6%[87]
	=	$21.2 million

2. Each year of the subsequent calendar years, beginning with the Year 2000, the total size of the Fund shall be increased by first calculating the

[86] Initially, until such time as the total intrastate end-user telecommunications revenues are determined by the fund administrator, total gross intrastate revenues as reported to the Commission pursuant to 66 Pa. C.S.A. § 510 may be used to determine BA-PA's assessment percentage and all telecommunication service providers' contributions to the Fund.

size of the Fund as described above, and then by increasing the total amount for that year by the average annual access line growth rate for the Fund participants (compounded annually). For example:

2000 Fund	=	\$12 million/BA-PA assessment percentage
	=	\$12 million/56.6% (assumes no change in assessment rate)
	=	\$21.2 million x 1998 access line growth rate
	=	\$21.2 million x 1.03 (assumes 3% growth)
	=	\$21.8 million.

Each Fund Recipient's share shall be adjusted annually to reflect its annual actual access line growth.

3. The contributing share of each telecommunications service provider except BA-PA (BA-PA's share is capped at \$12M) will be based on its respective pro rata share of total intrastate end-user telecommunications revenues,[88] so that the total contributions equal the total size of the Fund.

4. All telecommunications service providers will be required to file statements annually with the Commission specifying their total end-user telecommunications revenues for purposes of calculating the size of the Fund and each telecommunications service provider's allocated contribution.

D. No credits or offsets, either explicit or implicit, will be provided to any telecommunications service provider's contribution based upon access charges (including the carrier charge) paid by the contributor.

[87]This is BA-PA's 1998 PUC assessment percentage, used for illustrative purposes.

[88]End-user revenues expressly do not include revenues from access charges, toll resale, local service resale, unbundled network elements or other activities which are essentially wholesale in nature.

E. BA-PA will not implement a customer surcharge to recover its contribution to the Fund. BA-PA shall be permitted to use any negative Price Change Opportunity(ies) from its Alternative Regulatory Plan to support its funding contribution.

F. No Small ILEC may request an end-user surcharge to recover its respective contribution obligation to the Fund.

G. The size of Fund will be recalculated annually and is expected to expand/contract for various reasons, including increases or decreases to non-BA-PA telecommunications service provider end-user revenues on a relative basis.

II. DISTRIBUTION OF THE FUND

A. All incumbent local exchange carriers operating in Pennsylvania, with the exception of Bell Atlantic, Sprint and GTE, shall be recipients of the Fund ("Fund Recipients").

B. All revenues received from the Fund, after the deduction therefrom of any contribution made by a Fund Recipient to the Fund, shall be used to rebalance, on a revenue neutral basis, the rates/revenues derived from access and/or other services according to the rules set forth herein.

C. The fund recipients will implement tariff rate changes as follows:

1. First, each company will lower toll rates to an average level of $.11 per minute level. Local residential rates will be increased to an average of $10.83 per line. Any residual shortage will be recovered from the Fund.

2. Second, companies with R-1 rates above $16.00 at the time the Fund is implemented will effectively reduce R-1 rates to $16.00 with business rates being reduced by a proportionate amount through the issuance of a monthly credit on the customer bills. This reduction is covered by the Fund. If the Fund is permitted to be dissolved with no alternative funding established, residential and business Universal Service Credits will be eliminated, and toll and access rates will immediately return, at the companies' option, to their pre-funded levels pursuant to a compliance filing.

3. Third, each company will develop their current intrastate carrier common line ("CCL") revenue amount. This amount shall include CCL revenue for IXC billed interLATA and intraLATA minutes, terminating ITORP minutes and the imputation of CCL revenues associated with the company's originating toll minutes of use.

4. Fourth, each company will mirror their interstate traffic sensitive ("TS") rates and structure (including local transport restructure) which were effective as of July 1, 1998 for intrastate purposes. If this causes an increase in rates, then the CCL revenue amount from the previous step shall be reduced accordingly.

5. Fifth, each company will reduce the current CCL revenue amount (reduced by the TS increase, if applicable) to the equivalent of approximately $7.00 per month per access line.

6. Sixth, each company will convert recovery of the CCL component to a flat-rate Carrier Charge ("CC") recovered from all toll carriers on a proportional minutes of use basis. The CC will be implemented on a revenue neutral basis in a manner similar, but not identical[89] to that proposed by Sprint in its Main Brief in the Access Charge Investigation, including the imputation into the revenue pool of the CCL revenues associated with the company's toll minutes and the allocation of recovery on the basis of all originating and terminating minutes. Minutes (i.e., market share) shall be recalculated on a monthly basis.

7. Seventh, each company will flow through the benefits derived from the Fund and ITORP expense decreases by lowering intraLATA toll rates. An average price floor of $.09 per minute will be established.

8. Eighth, Plan benefits that remain after lowering toll rates will first be applied to any shortfall in the size of the Fund that may exist. Any remaining benefits, at a company's option, will be used to either reduce the CC or reduce the amount to be received from the Fund.

D

[89]Specifically, the companies will not remove any non-traffic sensitive cost recovery from existing TS rates. Secondly, an intrastate SLC is not implemented hereby. See Sprint/United Main Brief at 7-10.

III. IMPLEMENTATION

A. The Fund Recipients agree to the distribution amounts as shown in Exhibit 1, page 1. The amounts to be distributed to the Fund Recipients are fixed at the amount shown plus the adjustment for the actual company-specific percentage access line growth for the term of the agreement.

B. Each Fund Recipient shall file the appropriate tariffs to implement the rate changes described, effective on ten (10) days notice, in the form of a compliance filing pursuant to the Commission Order approving the Fund.

1. Such tariff filings shall include a demonstration of revenue neutrality for the tariff filing consistent with the terms of this Appendix A.

2. Tariffs shall be filed to be effective July 1, 1999, coincident with the effective date of the Fund.

3. The Commission shall approve those tariffs or, should a complaint be filed or investigation instituted, permit the tariffs to go into effect subject to the resolution of such complaint or investigation.

4. Customers will be notified of these rate changes by bill insert/ message.

IV. OTHER

A. All Fund Recipients listed in Exhibit 1 and all other ILECs who are parties to the Settlement Agreement have been designated as eligible telecommunications carriers under the Telecommunications Act of 1996 to receive universal service support under the requirements of both the FCC and this Commission.[90]

B. The Fund shall commence on July 1, 1999 and operate until such time as the FCC finally determines (including resolution of any appeals), and this Commission adopts, a cost method to be employed for Universal Service purposes by the Small ILECs, whichever occurs sooner. Further, the Commission will initiate a proceeding on or about January 2, 2003, to consider how the fund/pool will be reduced or otherwise modified.

[90] All Fund Recipients and BA-PA have filed for designation as eligible telecommunications carriers. These local exchange carriers are each pre-designated as an eligible telecommunications carrier under 52 Pa. Code §63.145 or any successor provision when it may become effective. See, Appendix B hereto.

Summary - Estimated Size Of PA USF Fund

COMPANY NAMES	TS Acc Rate Reduction Recovered Thru USF see p. 6	CCL Support Reduction Recovered Thru USF see pp. 7&8	Toll Rate Reduction Recovered Thru USF see pp. 2&3	Local Rate R1 cap Reduction Recovered Thru USF see p. 4	Annual USF Amount Before adjustments	Adjustment to properly size Fund see App.A, II,C(8)	Annual USF Amount After adjustments
ALLTEL	$5,046,750	$3,661,776	$0	$0	$8,708,526	($738,157)	$7,970,369
Armstrong North	$0	$0	$0	$0	$0	$0	$0
Armstrong PA	$0	$247,414	$0	$0	$247,414	($60,410)	$187,004
Bentleyville	$0	$393,398	$0	$0	$393,398	($56,585)	$336,813
Buffalo Valley	$0	$590,504	$0	$0	$590,504	($19,215)	$571,289
Citizens Communications	$64,671	$11,617	$31,678	$0	$107,965	$0	$107,965
Citizens of Kecksburg	$0	$21,725	$0	$0	$21,725	($19,326)	$2,399
Commonwealth	$0	$480,694	$0	$0	$480,694	$0	$480,694
Conestoga	$0	$1,333,963	$0	$0	$1,333,963	($1,689)	$1,332,275
Denver & Ephrata	$0	$586,274	$0	$0	$586,274	$0	$586,274
Frontier Breezewood	$14,599	$67,730	$25,232	$0	$107,561	$0	$107,561
Frontier Canton	$84,867	$0	$74,414	$0	$159,281	$0	$159,281
Frontier Lakewood	$3,260	$94,415	$13,209	$0	$110,884	($2,569)	$108,314
Frontier Oswayo	$77,069	$5,565	$0	$0	$82,634	($2,777)	$79,857
Frontier PA	$0	$0	$0	$0	$0	$0	$0
Hickory	$0	$59,972	$37,649	$0	$97,621	$0	$97,621
Ironton	$0	$0	$59,757	$0	$59,757	($3,224)	$56,533
Lackawaxen	$0	$100,574	$0	$0	$100,574	($2,907)	$97,667
Laurel Highland	$0	$231,882	$53,277	$0	$285,159	$0	$285,159
Mahanoy & Mahantango	$9,879	$1,114,021	$0	$0	$1,123,900	($185,632)	$938,268
Marianna & Scenery Hill	$0	$204,319	$0	$0	$204,319	($54,713)	$149,606
North-Eastern PA	$0	$297,615	$0	$0	$297,615	($66,471)	$231,144
North Penn	$0	$96,278	$0	$0	$96,278	($16,588)	$79,690
North Pittsburgh	$0	$8,113,646	$0	$0	$8,113,646	($3,188,940)	$4,924,706
Palmerton	$0	$951,696	$30,656	$0	$982,352	($44,355)	$937,997
Pennsylvania Telephone	$0	$1,176	$0	$52,142	$53,318	($900)	$52,418
Pymatuning	$0	$0	$23,323	$36,616	$59,939	$0	$59,939
South Canaan	$0	$28,600	$0	$0	$28,600	($11,616)	$16,984
Sugar Valley	$0	$421,518	$0	$41,705	$463,223	($105,687)	$357,536
Venus	$0	$129,611	$0	$0	$129,611	($5,149)	$124,462
Yukon Waltz	$0	$97,672	$0	$0	$97,672	($20,149)	$77,523
PA USF Fund Amt	**$5,301,095**	**$19,343,657**	**$349,194**	**$130,463**	**$25,124,409**	**($4,607,059)**	**$20,517,350**

Calculate ITC IntraLATA Toll Reduction Required to reach average toll rate of $0.11

Company Names	Quarterly IntraLATA Toll Rev	IntraLATA Toll MOUs	ITC Ave IntraLATA Toll Rev Per MOU	Bell Ave IntraLATA Toll Rev Per MOU	ITC Required IntraLATA Toll Rev Reduction Per MOU	Toll Rate Reduction To Mirror Bell Ave Toll Rates	Qtrly IntraLATA Toll Rev Reduction	Annual IntraLATA Toll Rev Reduction
ALLTEL	$4,143,022	38,412,700	0.1079	0.1100	0.0000	0.00%	$0	$0
Armstrong North	$7,183	60,509	0.1187	0.1100	-0.0087	7.34%	$527	$2,108
Armstrong PA	$90,411	908,351	0.0995	0.1100	0.0000	0.00%	$0	$0
Bentleyville	$189,340	1,696,206	0.1116	0.1100	-0.0016	1.46%	$2,757	$11,029
Buffalo Valley	$381,374	3,442,517	0.1108	0.1100	-0.0008	0.71%	$2,697	$10,789
Citizens Communications	$176,785	1,476,542	0.1197	0.1100	-0.0097	8.13%	$14,365	$57,462
Citizens of Kecksburg	$182,708	1,706,229	0.1071	0.1100	0.0000	0.00%	$0	$0
Commonwealth	$5,285,270	48,047,916	0.1100	0.1100	0.0000	0.00%	$0	$0
Conestoga	$1,095,576	9,505,312	0.1153	0.1100	-0.0053	4.56%	$49,992	$199,967
Denver & Ephrata	$912,520	8,501,904	0.1073	0.1100	0.0000	0.00%	$0	$0
Frontier Breezewood	$27,792	195,310	0.1423	0.1100	-0.0323	22.70%	$6,308	$25,232
Frontier Canton	$48,984	276,187	0.1774	0.1100	-0.0674	37.98%	$18,603	$74,414
Frontier Lakewood	$48,158	407,779	0.1181	0.1100	-0.0081	6.86%	$3,302	$13,209
Frontier Oswayo	$0	0	0.0000	0.1100	0.0000	0.00%	$0	$0
Frontier PA	$373,862	2,354,452	0.1588	0.1100	-0.0488	30.73%	$114,872	$459,489
Hickory	$64,806	503,580	0.1287	0.1100	-0.0187	14.52%	$9,412	$37,649
Ironton	$72,666	524,791	0.1385	0.1100	-0.0285	20.56%	$14,939	$59,757
Lackawaxen	$55,580	548,054	0.1014	0.1100	0.0000	0.00%	$0	$0
Laurel Highland	$194,480	1,599,695	0.1216	0.1100	-0.0116	9.52%	$18,514	$74,054
Mahanoy & Mahantango	$361,689	3,432,846	0.1054	0.1100	0.0000	0.00%	$0	$0
Marianna & Scenery Hill	$112,728	1,127,297	0.1000	0.1100	0.0000	0.00%	$0	$0
North-Eastern PA	$360,559	3,493,653	0.1032	0.1100	0.0000	0.00%	$0	$0
North Penn	$42,136	412,111	0.1022	0.1100	0.0000	0.00%	$0	$0
North Pittsburgh	$3,813,745	41,448,740	0.0920	0.1100	0.0000	0.00%	$0	$0
Palmerton	$232,883	2,047,443	0.1137	0.1100	-0.0037	3.29%	$7,664	$30,656
Pennsylvania Telephone	$25,378	237,174	0.1070	0.1100	0.0000	0.00%	$0	$0
Pymatuning	$44,036	347,319	0.1268	0.1100	-0.0168	13.24%	$5,831	$23,323
South Canaan	$92,343	791,361	0.1167	0.1100	-0.0067	5.73%	$5,293	$21,173
Sugar Valley	$153,764	1,512,381	0.1017	0.1100	0.0000	0.00%	$0	$0
Venus	$15,937	145,615	0.1094	0.1100	0.0000	0.00%	$0	$0
Yukon Waltz	$43,077	416,560	0.1034	0.1100	0.0000	0.00%	$0	$0
Totals	$18,648,791	175,580,534						$1,100,310

March 12, 1999

Calculate Impacts Due To ITC IntraLATA Toll Rate Changes On Local Residential Rates and/or USF Draw

COMPANY NAMES	Annual IntraLATA Toll Rev Decrease	Res Access Lines	Required Monthly Local Rate Increase	ITC Current Ave 1-Party Res. Rate	BELL Current Ave 1-Party Res. Rate	Maximum Monthly Local Rate Increase	Actual Monthly Local Rate Increase	Monthly Portion Recovered Thru USF	Toll Rate Reduction Recovered Thru Local Rate Incr	Toll Rate Reduction Recovered via USF Draw
ALLTEL	$0	180,522	$0.00	12.74	10.83	$0.00	$0.00	$0.00	$0	$0
Armstrong North	$2,108	472	$0.37	7.58	10.83	$3.25	$0.37	$0.00	$2,108	$0
Armstrong PA	$0	1,450	$0.00	10.81	10.83	$0.02	$0.00	$0.00	$0	$0
Bentleyville	$11,029	2,753	$0.33	7.01	10.83	$3.82	$0.33	$0.00	$11,029	$0
Buffalo Valley	$10,789	15,260	$0.06	7.00	10.83	$3.83	$0.06	$0.00	$10,789	$0
Citizens Communications	$57,462	1,242	$3.86	9.10	10.83	$1.73	$1.73	$2.13	$25,784	$31,678
Citizens of Kecksburg	$0	4,592	$0.00	10.54	10.83	$0.29	$0.00	$0.00	$0	$0
Commonwealth	$0	205,373	$0.00	8.58	10.83	$2.25	$0.00	$0.00	$0	$0
Conestoga	$199,967	40,142	$0.42	7.36	10.83	$3.47	$0.42	$0.00	$199,967	$0
Denver & Ephrata	$0	40,753	$0.00	9.94	10.83	$0.89	$0.00	$0.00	$0	$0
Frontier Breezewood	$25,232	3,407	$0.62	11.14	10.83	$0.00	$0.00	$0.62	$0	$25,232
Frontier Canton	$74,414	3,380	$1.83	12.94	10.83	$0.00	$0.00	$1.83	$0	$74,414
Frontier Lakewood	$13,209	1,272	$0.87	11.00	10.83	$0.00	$0.00	$0.87	$0	$13,209
Frontier Oswayo	$0	1,898	$0.00	15.43	10.83	$0.00	$0.00	$0.00	$0	$0
Frontier PA	$459,489	16,909	$2.26	7.58	10.83	$3.25	$2.26	$0.00	$459,489	$0
Hickory	$37,649	1,062	$2.95	14.80	10.83	$0.00	$0.00	$2.95	$0	$37,649
Ironton	$59,757	3,705	$1.34	10.83	10.83	$0.00	$0.00	$1.34	$0	$59,757
Lackawaxen	$0	3,260	$0.00	10.51	10.83	$0.32	$0.00	$0.00	$0	$0
Laurel Highland	$74,054	4,947	$1.25	10.48	10.83	$0.35	$0.35	$0.90	$20,777	$53,277
Mahanoy & Mahantango	$0	3,488	$0.00	15.83	10.83	$0.00	$0.00	$0.00	$0	$0
Marianna & Scenery Hill	$0	2,419	$0.00	15.58	10.83	$0.00	$0.00	$0.00	$0	$0
North-Eastern PA	$0	10,431	$0.00	11.46	10.83	$0.00	$0.00	$0.00	$0	$0
North Penn	$0	4,580	$0.00	10.16	10.83	$0.67	$0.00	$0.00	$0	$0
North Pittsburgh	$0	48,255	$0.00	8.60	10.83	$2.23	$0.00	$0.00	$0	$0
Palmerton	$30,656	9,562	$0.27	12.60	10.83	$0.00	$0.00	$0.27	$0	$30,656
Pennsylvania Telephone	$0	1,186	$0.00	19.30	10.83	$0.00	$0.00	$0.00	$0	$0
Pymatuning	$23,323	1,723	$1.13	16.66	10.83	$0.00	$0.00	$1.13	$0	$23,323
South Canaan	$21,173	2,377	$0.74	9.23	10.83	$1.60	$0.74	$0.00	$21,173	$0
Sugar Valley	$0	979	$0.00	18.42	10.83	$0.00	$0.00	$0.00	$0	$0
Venus	$0	1,107	$0.00	13.48	10.83	$0.00	$0.00	$0.00	$0	$0
Yukon Waltz	$0	840	$0.00	15.40	10.83	$0.00	$0.00	$0.00	$0	$0
Totals	$1,100,310								$751,116	$349,194

Calculate Impacts Due To $16 max avg R1 and maintain R1-B1 Price Ratios

COMPANY NAMES	Avg R1 Amount above $16	Annual Reduction amount RES (TO USF)	Ratio of B1-R1	Bus Reduction	Annual Reduction amount BUS (TO USF)	Annual Reduction amount RES+BUS (TO USF)
ALLTEL	$0.00	$0	1.78	$0.00	$0	$0
Armstrong North	$0.00	$0	1.91	$0.00	$0	$0
Armstrong PA	$0.00	$0	1.88	$0.00	$0	$0
Bentleyville	$0.00	$0	2.31	$0.00	$0	$0
Buffalo Valley	$0.00	$0	2.13	$0.00	$0	$0
Citizens Communications	$0.00	$0	3.13	$0.00	$0	$0
Citizens of Kecksburg	$0.00	$0	1.76	$0.00	$0	$0
Commonwealth	$0.00	$0	1.71	$0.00	$0	$0
Conestoga	$0.00	$0	2.10	$0.00	$0	$0
Denver & Ephrata	$0.00	$0	1.96	$0.00	$0	$0
Frontier Breezewood	$0.00	$0	1.35	$0.00	$0	$0
Frontier Canton	$0.00	$0	1.95	$0.00	$0	$0
Frontier Lakewood	$0.00	$0	1.72	$0.00	$0	$0
Frontier Oswayo	$0.00	$0	1.94	$0.00	$0	$0
Frontier PA	$0.00	$0	2.02	$0.00	$0	$0
Hickory	$0.00	$0	1.40	$0.00	$0	$0
Ironton	$0.00	$0	1.42	$0.00	$0	$0
Lackawaxen	$0.00	$0	1.55	$0.00	$0	$0
Laurel Highland	$0.00	$0	1.45	$0.00	$0	$0
Mahanoy & Mahantango	$0.00	$0	1.84	$0.00	$0	$0
Marianna & Scenery Hill	$0.00	$0	1.32	$0.00	$0	$0
North-Eastern PA	$0.00	$0	1.63	$0.00	$0	$0
North Penn	$0.00	$0	1.69	$0.00	$0	$0
North Pittsburgh	$0.00	$0	1.94	$0.00	$0	$0
Palmerton	$0.00	$0	2.00	$0.00	$0	$0
Pennsylvania Telephone	$3.30	$46,966	0.78	$3.37	$5,176	$52,142
Pymatuning	$0.66	$13,646	1.71	$2.84	$22,970	$36,616
South Canaan	$0.00	$0	1.17	$0.00	$0	$0
Sugar Valley	$2.42	$28,430	1.81	$6.18	$13,275	$41,705
Venus	$0.00	$0	1.89	$0.00	$0	$0
Yukon Waltz	$0.00	$0	1.57	$0.00	$0	$0
Totals		$89,042			$41,421	$130,463

CALCULATE TOTAL INTRASTATE CCL RELATED REVENUE

Company Names	Annual ITORP Intrastate CCL Access Revenue	Annual IXC Intrastate CCL Access Revenue	Annual Total Intrastate CCL Access Revenue	Annual Total Intrastate Sw Access Revenue	Percent CCL Revenue to CCL + TS Sw Acc Rev	Annual IntraLATA Toll MOUs	Intralata CCL Rate	Support included in Toll Rates	Total Loop support implicit in Toll/Access Rates
ALLTEL	$6,767,444	$9,928,304	$16,695,748	$13,914,676	54.54%	153,650,800	$0.038835	$5,966,996	$22,662,744
Armstrong North	*$9,481*	*$26,156*	*$35,637*	*$14,871*	*70.56%*	*242,036*	*$0.047111*	*$11,403*	*$47,040*
Armstrong PA	$195,372	$147,616	$342,988	$164,420	67.60%	3,633,404	$0.047101	$171,135	$514,123
Bentleyville	$342,786	$140,596	$483,382	$240,670	66.76%	6,784,824	$0.046680	$316,712	$800,094
Buffalo Valley	$558,871	$1,427,248	$1,986,119	$1,020,717	66.05%	13,770,068	$0.044100	$607,259	$2,593,378
Citizens Communications	$630	$39,222	$39,852	$116,776	25.44%	5,906,168	$0.014107	$83,317	$123,169
Citizens of Kecksburg	$289,356	$919	$290,275	$263,832	52.39%	6,824,916	$0.047100	$321,454	$611,729
Commonwealth	$5,206,483	$15,972,880	$21,179,363	$15,427,137	57.86%	192,191,664	$0.043300	$8,321,891	$29,501,255
Conestoga	$1,925,639	$3,069,420	$4,995,059	$3,270,557	60.43%	38,021,248	$0.041100	$1,562,675	$6,557,734
Denver & Ephrata	$1,081,121	$3,007,276	$4,088,397	$2,531,995	61.75%	34,007,616	$0.043350	$1,474,236	$5,562,632
Frontier Breezewood	$37,708	$320,768	$358,476	$200,132	64.17%	781,240	$0.044915	$35,090	$393,566
Frontier Canton	$82,852	$183,452	$266,304	$249,320	51.65%	1,104,748	$0.047102	$52,035	$318,339
Frontier Lakewood	$71,610	$78,108	$149,718	$86,130	63.48%	1,631,116	$0.043600	$71,116	$220,835
Frontier Oswayo	$0	$191,064	$191,064	$163,396	53.90%	0	$0.000000	$0	$191,064
Frontier PA	$340,579	$1,496,796	$1,837,375	$1,322,449	58.15%	9,417,808	$0.029261	$275,573	$2,112,949
Hickory	$95,776	$55,812	$151,588	$75,176	66.85%	2,014,320	$0.040005	$80,582	$232,170
Ironton	$166,597	$291,872	$458,468	$275,798	62.44%	2,099,164	$0.046782	$98,204	$556,672
Lackawaxen	$88,151	$208,573	$296,724	$148,269	66.68%	2,192,216	$0.047100	$103,253	$399,977
Laurel Highland	$364,422	$225,552	$589,974	$269,136	68.67%	6,398,780	$0.047100	$301,383	$891,357
Mahanoy & Mahantango	$594,038	$210,439	*$804,477*	*$568,667*	58.59%	13,731,384	*$0.047100*	*$646,748*	*$1,451,225*
Marianna & Scenery Hill	$232,042	$52,324	$284,366	$180,078	61.23%	4,509,188	$0.047100	$212,383	$496,749
North-Eastern PA	$479,686	$350,984	$830,670	$677,614	55.07%	13,974,612	$0.047099	$658,187	$1,488,857
North Penn	$17,950	$456,340	$474,290	$290,178	62.04%	1,648,444	$0.047100	$77,642	$551,932
North Pittsburgh	$3,308,319	$6,454,964	$9,763,283	$6,761,543	59.08%	165,794,960	$0.042032	$6,968,696	$16,731,979
Palmerton	$388,475	$1,284,301	$1,672,776	$786,683	68.01%	8,189,772	$0.047098	$385,725	$2,058,501
Pennsylvania Telephone	$41,555	$50,040	$91,595	$45,549	66.79%	948,696	$0.047104	$44,688	$136,282
Pymatuning	$61,751	$108,761	$170,512	$84,072	66.98%	1,389,276	$0.045507	$63,222	$233,734
South Canaan	$142,125	$148,800	$290,925	$185,947	61.01%	3,165,444	$0.046430	$146,972	$437,897
Sugar Valley	$238,561	$42,712	$281,273	$152,866	64.79%	6,049,524	$0.047100	$284,933	$566,205
Venus	$17,885	$207,914	$225,799	$110,544	67.13%	582,460	$0.046800	$27,259	$253,058
Yukon Waltz	$118,159	$45,102	$163,260	$72,015	69.39%	1,666,240	$0.047100	$78,480	$241,740
Industry Totals	$23,265,425	$46,224,316	$69,489,741			702,322,136	$0.041931	$29,449,246	$98,938,987

Exhibit 1, page 6

Revise Intrastate Traffic Sensitive (TS) Access Rates to equal 7/98 Interstate TS Rates

Company Names	Current composite Intrastate TS rate (excl CCL)	Current composite Interstate TS rate (excl CCL)	(Increase)/ Decrease	Qtrly Intrastate TS MOU	Qtrly Impact to implement Interstate TS SW rates	Annual Impact to implement Interstate TS SW rates	Annual Impact to increase Interstate TS SW rates	Annual Impact to decrease Interstate TS SW rates
ALLTEL	0.024887	0.015860	0.009026	139,780,929	($1,261,687)	($5,046,750)	$0	($5,046,750)
Armstrong North	0.021832	0.039502	(0.017670)	170,283	$3,009	$12,036	$12,036	$0
Armstrong PA	0.021201	0.037676	(0.016476)	1,938,836	$31,943	$127,773	$127,773	$0
Bentleyville	0.022139	0.033020	(0.010882)	2,717,765	$29,574	$118,297	$118,297	$0
Buffalo Valley	0.022664	0.028557	(0.005893)	11,259,215	$66,355	$265,419	$265,419	$0
Citizens Communications	0.041595	0.018560	0.023035	701,863	($16,168)	($64,671)	$0	($64,671)
Citizens of Kecksburg	0.024689	0.037514	(0.012825)	2,671,499	$34,262	$137,048	$137,048	$0
Commonwealth	0.028808	0.041111	(0.012304)	133,880,024	$1,647,209	$6,588,836	$6,588,836	$0
Conestoga	0.025910	0.032232	(0.006322)	31,556,786	$199,495	$797,979	$797,979	$0
Denver & Ephrata	0.025782	0.029298	(0.003516)	24,552,415	$86,332	$345,326	$345,326	$0
Frontier Breezewood	0.022841	0.021174	0.001666	2,190,525	($3,650)	($14,599)	$0	($14,599)
Frontier Canton	0.036280	0.023931	0.012350	1,718,019	($21,217)	($84,867)	$0	($84,867)
Frontier Lakewood	0.020577	0.019799	0.000779	1,046,414	($815)	($3,260)	$0	($3,260)
Frontier Oswayo	0.038147	0.020154	0.017993	1,070,822	($19,267)	($77,069)	$0	($77,069)
Frontier PA	0.025274	0.027346	(0.002071)	13,080,949	$27,095	$108,381	$108,381	$0
Hickory	0.019838	0.036042	(0.016203)	947,361	$15,350	$61,402	$61,402	$0
Ironton	0.026990	0.076550	(0.049560)	2,554,616	$126,607	$506,428	$506,428	$0
Lackawaxen	0.023535	0.023739	(0.000204)	1,574,973	$322	$1,287	$1,287	$0
Laurel Highland	0.021486	0.036634	(0.015148)	3,131,499	$47,437	$189,747	$189,747	$0
Mahanoy & Mahantango	0.027068	0.026598	0.000470	5,252,181	($2,470)	($9,879)	$0	($9,879)
Marianna & Scenery Hill	0.029301	0.039297	(0.009996)	1,536,424	$15,357	$61,430	$61,430	$0
North-Eastern PA	0.029222	0.037248	(0.008026)	5,797,084	$46,525	$186,098	$186,098	$0
North Penn	0.027471	0.032084	(0.004613)	2,640,797	$12,182	$48,730	$48,730	$0
North Pittsburgh	0.028504	0.040150	(0.011645)	59,302,966	$690,610	$2,762,441	$2,762,441	$0
Palmerton	0.029665	0.034664	(0.004999)	6,629,789	$33,143	$132,572	$132,572	$0
Pennsylvania Telephone	0.023424	0.036142	(0.012718)	486,128	$6,183	$24,731	$24,731	$0
Pymatuning	0.018942	0.036479	(0.017537)	1,109,610	$19,460	$77,839	$77,839	$0
South Canaan	0.029676	0.056053	(0.026377)	1,566,467	$41,319	$165,277	$165,277	$0
Sugar Valley	0.021683	0.028659	(0.006976)	1,762,516	$12,295	$49,179	$49,179	$0
Venus	0.034454	0.039235	(0.004781)	802,115	$3,835	$15,339	$15,339	$0
Yukon Waltz	0.022056	0.035239	(0.013183)	816,269	$10,761	$43,042	$43,042	$0
Industry Totals				464,247,139	1,881,385	$7,525,541	$12,826,635	($5,301,095)

Calculate Intrastate CCL Revenue Reduction due to Implementation of IntraLATA and InterLATA Flat Rated Caps To Be Recovered via USF Draw

Company Names	Revised Intrastate CCL Support	Increase in TS rate change to interstate	Revised Intrastate CCL Support	Access Lines	Ave Monthly Intrastate CCL Support per A. L.	Decrease to $7.00 CAP Intrastate CCL Support per A. L.
ALLTEL	$22,662,744	$0	$22,662,744	226,202	$8.35	$1.35
Armstrong North	$47,040	($12,036)	$35,004	524	$5.57	$0.00
Armstrong PA	$514,123	($127,773)	$386,350	1,654	$19.47	$12.47
Bentleyville	$800,094	($118,297)	$681,798	3,433	$16.55	$9.55
Buffalo Valley	$2,593,378	($265,419)	$2,327,960	20,684	$9.38	$2.38
Citizens Communications	$123,169	$0	$123,169	1,328	$7.73	$0.73
Citizens of Kecksburg	$611,729	($137,048)	$474,681	5,392	$7.34	$0.34
Commonwealth	$29,501,255	($6,588,836)	$22,912,418	267,044	$7.15	$0.15
Conestoga	$6,557,734	($797,979)	$5,759,755	52,688	$9.11	$2.11
Denver & Ephrata	$5,562,632	($345,326)	$5,217,306	55,131	$7.89	$0.89
Frontier Breezewood	$393,566	$0	$393,566	3,879	$8.46	$1.46
Frontier Canton	$318,339	$0	$318,339	3,858	$6.88	$0.00
Frontier Lakewood	$220,835	$0	$220,835	1,505	$12.23	$5.23
Frontier Oswayo	$191,064	$0	$191,064	2,208	$7.21	$0.21
Frontier PA	$2,112,949	($108,381)	$2,004,567	28,296	$5.90	$0.00
Hickory	$232,170	($61,402)	$170,768	1,319	$10.79	$3.79
Ironton	$556,672	($506,428)	$50,244	4,712	$0.89	$0.00
Lackawaxen	$399,977	($1,287)	$398,690	3,549	$9.36	$2.36
Laurel Highland	$891,357	($189,747)	$701,610	5,592	$10.46	$3.46
Mahanoy & Mahantango	$1,451,225	$0	$1,451,225	4,014	$30.13	$23.13
Marianna & Scenery Hill	$496,749	($61,430)	$435,319	2,750	$13.19	$6.19
North-Eastern PA	$1,488,857	($186,098)	$1,302,759	11,966	$9.07	$2.07
North Penn	$551,932	($48,730)	$503,202	4,844	$8.66	$1.66
North Pittsburgh	$16,731,979	($2,762,441)	$13,969,538	69,713	$16.70	$9.70
Palmerton	$2,058,501	($132,572)	$1,925,928	11,598	$13.84	$6.84
Pennsylvania Telephone	$136,282	($24,731)	$111,552	1,314	$7.07	$0.07
Pymatuning	$233,734	($77,839)	$155,895	2,413	$5.38	$0.00
South Canaan	$437,897	($165,277)	$272,620	2,905	$7.82	$0.82
Sugar Valley	$566,205	($49,179)	$517,026	1,137	$37.89	$30.89
Venus	$253,058	($15,339)	$237,719	1,287	$15.39	$8.39
Yukon Waltz	$241,740	($43,042)	$198,698	1,203	$13.77	$6.77
TOTALS	$98,938,987	($12,826,635)	$86,112,352	804,144	$8.92	

Calculate Intrastate CCL Revenue Reduction due to Implementation of IntraLATA and InterLATA Flat Rated Caps To Be Recovered via USF Draw (Continued)

Company Names	Annual Intrastate CCL Support Decrease	CCL Support Recovered via USF Draw	Current Support in Toll rates less USF	Total Adj Support	Toll percent	Toll portion per mou %	Toll savings
ALLTEL	$3,661,776	$3,661,776	$5,177,637	$19,000,968	21.56%	$4,095,985	$1,081,652
Armstrong North	$0	$0	$11,403	$35,004	26.22%	$9,177	$2,225
Armstrong PA	$247,414	$247,414	$92,202	$138,936	31.90%	$44,325	$47,876
Bentleyville	$393,398	$393,398	$165,537	$288,400	38.43%	$110,827	$54,710
Buffalo Valley	$590,504	$590,504	$468,988	$1,737,456	23.42%	$406,838	$62,150
Citizens Communications	$11,617	$11,617	$43,765	$111,552	67.78%	$75,611	$0
Citizens of Kecksburg	$21,725	$21,725	$312,986	$452,956	38.98%	$176,541	$136,446
Commonwealth	$480,694	$480,694	$8,194,938	$22,431,724	26.41%	$5,924,310	$2,270,627
Conestoga	$1,333,963	$1,333,963	$1,253,881	$4,425,792	23.15%	$1,024,510	$229,371
Denver & Ephrata	$586,274	$586,274	$1,323,440	$4,631,032	25.72%	$1,191,148	$132,292
Frontier Breezewood	$67,730	$67,730	$4,314	$325,836	8.19%	$26,674	$0
Frontier Canton	$0	$0	$0	$318,339	13.85%	$44,088	$0
Frontier Lakewood	$94,415	$94,415	$31,432	$126,420	28.04%	$35,450	$0
Frontier Oswayo	$5,565	$5,565	$0	$185,499	0.00%	$0	$0
Frontier PA	$0	$0	$275,573	$2,004,567	15.25%	$305,768	$0
Hickory	$59,972	$59,972	$22,119	$110,796	34.71%	$38,454	$0
Ironton	$0	$0	$38,446	$50,244	17.04%	$8,563	$29,884
Lackawaxen	$100,574	$100,574	$77,290	$298,116	25.81%	$76,958	$332
Laurel Highland	$231,882	$231,882	$169,703	$469,728	33.81%	$158,823	$10,880
Mahanoy & Mahantango	$1,114,021	$1,114,021	$206,420	$337,204	39.53%	$133,283	$73,137
Marianna & Scenery Hill	$204,319	$204,319	$125,914	$231,000	42.32%	$97,760	$28,154
North-Eastern PA	$297,615	$297,615	$546,273	$1,005,144	37.60%	$377,970	$168,302
North Penn	$96,278	$96,278	$64,645	$406,924	13.50%	$54,931	$9,715
North Pittsburgh	$8,113,646	$8,113,646	$3,630,783	$5,855,892	41.14%	$2,409,084	$1,221,699
Palmerton	$951,696	$951,696	$130,511	$974,232	23.60%	$229,876	$0
Pennsylvania Telephone	$1,176	$1,176	$44,302	$110,376	32.79%	$36,193	$8,109
Pymatuning	$0	$0	$39,899	$155,895	23.84%	$37,164	$2,735
South Canaan	$28,600	$28,600	$137,372	$244,020	33.56%	$81,901	$55,472
Sugar Valley	$421,518	$421,518	$90,271	$95,508	46.18%	$44,107	$46,164
Venus	$129,611	$129,611	$7,345	$108,108	15.36%	$16,610	$0
Yukon Waltz	$97,672	$97,672	$45,477	$101,025	33.79%	$34,135	$11,342
TOTALS	$19,343,657	$19,343,657	$22,732,865	$66,768,694	27.44%	$17,307,065	$5,683,274

Summary - Estimated Size Of PA USF Fund - Year 2

COMPANY NAMES	Year 1 USF Amount	Initial Carrier Charge	BOY1 Access Lines	Est. Annual Access Line Growth	EOY1 Access Lines	USF Amount Year 2
ALLTEL	$7,970,369	$6.73	226,202	3.21%	233,463	$8,226,218
Armstrong North	$0	$5.57	524	3.21%	541	$0
Armstrong PA	$187,004	$3.96	1,654	3.75%	1,716	$194,017
Bentleyville	$336,813	$5.63	3,433	2.80%	3,529	$346,243
Buffalo Valley	$571,289	$6.92	20,684	5.15%	21,749	$600,710
Citizens Communications	$107,965	$7.00	1,328	4.21%	1,384	$112,511
Citizens of Kecksburg	$2,399	$6.70	5,392	3.00%	5,554	$2,471
Commonwealth	$480,694	$7.00	267,044	8.02%	288,461	$519,246
Conestoga	$1,332,275	$7.00	52,688	5.82%	55,754	$1,409,813
Denver & Ephrata	$586,274	$7.00	55,131	4.61%	57,673	$613,301
Frontier Breezewood	$107,561	$7.00	3,879	-3.05%	3,761	$104,280
Frontier Canton	$159,281	$6.88	3,858	0.47%	3,876	$160,029
Frontier Lakewood	$108,314	$6.86	1,505	0.91%	1,519	$109,300
Frontier Oswayo	$79,857	$7.00	2,208	0.46%	2,218	$80,224
Frontier PA	$0	$5.90	28,296	4.40%	29,541	$0
Hickory	$97,621	$7.00	1,319	2.93%	1,358	$100,481
Ironton	$56,533	$0.83	4,712	12.30%	5,292	$63,487
Lackawaxen	$97,667	$6.93	3,549	4.42%	3,706	$101,984
Laurel Highland	$285,159	$7.00	5,592	-0.09%	5,587	$284,903
Mahanoy & Mahantango	$938,268	$3.15	4,014	1.85%	4,089	$955,626
Marianna & Scenery Hill	$149,606	$5.34	2,750	3.58%	2,848	$154,962
North-Eastern PA	$231,144	$6.54	11,966	4.99%	12,563	$242,679
North Penn	$79,690	$6.71	4,844	2.43%	4,962	$81,627
North Pittsburgh	$4,924,706	$3.19	69,713	7.54%	74,969	$5,296,029
Palmerton	$937,997	$6.68	11,598	1.75%	11,801	$954,412
Pennsylvania Telephone	$52,418	$6.94	1,314	3.41%	1,359	$54,206
Pymatuning	$59,939	$5.38	2,413	6.02%	2,558	$63,548
South Canaan	$16,984	$6.67	2,905	6.18%	3,085	$18,034
Sugar Valley	$357,536	$0.00	1,137	3.01%	1,171	$368,298
Venus	$124,462	$6.67	1,287	2.64%	1,321	$127,748
Yukon Waltz	$77,523	$5.60	1,203	10.18%	1,325	$85,415
PA USF Fund Amt	**$20,517,350**		**$804,144**			**$21,431,800**

Summary - Estimated Size Of PA USF Fund - Year 3

COMPANY NAMES	Year 2 USF Amount	Year 2 Carrier Charge	BOY2 Access Lines	Est. Annual Access Line Growth	EOY2 Access Lines	USF Amount Year 3
ALLTEL	$8,226,218	$6.73	233,463	3.21%	240,957	$8,490,279
Armstrong North	$0	$5.57	541	3.21%	558	$0
Armstrong PA	$194,017	$3.96	1,716	3.75%	1,780	$201,292
Bentleyville	$346,243	$5.63	3,529	2.80%	3,628	$355,938
Buffalo Valley	$600,710	$6.92	21,749	5.15%	22,869	$631,647
Citizens Communications	$112,511	$7.00	1,384	4.21%	1,442	$117,247
Citizens of Kecksburg	$2,471	$6.70	5,554	3.00%	5,721	$2,545
Commonwealth	$519,246	$7.00	288,461	8.02%	311,596	$560,890
Conestoga	$1,409,813	$7.00	55,754	5.82%	58,999	$1,491,864
Denver & Ephrata	$613,301	$7.00	57,673	4.61%	60,332	$641,574
Frontier Breezewood	$104,280	$7.00	3,761	-3.05%	3,646	$101,100
Frontier Canton	$160,029	$6.88	3,876	0.47%	3,894	$160,781
Frontier Lakewood	$109,300	$6.86	1,519	0.91%	1,533	$110,295
Frontier Oswayo	$80,224	$7.00	2,218	0.46%	2,228	$80,593
Frontier PA	$0	$5.90	29,541	4.40%	30,841	$0
Hickory	$100,481	$7.00	1,358	2.93%	1,398	$103,425
Ironton	$63,487	$0.83	5,292	12.30%	5,943	$71,296
Lackawaxen	$101,984	$6.93	3,706	4.42%	3,870	$106,492
Laurel Highland	$284,903	$7.00	5,587	-0.09%	5,582	$284,646
Mahanoy & Mahantango	$955,626	$3.15	4,089	1.85%	4,165	$973,305
Marianna & Scenery Hill	$154,962	$5.34	2,848	3.58%	2,950	$160,510
North-Eastern PA	$242,679	$6.54	12,563	4.99%	13,190	$254,788
North Penn	$81,627	$6.71	4,962	2.43%	5,083	$83,611
North Pittsburgh	$5,296,029	$3.19	74,969	7.54%	80,622	$5,695,349
Palmerton	$954,412	$6.68	11,801	1.75%	12,008	$971,114
Pennsylvania Telephone	$54,206	$6.94	1,359	3.41%	1,405	$56,054
Pymatuning	$63,548	$5.38	2,558	6.02%	2,712	$67,373
South Canaan	$18,034	$6.67	3,085	6.18%	3,276	$19,148
Sugar Valley	$368,298	$0.00	1,171	3.01%	1,206	$379,384
Venus	$127,748	$6.67	1,321	2.64%	1,356	$131,121
Yukon Waltz	$85,415	$5.60	1,325	10.18%	1,460	$94,111
PA USF Fund Amt	**$21,431,800**		**848,733**			**$22,397,772**

March 12, 1999

Summary - Estimated Size Of PA USF Fund - Year 4

COMPANY NAMES	Year 3 USF Amount	Year 3 Carrier Charge	BOY3 Access Lines	Est. Annual Access Line Growth	EOY3 Access Lines	USF Amount Year 4
ALLTEL	$8,490,279	$6.73	240,957	3.21%	248,692	$8,762,817
Armstrong North	$0	$5.57	558	3.21%	576	$0
Armstrong PA	$201,292	$3.96	1,780	3.75%	1,847	$208,841
Bentleyville	$355,938	$5.63	3,628	2.80%	3,730	$365,904
Buffalo Valley	$631,647	$6.92	22,869	5.15%	24,047	$664,177
Citizens Communications	$117,247	$7.00	1,442	4.21%	1,503	$122,183
Citizens of Kecksburg	$2,545	$6.70	5,721	3.00%	5,893	$2,621
Commonwealth	$560,890	$7.00	311,596	8.02%	336,586	$605,873
Conestoga	$1,491,864	$7.00	58,999	5.82%	62,433	$1,578,691
Denver & Ephrata	$641,574	$7.00	60,332	4.61%	63,113	$671,151
Frontier Breezewood	$101,100	$7.00	3,646	-3.05%	3,535	$98,016
Frontier Canton	$160,781	$6.88	3,894	0.47%	3,912	$161,537
Frontier Lakewood	$110,295	$6.86	1,533	0.91%	1,547	$111,298
Frontier Oswayo	$80,593	$7.00	2,228	0.46%	2,238	$80,964
Frontier PA	$0	$5.90	30,841	4.40%	32,198	$0
Hickory	$103,425	$7.00	1,398	2.93%	1,439	$106,455
Ironton	$71,296	$0.83	5,943	12.30%	6,674	$80,065
Lackawaxen	$106,492	$6.93	3,870	4.42%	4,041	$111,199
Laurel Highland	$284,646	$7.00	5,582	-0.09%	5,577	$284,390
Mahanoy & Mahantango	$973,305	$3.15	4,165	1.85%	4,242	$991,311
Marianna & Scenery Hill	$160,510	$5.34	2,950	3.58%	3,056	$166,256
North-Eastern PA	$254,788	$6.54	13,190	4.99%	13,848	$267,502
North Penn	$83,611	$6.71	5,083	2.43%	5,207	$85,642
North Pittsburgh	$5,695,349	$3.19	80,622	7.54%	86,701	$6,124,778
Palmerton	$971,114	$6.68	12,008	1.75%	12,218	$988,109
Pennsylvania Telephone	$56,054	$6.94	1,405	3.41%	1,453	$57,965
Pymatuning	$67,373	$5.38	2,712	6.02%	2,875	$71,429
South Canaan	$19,148	$6.67	3,276	6.18%	3,478	$20,332
Sugar Valley	$379,384	$0.00	1,206	3.01%	1,242	$390,803
Venus	$131,121	$6.67	1,356	2.64%	1,392	$134,582
Yukon Waltz	$94,111	$5.60	1,460	10.18%	1,609	$103,691
PA USF Fund Amt	**$22,397,772**		**896,250**			**$23,418,584**

March 12, 1999

APPENDIX B

II. ANNEX A

TITLE 52. PUBLIC UTILITIES
PART1. PUBLIC UTILITIES COMMISSION
Subpart C. FIXED SERVICE UTILITIES
CHAPTER 63. TELEPHONE SERVICE
Subchapter K. UNIVERSAL SERVICE

§63.141. Statement of purpose and policy.

On July 8, 1993, the General Assembly enacted Chapter 30 of the Public Utility Code, 66 Pa. C.S. §3001, et seq., which provides for the regulatory reform of the telephone industry in Pennsylvania. The General Assembly's first declaration of policy in enacting Chapter 30 is to "maintain universal telecommunications services at affordable rates while encouraging the accelerated deployment of a universally available state-of-the-art, interactive, public switched broadband telecommunications network in rural, suburban and urban areas." 66 Pa. C.S. §3001(1). The General Assembly assigned the Commission and the Commonwealth's telecommunications providers the responsibility for assuring and maintaining universal service in the Commonwealth. Given the context of an increasingly competitive telecommunications marketplace, it is necessary to establish a competitively neutral universal service funding mechanism to assure and maintain universal service [as the competitive marketplace develops] and to promote the development of competition in telecommunications markets throughout Pennsylvania.

§63.142. Definitions

The following words and terms, when used in this subchapter, have the following meanings unless the context clearly indicates otherwise:

Assessment rate - The rate of assessment of a contributing telecommunications provider used to determine that provider's contribution to the annual universal service fund budget. , The contributing telecommunications provider's assessment rate is computed annually pursuant to Section 63.144 (relating to collection of universal service fund contributions) by dividing the contributing telecommunications provider's associated total intrastate end-user telecommunications revenues by associated statewide total intrastate end-user telecommunications revenues. End-user revenues expressly do not include revenues received from access, resale (toll or local), unbundled network elements or other services provided which are essentially wholesale in nature. Total end-user revenues shall include all revenues received from subscribers who actually consume the final service unadjusted for any expense or any other purpose.

Basic Universal Service - an evolving set of telephone services, as defined by the Commission, which represent the set of services essential for a Pennsylvania citizen to participate in modern society at any point in time.

Contributing telecommunications providers - All telecommunications carriers that provide intrastate telecommunications services. Whether a provider or class of providers is a telecommunications carrier will be determined based upon whether the provider or class or provider is considered a telecommunications carrier under federal law, as interpreted by the Federal Communications Commission.

Local service provider - The telecommunications company which a given telephone customer is subscribed to for the provision of telecommunications services within the local calling area.

§63.143. Universal service fund administrator.

a) The Commission will designate within the context of a competitive bidding process a third party administrator and a fund auditor to establish, maintain and audit a universal service fund consistent with the provisions of this subchapter. The third party administrator designated by the Commission will be independent and will not be associated with any contributing telecommunications provider or any other party with a vested interest in the universal service fund. The administrator shall be responsible for general administration of the fund and preparation of a report regarding the fund on an annual basis and maintaining the financial viability of the fund. The fund auditor shall be responsible for conducting a comprehensive audit of the fund on an annual basis.

b) The administrator shall be responsible for assessing contributing telecommunications providers for contributions to the fund as provided for in Section 63.144 (relating to collection of universal service fund contributions). The administrator shall be responsible for receiving, evaluating and paying universal service reimbursement claims submitted by local service providers.

c) The administrator's annual report will be filed with the Commission and the auditor by May 1st of each year and shall include an income statement of the fund's activity for the preceding year, a list of recommendations pertaining to operations of the fund and a proposed budget and assessment rates for the coming year for Commission consideration. Interested parties may file comments to the administrator's report within 30 days of its submission to the Commission. The Commission will issue an order within 60 days of receipt of the administrator's report which establishes a budget, assessment rate for contributing telecommunications providers, and administrative guidelines for the coming year. The order may address but is not limited to the following:

(1) establishment of new programs to become eligible for universal service funding;

(2) termination of eligibility for universal service funding of existing programs;

(3) reallocating the budget among programs;

(4) modifying the support formulas or benefits within a program;

(5) raising or reducing assessment levels consistent with Section 63.144 *(relating to collections of universal service fund* contributions); and

(6) review and establishment of compensation for the administrator and the auditor including reimbursement of administrative expenses related to the fund.

d) All telecommunications providers shall submit an affidavit to the Commission by March 31st of each year, or some other date determined by the administrator, identifying the provider's total intrastate end-user revenue for the previous years. In determining a contributing telecommunications provider's assessment rate , the administrator and the Commission will compute the carrier's total intrastate end-user telecommunications revenue .as a percentage of the total intrastate end-user telecommunications revenue for the year.

e) The fund auditor will conduct an annual comprehensive audit of the fund and will prepare and submit to the Commission and the third party administrator by March 1st of each year an audit report which analyses and makes recommendations regarding the finances of the universal service fund. In the audit report, the fund auditor will identify and any undercollections or overcollections experienced by the fund in the previous year.

f) The third party administrator will consider the audit report in preparing the annual report for submission to the Commission and will include any undercollections or overcollections identified by the audit report in developing a proposed budget. The Commission will consider the audit report in reviewing the third party administrator's annual report in establishing a budget and assessment rate for contributing telecommunications providers.

g) The third party administrator may borrow monies to cover the short-term liabilities of the fund caused by undercollections. If short-term borrowing is necessary, the third party administrator shall provide formal notice to the Commission which identifies the amount, the lending source and the terms and conditions of the loan.

h) The Commission will continuously monitor the operations of the fund and may, by order, implement procedures or guidelines pertaining to the fund consistent with the provisions of this subchapter, including direction relating to the size of the Fund.. The administrator will comply with procedures and guidelines established by the Commission, but may request the Commission to amend, modify or delete procedures or guidelines. The administrator will not have the authority to develop or interpret the Commission's procedures or guidelines with respect to the fund, and any dispute between the administrator and any contributing telecommunications provider shall be submitted to the Commission for resolution.

§63.144. Collection of universal service fund contributions.

a) Within 30 days of the Commission's annual order addressing the administrator's report and every 30 days thereafter, the administrator will send out monthly assessment statements to each contributing telecommunications provider. The administrator will calculate a contributing telecommunications provider's monthly assessment amount by applying the Commission's approved assessment rate for that year to the fund's annual budget as determined by the Commission or in accordance with guidelines adopted by the Commission. and dividing by 12. In lieu of a monthly assessment statement, the administrator may send out a net assessment statement which nets reimbursement owed to the contributing telecommunications provider from the monthly assessment amount.

b) Within 30 days of the issuance of assessment statements by the administrator, each contributing telecommunications provider will pay the assessment amount in full to the administrator. Failure to make timely payment will result in the levy of appropriate interest and penalties on the delinquent assessment or any other remedy available under law.

63.145. Designation of eligible telecommunications carriers.

a) The Commission, upon its own motion or upon the filing of a petition, may, following notice and opportunity to be heard, designate a local service provider as an eligible telecommunications carrier to receive support from the universal service fund for a provider's local telephone service subscribers.

b) The Commission may not designate a local service provider as eligible for universal service fund support in a service area unless the Commission determines the following: (1) that the provider has committed to serve all subscribers, upon request, in the service area either using its own facilities or a combination of its own facilities and resale of another carrier's services; and (2) that the carrier has advertised the availability of each service and the charges therefor throughout the service area using a medium of general distribution.

c) Subsection b) shall not be interpreted to preclude the Commission from consideration of other factors in determining whether a local service provider should be designated as eligible for universal service support.

§63.146. Universal service fund support.

a) The Commission will establish by Order the amount of basic universal service support to be provided to eligible carriers providing service in certain areas within the Commonwealth.

63.147. Four -year reports.

The Commission will submit a report to the standing committees of the General Assembly and the Independent Regulatory Review Commission providing comprehensive information and evaluation of all aspects of the Commission's universal service program every four years, commencing at the time the universal service fund becomes operational.

PTA Exhibit JJL-2

Company	Total Access Lines			% Line Loss		
	2005	2006	2007	2006	2007	Avg
Armstrong Tel Co-Pa	1,597	1,533	1,496	-4.0%	-2.4%	-3.2%
Armstrong Tel North	507	502	493	-1.0%	-1.8%	-1.4%
Bentleyville Tel Co	3,058	2,865	2,735	-6.3%	-4.5%	-5.4%
Buffalo Valley Tel	19,175	18,582	18,042	-3.1%	-2.9%	-3.0%
Citizens - Kecksburg	5,211	4,828	4,566	-7.3%	-5.4%	-6.4%
Commonwealth Tel Co	272,337	259,865	243,503	-4.6%	-6.3%	-5.4%
Conestoga Tel	49,470	46,998	45,201	-5.0%	-3.8%	-4.4%
Denver & Ephrata	50,168	48,453	46,586	-3.4%	-3.9%	-3.6%
Frontier - Breezewood	4,057	3,955	3,670	-2.5%	-7.2%	-4.9%
Frontier - Canton	3,908	3,819	3,564	-2.3%	-6.7%	-4.5%
Frontier - Lakewood	1,448	1,402	1,265	-3.2%	-9.8%	-6.5%
Frontier - PA	22,378	21,965	19,573	-1.8%	-10.9%	-6.4%
Frontier - Oswayo River	2,320	2,157	2,009	-7.0%	-6.9%	-6.9%
Hickory Tel Co	1,335	1,347	1,409	0.9%	4.6%	2.8%
Ironton Tel Co	5,669	5,396	4,903	-4.8%	-9.1%	-7.0%
Lackawaxen Telecom	3,856	3,771	3,637	-2.2%	-3.6%	-2.9%
Laurel Highland Tel	5,795	5,670	5,496	-2.2%	-3.1%	-2.6%
Marianna - Scenery	2,460	2,340	2,277	-4.9%	-2.7%	-3.8%
North Eastern Pa Tel	11,925	11,579	11,381	-2.9%	-1.7%	-2.3%
North Penn Tel Co	5,364	5,232	5,105	-2.5%	-2.4%	-2.4%
North Pitt (Consolidated)	56,925	49,642	44,246	-12.8%	-10.9%	-11.8%
Palmerton Tel Co	11,254	10,639	10,466	-5.5%	-1.6%	-3.5%
Pennsylvania Tel Co	1,381	1,351	1,345	-2.2%	-0.4%	-1.3%
Pymatuning Ind Tel	1,953	1,743	1,745	-10.8%	0.1%	-5.3%
South Canaan Tel Co	2,748	2,542	2,375	-7.5%	-6.6%	-7.0%
TDS - Mahanoy & Mahantango	3,972	3,871	3,727	-2.5%	-3.7%	-3.1%
TDS - Sugar Valley Tel Co	1,089	1,065	1,044	-2.2%	-2.0%	-2.1%
Venus Tel Corp	1,327	1,294	1,257	-2.5%	-2.9%	-2.7%
Windstream Pa	194,092	184,402	175,859	-5.0%	-4.6%	-4.8%
Yukon - Waltz Tel Co	914	870	861	-4.8%	-1.0%	-2.9%
Grand Total	747,693	709,678	669,836	-5.1%	-5.6%	-5.3%

PTA Exhibit JJL-3

Table 5.11 - Average Residential Rates for Local Service in Urban Areas, 1996-2006
(As of October 15)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 [1]	2006 [2]
Representative Monthly Charge [3,4]	$13.71	$13.67	$13.75	$13.77	$13.64	$14.49	$14.38	$14.54	$14.57	$14.66	$15.03
Subscriber Line Charges	3.54	3.53	3.52	3.58	4.50	5.05	5.74	5.86	5.81	5.82	5.98
Additional Monthly Charge for Touch-Tone Service	0.30	0.25	0.10	0.09	0.06	0.04	[4]	[4]	[4]	[4]	[4]
Taxes, 911, and Other Charges	2.40	2.42	2.39	2.48	2.57	3.03	3.94	4.12	4.14	4.15	4.26
Total Monthly Charge	**$19.95**	**$19.88**	**$19.76**	**$19.93**	**$20.78**	**$22.62**	**$24.07**	**$24.52**	**$24.52**	**$24.64**	**$25.27**
Basic Connection Charge [4]	$41.11	$41.04	$41.24	$41.26	$41.45	$40.02	$39.83	$39.22	$39.26	$39.62	$39.44
Additional Connection Charge for Touch-tone Service	0.23	0.17	0.12	0.12	0.12	0.12	[4]	[4]	[4]	[4]	[4]
Taxes, 911, and Other Charges	2.36	2.46	2.38	2.57	2.53	2.81	1.33	3.32	3.44	3.17	3.48
Total Connection Charge	**$43.70**	**$43.67**	**$43.74**	**$43.95**	**$44.10**	**$42.95**	**$41.16**	**$42.54**	**$42.71**	**$42.80**	**$42.92**
Additional Charge if Drop Line and Connection Block Needed	$5.74	$5.65	$5.64	$5.86	$5.84	$5.84	$5.85	$12.13	$12.45	$12.65	$13.91
Lowest-Cost Inside Wiring Maintenance Plan	$1.78	$1.68	$2.22	$2.66	$3.03	$3.62	$3.62	$3.64	$4.08	$4.42	$4.86

[1] Revised figures.

[2] Subject to revision.

[3] Rates are based on flat-rate service where available, and measured/message service with 100 five-minute, same-zone, business-day calls elsewhere. As of 2001, all 95 cities' rates reflect flat rate service, which made measuring the cost of such calls unnecessary.

[4] Beginning in 2002, rates include additional monthly charges for touch-tone service.

Source: Industry Analysis and Technology Division, Wireline Competition Bureau, *Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service* (2007).

PTA Exhibit JJL-4

COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

May 18, 2000

Patricia Armstrong
Thomas, Thomas, Armstrong & Niesen
212 Locust Street, Suite 500
P. O. Box 9500
Harrisburg, PA 17108 – 9500

Re Settlement of ALLTEL et al. Appeal of Global Order

Dear Pat:

Enclosed for your records is a duplicate original of the settlement agreement.

As discussed and agreed, you will wait 30 days before you file your praecipe to withdraw the appeal to insure that no one attempts to challenge the Commission's May 11, 2000 public meeting action to approve the settlement agreement.

Very truly yours,

Buch

Bohdan R. Pankiw
Chief Counsel

SETTLEMENT AGREEMENT

Settlement Agreement Between Pennsylvania Public Utility Commission and ALLTEL et al. re Commonwealth Court Appeal at No. 2789 C.D. 1999

In accordance with the Pennsylvania Public Utility Commission (Commission) determinations in the Global Order[1], Clarification Order[2] and ALLTEL/SCG Reconsideration Orders[3], the Commission and ALLTEL et al.[4] hereby agree to the following settlement terms in order to settle the Commonwealth Court appeal at No. 2789 C.D. 1999:

- ALLTEL et al. are permitted to seek and obtain intrastate rate increases, including rates for protected services, under Chapter 13 or their Chapter 30 Plans' PSM and SRP mechanisms to the extent the resulting rates are just and reasonable. Provided, however, that nothing shall prejudice ALLTEL et al.'s opportunity to assert or other parties' opportunity to oppose the argument that the standard and application of "just and reasonable" should be only as defined and required in the Commission Orders approving their respective Plans.

- After the revenue neutral rate rebalancing changes authorized in the Global Order have been accomplished, ALLTEL et al. are permitted to seek and obtain further revenue neutral rate changes in accord with their Chapter 30 Plans to the extent the resulting rates

---

[1] Joint Petition of Nextlink, et al. and Joint Petition of Bell Atlantic, et al., Docket Nos. P-00991648 and P-00991649 (September 30, 1999) (Global Order).

[2] Joint Petition of Nextlink, et al. and Joint Petition of Bell Atlantic, et al., Docket Nos. P-00991648 and P-00991649 (November 5, 1999) (Clarification Order).

[3] Petition of ALLTEL Pennsylvania, Inc. for Approval of an Alternative Form of Regulation and Network Modernization Plan, Docket No. P-00981423 (March 30, 2000) and Petition of the Pennsylvania Telephone Association Small Company Group for Approval of an Alternative Form of Regulation and Network Modernization Plan, Docket No. P-00981425, et al. (March 30, 2000) (ALLTEL/SCG Reconsideration Orders).

[4] ALLTEL Pennsylvania, Inc., Armstrong Telephone Company - Pennsylvania, Armstrong Telephone Company - North, The Bentleyville Telephone Company, Buffalo Valley Telephone Company, Citizens Telephone Company of Kecksburg, Citizens Communications Services Company, Conestoga Telephone and Telegraph Company, D&E Telephone Company, Deposit Telephone Company, Frontier Communications of Breezewood, Inc., Frontier Communications of Canton, Inc., Frontier Communications of Lakewood, Inc., Frontier Communications of Oswayo River, Inc., Frontier Communications of Pennsylvania, Inc., The Hancock Telephone Company, Hickory Telephone Company, Ironton Telephone Company, Lackawaxen Telephone Company, Laurel Highland Telephone Company, Mahanoy & Mahantango Telephone Co., Marianna & Scenery Hill Telephone Company, The North-Eastern Pennsylvania Telephone Company, North Penn Telephone Company, North Pittsburgh Telephone Company, Palmerton Telephone Company, Pennsylvania Telephone Company, Pymatuning Independent Telephone Company, South Canaan Telephone Company, Sugar Valley Telephone Company, Venus Telephone Company and Yukon-Waltz Telephone Company

are just and reasonable. Provided, however, that nothing shall prejudice ALLTEL et al.'s opportunity to assert or other parties' opportunity to oppose the argument that the standard and application of "just and reasonable" should be only as defined and required in the Commission Orders approving their respective Plans.

- In the event that the intrastate rate increases and/or revenue neutral rate rebalancing results in rates above the $16.00 per month cap for residential and corresponding business rates established in the Global Order and the Commission has deemed these rates to be just and reasonable, USF-participating ILECs are permitted to recover the difference from the interim Pennsylvania USF.

- Nothing in this agreement is intended to alter prior Commission precedent, including the ALLTEL/SCG Reconsideration Orders, regarding the Chapter 30 Plans of ALLTEL et al. It is understood, however, that the ALLTEL/SCG Reconsideration Orders are consistent with the Global Order and Clarification Order.

- Based upon the above-referenced clarifications and interpretations of the Commission's orders, ALLTEL et al. shall withdraw their Commonwealth Court appeal at No. 2789 C.D. 1999, without prejudice to their opportunity to contest any future orders regarding their Chapter 30 plans issued by the Commission, including the Commission's authority to make such change(s), or their right to participate as an intervenor in Global Order appeals or as a party in any subsequent remand or other litigation related to the Global Order.

The undersigned counsel certify that they have full authority to enter into this settlement and to act on behalf of their respective parties, and each is executing this agreement as a duly authorized representative of such party.

Patricia Armstrong — 5-16-2000

Patricia Armstrong
Counsel for ALLTEL et al.

Date: 5-16-2000

Bohdan R. Pankiw — 5-18-2000

Bohdan R. Pankiw
Chief Counsel
Pennsylvania Public Utility Commission

Date: 5-18-2000

PTA Exhibit JJL-5

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

Public Meeting held July 10, 2003

Commissioners Present:

Terrance J. Fitzpatrick, Chairman
Robert K. Bloom, Vice Chairman
Aaron Wilson, Jr.
Glen R. Thomas
Kim Pizzingrilli

Access Charge Investigation per Global Order of September 30, 1999	:	Docket Nos. M-00021596 P-00991648 P-00991649
Verizon Pennsylvania Inc.'s 2003 Price Change Opportunity	:	Docket No. M-00031694
AT&T Communications of Pennsylvania, Inc., v. Verizon Pennsylvania Inc. Re:Verizon Pennsylvania Inc.'s 2003 PCO	:	Docket Nos. M-00031694C0001 P-00930715

ORDER

BY THE COMMISSION:

Presently before this Commission for consideration is the Joint Procedural Stipulation filed on June 5, 2003, by the Rural Telephone Company Coalition (RTCC), The United Telephone Company of Pennsylvania (Sprint/United), Office of Trial Staff (OTS), Office of Consumer Advocate (OCA), Office of Small Business Advocate (OSBA), AT&T Communications of Pennsylvania, Inc. LLC (AT&T), Verizon Pennsylvania Inc., Verizon North Inc. (Verizon), and MCI WorldCom Network Services, Inc. (MCI). The Joint Procedural Stipulation concerns the RTCC/Sprint United Joint Proposal for Access Charge Reductions (Joint Proposal) for the rural telephone companies that had been filed on December 16, 2002, pursuant to the generic access charge investigation at M-00021596.

Procedural History

The *Global Order*[1] of September 30, 1999 reduced access charges of all local incumbent exchange carriers operating in Pennsylvania. That Order directed a Pennsylvania Universal Service Fund (PaUSF) be established to enable the rural incumbent local exchange carriers (ILECs) and Sprint/United to reduce access charges and intraLATA toll rates while at the same time, ensuring that residential basic local service rates do not exceed the designated price cap of $16.00 per month. The *Global Order* also called for an investigation to be initiated in January 2001 to further refine a solution to the question of how the carrier charge (CC) pool can be reduced and to consider the appropriateness of a toll line charge to recover any resulting reductions.

By Secretarial Letter dated October 24, 2001, the Commission postponed the formal statewide access charge investigation and initiated a collaborative to determine whether the parties could reach an agreement. Also at that time, the RTCC and Sprint/United were given some time to put together an access charge settlement proposal in an effort to save time and costs involved with litigation and to narrow the issues. It was expected that the settlement proposal would take notice of the recent Federal Communications Commission's (FCC) *MAG*[2] and *CALLS*[3] orders, which had further reduced interstate access charges for rural and non-rural companies, respectively. Ultimately, we opened a docket at M-00021596 in January 2002 to accommodate the access charge investigation required by the *Global Order*.

In a related matter, on March 21, 2002, AT&T filed a formal complaint against Verizon-North Inc. (Verizon-North) seeking to have Verizon-North's access charges reduced to Verizon Pennsylvania Inc.'s (Verizon-Pa.) levels pursuant to the requirements in our *Merger Order* at A-

---

[1] *Re Nextlink Pennsylvania, Inc.*, Docket No. P-00991648; P-00991649, 93 PaPUC 172 (September 30, 1999)(*Global Order*); 196 P.U.R. 4th 172, *aff'd sub* nom. *Bell Atlantic-Pennsylvania, Inc. v. Pennsylvania Public Utility Commission,* 763 A.2d 440 (Pa.Cmwlth. 2000), *alloc. granted.*

[2] *In re: Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers et al., Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45 and Report and Order in CC Docket Nos. 98-77 and 98-166*, FCC 01-304, November 8, 2001.

[3] *In Re: Coalition for Affordable Local and Long Distance Service (CALLS) Access Charge Reform, et al., Sixth Report and Order in CC Docket Nos. 96-262 and 94-1 Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45,* May 31, 2000.

310200F0002.[4] The complaint was docketed at C-20027195. Thereafter, the complaint was initially dismissed by Chief Administrative Law Judge Robert Christianson, but later reinstated by Commission Order entered December 24, 2002. That order also bifurcated the access charge investigation at M-00021596 so that all Verizon matters (*i.e.,* those pertinent access charge matters pertaining to Verizon-Pa. and Verizon-North, including the complaint, were to be litigated at the C-20027195 docket).

On November 26, 2002, Verizon-Pa. submitted its annual Price Change Opportunity (PCO) filing requesting authority to use its $17.7 million negative PCO money for 2003 to fund its contributions to the PaUSF. That filing was docketed at M-00031694 and P-00930715 (Verizon-Pa.'s Chapter 30 Plan docket). On January 31, 2003, AT&T filed a complaint at M-00031694C0001 challenging Verizon-Pa.'s proposal to use its negative PCO money to support Verizon's 2003 contribution to the PaUSF. On February 27, 2003, Verizon-Pa. filed an answer and motion to dismiss the complaint.

On December 16, 2002, RTCC, Sprint/United, OCA, OTS and OSBA filed a Joint Proposal seeking revenue-neutral access charge reductions. This Joint Proposal was published January 4, 2003, at 33 Pa.B. 97. Comments and replies were received by the Commission. AT&T and MCI WorldCom filed comments opposing the proposal. Specifically, AT&T and MCI WorldCom called for more detail about the resulting access rates. AT&T and MCI WorldCom emphasize the need to move switched access rates to cost-based levels. Verizon filed comments that placed conditions on their acceptance of the proposal. Verizon wanted to also reduce its access charges in a revenue-neutral method and it wanted approval to use its PCO monies to fund any future contributions owed the PaUSF as a result of the Joint Proposal.

On April 2, 2003, Verizon-Pa. filed a letter with the Commission stating that it did not oppose the RTCC/Sprint Joint Proposal at M-00021596. On the same date, Sprint/United and the RTCC filed letters in support of Verizon-Pa. being able to use its negative PCO money to pay its 2003 contribution to the PaUSF.

---

[4] *Joint Application of Bell Atlantic Corporation and GTE Corporation for Approval of Agreement and Plan of Merger,* Docket No. A-310200F0002, etc.(Opinion and Order entered November 4, 1999)(*Merger Order*).

On May 5, 2003, the Commission, acknowledging that there was opposition at that time to the Joint Proposal by the comments filed by AT&T and MCI WorldCom, ordered the Joint Proposal be assigned to an Administrative Law Judge for evidentiary hearings and a recommended decision regarding an appropriate level of access charges for Sprint and the rural incumbent local exchange carriers operating in Pennsylvania, and whether the PaUSF should be continued beyond the *Global Order's* expiration date of December 31, 2003, the expiration date specified in the *Global Order*. Further, the Commission expected the ALJ to issue a recommended decision regarding whether Verizon-Pa. could properly use its negative 2003 Price Change Opportunity (PCO) monies to fund its PaUSF contributions.

On May 15, 2003, the RTCC and Sprint/United provided MCI and AT&T with further data reports. On May 20, 2003, pursuant to 52 Pa. Code §5.572, the RTCC and Sprint/United filed a Petition for Reconsideration concerning portions of our May 5, 2003 Order. A prehearing conference was held on June 4, 2003 before ALJ Michael Schneirle, at which time all of the parties that had filed comments to the Joint Petition came to an agreement. Subsequently, on June 5, 2003, a Joint Procedural Stipulation signed by OCA, RTCC, Sprint/United, OTS, OSBA, AT&T, Verizon, and MCI was filed with the Commission.

Background of Global Order

We established the PaUSF through our *Global Order* wherein we stated:

> The USF is a means to reduce access and toll rates for the ultimate benefit of the end-user and to encourage greater toll competition, while enabling carriers to continue to preserve the affordability of local service rates. Although it is referred to as a fund, it is actually a pass-through mechanism to facilitate the transition from a monopoly environment to a competitive environment – an exchange of revenue between telephone companies which attempts to equalize the revenue deficits occasioned by mandated decreases in their toll and access charges.

Global Order, page 142.

The establishment of the PaUSF was carried out on a revenue-neutral basis and included the rebalancing of intrastate access charges, toll rates, and local rates by the rural local exchange carriers. The PaUSF was a modified version of a settlement plan submitted by the RTCC and Bell Atlantic-Pennsylvania, Inc. (Bell now Verizon-Pa.).

The components of the PaUSF, from the standpoint of the RTCC members, are briefly summarized below:

1. All small incumbent local exchange carriers, which included all ILECs other than Bell and GTE North (GTE North is now Verizon-North), were directed to be recipients of the PaUSF. The PaUSF was established for the purpose of the rate rebalancing needs of the rural local exchange carriers including reductions in their intrastate access and toll rates. All Pennsylvanian telecommunications service providers (excluding wireless carriers) were directed to contribute to the PaUSF based upon their intrastate end-user revenues.

2. The RTCC members were permitted to restructure, modify and reduce their access, toll and local rates, as follows:

> a) Intrastate traffic sensitive switched access rates and structure (including local transport restructure) were converted to interstate switched access rates and structure in effect on July 1, 1998.
>
> b) The Common Carrier Line Charge ("CCLC") was restructured as a flat-rate Carrier Charge ("CC") and reduced to an intrastate rate not exceeding $7.00 per line and allocated to intrastate toll providers based on their relative minutes of use.
>
> c) The RTCC members were given the opportunity to reduce their intrastate toll rates to an average rate not lower than $.09 per minute.
>
> d) The RTCC members with low local exchange rates were permitted to increase their residential one-party basic, local rates to an average monthly charge of at least $10.83, to the extent necessary to offset the reduced toll rates.
>
> e) Those RTCC members with an average monthly R-1 rate above $16.00 (inclusive of touch-tone) were directed to provide their customers with a Universal Service credit to effectively reduce the rate to $16.00 with the difference coming out of the PaUSF.

See Global Order at pp. 151-152. Sprint was not an original participant in the RTCC plan in the Global proceeding, but after pleading its inclusion in the USF at the *Global Order* hearings, the Commission ordered that it be included as a recipient carrier and in exchange for access charge reductions, it be allowed to draw $9,000,000 from the PaUSF annually.

We also stated in our *Global Order*:

> [W]e shall initiate an investigation on or about January 2, 2001, to further refine a solution to the question of how the Carrier Charge (CC) pool can be reduced. At

> its conclusion, but no later than December 31, 2001, the pool will be reduced. In addition, we shall consider the appropriateness of a Toll Line Charge (TLC)[or an intrastate Subscriber Line Charge] to recover any resulting reductions.

Global Order at 60. By Secretarial Letter dated October 24, 2001, the Commission postponed the formal statewide access charge investigation and initiated a collaborative to determine whether the parties could reach an agreement.

Further Intrastate Rate Rebalancing

In addition to the Commission's competitive undertakings on the intrastate side, the FCC instituted numerous proceedings aimed at further addressing an orderly transition from monopoly to a more competitive environment.

Pursuant to TA-96, the FCC undertook reform of both interstate access charges and federal universal service support mechanisms. Beginning in 1997, the FCC adopted several measures to move interstate access charges for price cap carriers toward lower, cost-based levels by revising the recovery of loop and other non-traffic sensitive costs from per-minute charges to flat rate per line charges thereby aligning rates more closely with the way the costs are incurred. For example, in order to phase out Carrier Common Line ("CCL") charges, the per-minute charges assessed on interexchange ("IXC") carriers through which ILECs recover their residual interstate loop costs that are not recovered through their capped federal SLCs, the FCC created the presubscribed interexchange carrier charge ("PICC"), a flat, per line monthly charge imposed on IXCs. The FCC also shifted the non-traffic sensitive costs of the line ports from per-minute local switching charges to the common line category and established a mechanism to phase out the per-minute transport interconnection charge (TIC). The FCC held that more rate structure modifications would be required to create a system that accurately reflects the true cost of service in all respects. The FCC believes the market-based approach, in which competitive forces primarily drive access charges down to cost-based levels, would serve the public interest better than regulatory-prescribed rates.

In the *Interstate Access Support Order*[5] the FCC adopted in large part the CALLS plan, continuing the process of access charge and universal service reform for price cap carriers. This order prescribed a more straightforward, and purportedly economical rational, common line rate structure by increasing the caps on the federal SLC, a flat monthly charge assessed directly on end-users to recover interstate loop costs, and phasing out the PICC, which the FCC viewed as economically inefficient due to the indirect flow of loop costs to end-users through IXCs. The FCC also revisited the controversial "X-factor," changing its function from a productivity offset to a tool for reducing per-minute access charges to target levels proposed by the CALLS members.

The FCC also established a new interstate access support mechanism, capped at $650 million annually, to replace what the FCC deemed implicit support included in the interstate access charges of price cap carriers, finding $650 million to be a reasonable amount that would provide sufficient, but not excessive, support. In this regard, it observed that a range of funding levels might be deemed "sufficient" for purposes of TA-96, and that "identifying an amount of implicit support in our interstate access charge system to make explicit is an imprecise exercise."[6]

In recognition of the need for a more comprehensive and distinctly different review of the issues of access charge and universal service reform for the remaining 1300 or so rural carriers serving less than 2% of the nation's access lines, the FCC placed such reforms for the non-price cap carriers on a separate track. As documented in a series of white papers prepared by the Rural Task Force, which was constituted by the FCC to study the differences between the provision of telecommunications services in rural and non-rural areas, rural carriers generally have higher operating and facilities costs due to lower subscriber density, smaller exchanges and limited economies of scale. [7] Significantly, rural carriers rely more heavily on revenues from access charges and universal service support in order to provide ubiquitous and affordable local service. On May 23, 2001, the FCC released its *Fourteenth Report and Order and Twenty-Second Order*

---

[5] *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charges,* CC Docket Nos. 96-262, 94-1, 91-213, 95-72, First Report and Order, 12 FCC Rcd 15982, May 31, 2000, (*Access Charge Reform Order)* at 15998 Par. 35.
[6] *Interstate Access Support Order* at 13046 par. 201.
[7] *See Federal-State Joint Board on Universal Service,* CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 9164-65 (1977) (*Universal Service First Report and Order)* at 8917 par. 253 (subsequent history omitted); *Rural Task Force Order.*

on Reconsideration, and Further Notice of Proposed Rulemaking, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, CC Docket No. 00-256, Report and Order, 16 FCC RCD 11244 (released May 23, 2001) ("*Rural Task Force Order*").

The *Rural Task Force Order* compelled several changes to the manner in which rural interstate universal service support is currently calculated and applied. Among other things, the *Rural Task Force Order* endorsed use of a modified embedded cost mechanism for rural carriers, as opposed to a forward-looking cost mechanism required for price cap carriers, to determine rural carrier support, and included implementation of a rural growth factor (the sum of annual line growth and a general inflation factor) and a safety net additive and safety valve to provide support for new investment and growth above stated thresholds. While created as an interim plan, the FCC also made clear its intention to develop "a long-term plan that better targets support to carriers serving high-cost areas, while at the same time recognizing the significant differences among rural carriers, and between rural and non-rural carriers."[8]

Having taken major steps in beginning to reform interstate high-cost support, interstate access charges and universal service support systems for non-rural carriers through a series of Reports and Orders in the matter of *Federal-State Joint Board on Universal Service,* CC Docket No. 96-45 and the *Interstate Access Support Order,* and the interstate high-cost support for rural carriers through the *Rural Task Force Order*, the FCC has now begun to address the matter of interstate access charge and universal service support reforms for the rural carriers. On November 8, 2001, the FCC issued its *Second Report and Order* at CC Docket Nos. 01-304, 00-256 (MAG Plan), 96-45 (USF), 98-77 (Access Charge Reform) and 98-166 (Authorized ROR), in what is referred to as the MAG Order. In the *MAG Order,* the FCC states its intent to align the interstate access rate structure with a lower, more cost-based level, remove what the FCC deemed to be implicit support for universal service and replace it with explicit, portable and competitively neutral support. Specifically, the *MAG Order* lowers interstate access charges from approximately $0.046 per minute to possibly as low as $0.022 per minute; increases the interstate SLC over a period of time; and phases out the CCL by July 1, 2003, and replaces it with a portable Interstate Common Line Support ("ICLS") universal service mechanism. In

[8] *Id.* at 11249 par. 8.

addition, SLC caps were increased effective January 1, 2002, raising monthly per line rates from $3.50 to $5.00 for residence and single line business, and from $6.00 and $6.50, respectively. These interstate changes have resulted in significant increases to most Pennsylvania consumers which are in addition to the interstate increases in local service rates under Chapter 30 rate rebalancings.

Discussion

The Joint Procedural Stipulation is threefold. First, the parties request Commission approval and implementation of the Joint Proposal as filed on December 16, 2002, as it is no longer opposed by any of the parties that filed comments against it. Second, the parties agree that the existing PaUSF contained in the Commission's regulations at 52 Pa.Code §63.161-63.171 shall remain in full force and effect until further Commission rulemaking. The parties agree to the initiation of a rulemaking proceeding prior to December 31, 2004, to address any needed modifications to the PaUSF regulations and the simultaneous initiation of a rate proceeding to determine whether any rate changes should be made in the future in the event that disbursements from the PaUSF are reduced. Third, the parties agree that AT&T's complaint against Verizon-Pa.'s PCO filing should be resolved separately from the Joint Proposal on cross-motions for summary judgment without the need for a hearing on the issue as the Complaint raises only a legal issue and no genuine issues as to any material facts. In other words, the PCO Complaint does not aver that the amount of the PCO money ($17.7 million) is in dispute, only the use of the money, which is a legal issue, not a factual one.

Joint Proposal

In view of the many changes that have taken place and the increases customers have experienced in their interstate and intrastate rates for access to basic local service over the last few years, the RTCC members have been reluctant to advocate a flash cut reduction in access charges to achieve full access reform on an intrastate basis. The RTCC/Sprint Proposal is offered as the next transitional step in access charge reform in Pennsylvania in an attempt to avoid a rate shock to Pennsylvania local telephone consumers. The Joint Proposal advocates a continuation of the current PaUSF under the existing regulations codified at 52 Pa.Code §§63.161-63.171, until a future rulemaking determines otherwise. The Joint Proposal requests further access charge reductions in a revenue-neutral method that are recovered not through an increase in the size of the PaUSF, but rather through gradual increases to local residential and business rates.

The Joint Proposal essentially provides for each RTCC company to do what is permitted under their respective Chapter 30 Plans, that is, restructure rates on a revenue-neutral basis in a manner that does not increase local rates by more than $3.50 per month. The Joint Proposal is a means of effectuating further access reform while also mitigating the administrative costs involved in pursuing 31 company-specific Chapter 30 filings. Further, while the decision to pursue a Chapter 30 rate rebalancing is at the companies' sole discretion, the Joint Proposal mandates certain filings that in turn will assure access charge reductions of approximately $25 million[9] within the next eleven months. The access reductions resulting from the Joint Proposal exceed by almost 20% the combined toll and access reductions order in the *Global Order*.

We commend the parties' united efforts in agreeing to one proposed access charge reduction plan at this time. The RTCC and Sprint/United have offered cost data to support their petition. The Commission has reviewed the cost data from the rural ILECs and Sprint/United and we are satisfied that the Joint Proposal, if implemented, will be revenue-neutral. At this juncture, the Commission is persuaded that the proposed access charge reductions are in the public's interest and in accordance with the Commission's objective to reduce implicit subsidy charges such as access charges that impede competition in the telecommunications market. As implicit charges become explicit charges, competitors are better able to compete for local and long distance customers in an ILEC's service territory because IXCs are not hindered by paying ILECs excessive access charges in providing competitive toll services 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. Thus, although our approval of the Joint Proposal will allow the rural ILECs and Sprint/United to raise their local residential monthly service rates up to a cap of $18.00 per month, ($2.00 more than the current $16.00 cap), this increase is incremental so as to avoid customer rate shock, and, at the same time, encourages the IXCs, CLECs and wireless telecommunications carriers to compete on a more level playing field with the ILECs.

---

[9] There will also be an additional $2.2 million reduction in access charges for the smaller ILECs in January 2004.

Furthermore, there has been some demonstrated savings to IXC customers in their long distance calls since April 2000 when the PaUSF was initiated and the initial access charge reductions took effect. In our *Global Order*, IXCs were required to file annual reports reflecting price reductions and flow through expense savings resulting from the access charge reductions in April, 2000. On June 6, 2000, and November 2, 2000, MCI WorldCom filed reports showing what its savings were from recent access reductions and how they have been flowed through to the Pennsylvania residential and business toll consumers. On May 4, 2000, AT&T filed a tariff showing the flow-through of Verizon-Pa.'s access charge reduction to AT&T's business and residential customers. As a condition of approving the Joint Petition and ordering further access charge reductions, the Commission directs that all of the IXCs that benefit from these reductions, demonstrate through the filing of annual reports due on March 31 of each year how the additional reductions in access charges will reduce the IXCs' average revenue per minute proportionately on a dollar for dollar basis to residential and business customers in Pennsylvania. Global Order at pp. 41-42. Failure on the part of IXCs operating in Pennsylvania to file annual reports will result in enforcement action by the Commission.

We further look to the Federal Communications Commission's (FCC) recent decisions in the *CALLS* and *MAG* orders for precedence in ordering implicit charges to become explicit, through either an increase in basic local telephone service rates, or through service line charges on customer bills. This enables other carriers to compete due to reduced subsidies. While the Joint Proposal does not require a rural ILEC or Sprint/United to mirror interstate access charges, the fact that this is a step towards making the charges closer to cost and closer to the interstate access charges will help to avoid arbitrage and will help competition enter the ILECs territories.

This is a unanimous Joint Proposal. Thus, even though no evidentiary hearing has been held, we believe due process is being afforded the parties in ruling to approve the Joint Proposal since the Joint Proposal was published, and all parties that filed comments to the Joint Proposal are in agreement with the Proposal. Accordingly, since we find the Joint Proposal to be in the public interest, we shall order that the Joint Proposal, included as "Attachment A" to this Order is granted. The PaUSF will continue beyond December 31, 2003, until amended through a rulemaking proceeding which will commence before December 31, 2004. We shall direct the recipient carriers to file their calculations required to implement paragraph No. 7 of the Joint

Proposal by October 1, 2003, in order to allow Commission Staff and the National Exchange Carrier Association (NECA) enough time within which to make a recommendation to the Commission regarding changes to the disbursements of the PaUSF for the next calendar year, and in time for the Commission to issue its annual order adjusting the contribution factors and setting the next calendar year's Fund size, contributions, disbursements and budget.

Given that this is a compromise proposal that merely seeks to extend and continue additional access reform as initially begun in the *Global Order*, we will not require the ILECs to incur the expense of producing detailed cost studies. However, we do not intend to declare the access rates established by this Order as the final word on access reform. Rather, this is the next step in implementing continued access reform in Pennsylvania in an efficient and productive manner. Thus, for all of the aforementioned reasons, the Commission finds that the Joint Proposal is in the public's interest and shall be granted.

Pennsylvania Universal Service Fund

Our Global Order calls for the PaUSF to expire December 31, 2003, subject to the provisions of an access charge investigation.[10] However, the PaUSF regulations codified at 52 Pa.Code §§ 63.161-63.171 do not have a sunset provision. The Joint Proposal calls for a continuation of the PaUSF beyond December 31, 2003, until a further Commission Rulemaking determines otherwise. The Commission stated in its *Final Rulemaking Order* entered November 29, 2000, at L-00000148 that, "if the Commission wants to rescind this [Universal Service Fund] regulation at some point, it should do so by promulgating another regulation."

The Commission agrees to open a rulemaking proceeding to be initiated no later than December 31, 2004, to address what if any modifications should be made to the PaUSF regulations and we agree to the simultaneous institution of an appropriate proceeding for consideration of any and all rate issues and rate changes which should or would result in the event that disbursements from the PaUSF are reduced. The proceedings may be combined as one proceeding.

---

[10] *Global Order at 151.*

Verizon's PCO Proposal

As stated previously, on January 31, 2003, AT&T filed a formal complaint at M-00031694, M-00031694C0001 and P-00930715 challenging Verizon-PA's proposal to use its negative PCO money to fund Verizon's 2003 contribution to the PaUSF. In the May 5, 2003 Order, the Commission consolidated Verizon's PCO filing and AT&T's formal complaint regarding the same with the RTCC/Sprint/Public Parties Joint Access Proposal. The matters were consolidated because "the issue of whether Verizon-Pa. has authority to use its negative PCO . . . is intricately related to issues expressed in the RTCC/Sprint Joint Proposal." Order at 6. Although Verizon initially agreed with this statement in its Prehearing Memorandum, the Joint Procedural Stipulation provides that AT&T's complaint against Verizon's PCO filing shall be resolved separately on cross-motions for summary judgment without hearings. AT&T, MCI and Verizon have filed motions for summary judgment. Briefs were due by July 3, 2003. The parties request that the Commission resolve the PCO dispute separately from the Joint Proposal by August 29, 2003. The Commission respects the requests of the parties, and given the time constraints, directs that Commission staff prepare a draft Order for the Commission's consideration regarding the cross-motions for summary judgment to be decided before August 29, 2003. **THEREFORE, IT IS ORDERED:**

1. That the Joint Procedural Stipulation is granted in its entirety.

2. That the RTCC/Sprint/OCA/OTS/OSBA Joint Proposal as filed on December 16, 2002, and attached hereto as "Attachment A" is granted.

3. That recipient carriers to the Pennsylvania Universal Service Fund are directed to file their calculations required to implement paragraph No. 7 of the RTCC/Sprint/OCA/OTS/OSBA Joint Proposal by October 1, 2003.

4. That upon receipt of the recipient carriers' calculations and Commission staff approval thereof, the National Exchange Carrier Association (NECA) as the Administrator of the Pennsylvania Universal Service Fund shall recalculate contributions and disbursements owed for the calendar year 2004.

5. That the Pennsylvania Universal Service Fund shall continue under the existing regulations codified at 52 Pa.Code §§ 63.161-63.171 until a further Commission rulemaking determines otherwise.

6. That Staff is directed to issue another Request For Proposals to hire an Administrator of the Fund for a contractual period from January 1, 2004 through December 31, 2006.

7. That the cross-motions for Summary Judgment filed on or about June 20, 2003, shall be assigned to the Law Bureau for a recommended draft Order to be decided on or before August 29, 2003.

8. That all IXCs shall file annually, by March 31 of each year a report showing how the additional reductions in access charges will reduce the IXCs' average revenue per minute proportionately on a dollar for dollar basis to residential and business customers in Pennsylvania. Failure on the part of IXCs operating in Pennsylvania to file annual reports will result in enforcement action by the Commission.

9. That a copy of this Order be delivered to all telecommunications carriers operating in Pennsylvania and the National Exchange Carrier Association.

10. That a copy of this Order be delivered for publication to the *Pennsylvania Bulletin.*

BY THE COMMISSION:

James J. McNulty
Secretary

(SEAL)

ORDER ADOPTED: July 10, 2003

ORDER ENTERED: July 15, 2003

ATTACHMENT A
RTCC/SPRINT/OCA/OTS/OSBA
JOINT ACCESS PROPOSAL
IN RESPONSE TO THE COMMISSION'S
ACCESS CHARGE INVESTIGATION - PHASE II

Defined Terms

As employed herein, the following terms shall have these specified meanings:

- **"ILEC" means an RTCC member or The United Telephone Company of Pennsylvania d/b/a Sprint ("Sprint").**

- **"RTCC" means Rural Telephone Company Coalition. The RTCC members are ALLTEL Pennsylvania, Inc. ("ALLTEL"), Armstrong Telephone Company - PA, Armstrong Telephone Company- North, Bentleyville Communications Corporation, d/b/a The Bentleyville Telephone Company, Buffalo Valley Telephone Company ("Buffalo Valley"), Citizens Telephone Company of Kecksburg, Citizens Telecommunications Company of New York,[11] Commonwealth Telephone Company ("Commonwealth"), Conestoga Telephone and Telegraph Company ("Conestoga"), Denver and Ephrata Telephone and Telegraph Company ("D&E"), Deposit Telephone Company, Frontier Communications of Breezewood, Inc., Frontier Communications of Canton, Inc., Frontier Communications of Lakewood, Inc., Frontier Communications of Oswayo River, Inc., Frontier Communications of Pennsylvania, Inc. ("Frontier PA"), The Hancock Telephone Company, Hickory Telephone Company, Ironton Telephone Company, Lackawaxen Telecommunications Services, Inc., Laurel Highland Telephone Company, Mahanoy & Mahantango Telephone Co., Marianna & Scenery Hill Telephone Company, The North-Eastern PA Telephone Company, North Penn Telephone Company, North Pittsburgh Telephone Company ("NPTC"), Palmerton Telephone Company, Pennsylvania Telephone Company, Pymatuning Independent Telephone Company, South Canaan Telephone Company, Sugar Valley Telephone Company, Venus Telephone Corporation, and Yukon-Waltz Telephone Company.**

- **"Larger ILEC," for purposes of this Proposal only,[12] means ALLTEL, Buffalo Valley, Commonwealth, Conestoga, D&E, Frontier PA, NPTC, and Sprint.**

- **"Smaller ILEC," for purposes of this Proposal only, means any RTCC member that is not a Larger ILEC.**

---

[11] Because Citizens Telecommunications Company of New York has and continues to operate under New York access tariffs, it is not to be deemed a party to this proposal. Likewise, West Side Telephone Company was not included in the Global proceeding and is excluded here.

[12] The designation of larger and smaller ILEC was based upon the factor of 20,000 access lines and was for purposes of this Proposal only, for the purpose of redirecting monies out of the existing USF that were previously allocated to Sprint.

Elements of Proposal

1) **If an ILEC's intrastate traffic sensitive (TS) rates exceed its interstate TS rates, the ILEC may, at its sole discretion, lower its intrastate TS rates to match or move closer to its interstate TS rates, and simultaneously increase its Carrier Charge (CC) by a corresponding revenue neutral amount using the 12 months ended August 31, 2002, or the most current 12 month period, thereby creating a revised CC. An ILEC may, at its sole discretion, lower its intrastate TS rates to match or move closer to its interstate TS rates, and simultaneously increase its Carrier Charge (CC) by a corresponding revenue-neutral amount, again in 2004, using a recent 12 month period, thereby creating a further revised CC. All references to CC herein shall be to the then current revised CC if the ILEC has chosen to implement this element of the proposal.**

2) **Pursuant to an Order entered adopting this access proposal without modification, and after notice through bill insert, bill message or separately mailed notice to all customers at least 30 days prior to the date of any rate change, each ILEC will increase local rates, based upon one-day tariff compliance filing, to be effective on a date between January 1, 2003 and December 31, 2003 (as to be determined at the sole discretion of the individual ILEC) as follows:**

   (a) **Each ILEC with a weighted average R-1 rate below $10.83 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of $11. If the increase results in R- 1 rates greater than 150% of the current rate, then the increase shall be implemented in two steps, the second of which shall become effective no later than December 31, 2003. This increase shall be subject to the Company's Chapter 30 Plan rate rebalancing limitation with respect to the limitation on calendar year per line increases, i.e. not more than $3.50 per line per month in rate increases in any one year, but shall not be subject to any other Chapter 30 process or requirements. To the extent that any ILEC shall not be able to complete the required rate increase within any year, such rate increase may be deferred to the following year subject to the Company's Chapter 30 Plan rate rebalancing limitations. Any rate rebalancing in excess of that specifically referenced in Paragraph 2 shall be subject to the Chapter 30 Plan rate rebalancing process and requirements.**

   (b) **Each ILEC with a weighted average R-1 rate between $10.83 - $12 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of $13.50.**

   (c) **Each ILEC with a weighted average R-l rate between $12.01 - $14 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of $15.**

   (d) **Each ILEC with a weighted average R-l rate between $14.0l-$16 as of December 31, 2002, will increase its R-l rates in a manner to achieve a weighted average R-l rate of $16.**

(e) Each ILEC may, at its sole option, increase its weighted average Business line rate by up to the same amount that its weighted average R-1 rate is increased, but in no event may the B-1 rate be less than the R-1 rate.

3) Pursuant to an Order entered adopting this access proposal without modification, and after notice through bill insert, bill message or separately mailed notice to all customers at least 30 days prior to the date of any rate change, each ILEC may increase local rates, based upon a one-day tariff compliance filing, to be effective on a date between January 1, 2004 and December 31, 2004 (as to be determined at the sole discretion of the individual ILEC) as follows:

(a) Each ILEC with a weighted average R-1 rate of $11 (or less) as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a weighted average R-l rate of $13.50.

(b) Each ILEC with a weighted average R-l rate of $13.50 as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-l rates in a manner to achieve a weighted average R 1 rate of $15.

(c) Each ILEC with a weighted average R-l rate of $15 as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a weighted average R-l rate of $17.

(d) Each ILEC with a weighted average R-1 rate of $16 as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a maximum weighted average R- 1 rate of $18.

(e) Each ILEC may, at its sole option, increase its weighted average Business line rate by up to the same amount that its weighted average R-1 rate is increased, but in no event may the B-1 rate be less than the R-1 rate.

Any rate rebalancing in excess of that specifically referenced in Paragraphs 2 and 3 shall be subject to the Chapter 30 Plan rate rebalancing process and requirements.

4) The monthly $16.00 cap on R-1 average rates established in the Global Order and any ILEC-specific weighted average rate cap which may have been established in any individual ILEC's Chapter 30 Plan will be increased for all ILECs to the weighted average $18.00 cap for a minimum three (3) year period January 1, 2004 through December 31, 2006. As to any ILEC which as of July 1, 2002 has hit the $16.00 cap and takes a credit from the USF, the ILEC shall continue to receive and apply the credit but would be limited to recovering from its customers future R-1 increases of $2.00 under the foregoing $18.00 cap reflecting the USF credit in effect as of July 1, 2002. Any approved future increases in rates above the $18.00 rate cap for any ILEC shall also be recoverable from the USF under the exact same terms and conditions as approved in the Global Order. For example, if ILEC A's R-1 rates are currently $17.25, then their customer is billed $17.25 but receives a credit of $1.25 from USF, receiving a net bill of $16.00. ILEC A could, as of December 31, 2004, implement the provisions of Paragraph 3 hereof, increase its rates, if justified, by $2.00 to $19.25, charge its customers $19.25, reflect a credit of $1.25 to its customers, receive $1.25 from the USF, and then send a net bill to its customers of $18.00. If ILEC A justified an R-l rate of $20.25, then it would be entitled to $2.25 from the USF and will send a net bill to its customers of $18.00.

5) Pursuant to an Order entered adopting this access proposal without modification, each ILEC shall have the right, in whole or in part, in lieu of raising local service rates as provided in Paragraphs 2 and 3 hereof to raise rates on other services by an equivalent amount, based on a one-day tariff compliance filing.

6) To offset the increase to local rates described above in Paragraphs 2 and 3, each ILEC (except Sprint) will file a compliance tariff(s) to reduce its CC or TS rates, or any combination thereof, by a revenue-neutral amount (depending upon changes undertaken in Paragraph 1, above), effective on dates consistent with the increases in Paragraphs 2 and 3.

7) In addition to any rate modifications undertaken pursuant to Paragraphs 2 and 3, each Smaller ILEC that increases its rates consistent with Paragraph 2, above, or is at the $16.00 capped rates on December 31, 2003, will additionally reduce its CC or TS rates, or any combination thereof, by the equivalent of $2 per line per month effective January 1, 2004 and shall receive an equal (a revenue-neutral) amount of support from the PA USF (annual total for all Smaller ILECs ranging from an estimated $1.8 million to $2.2 million), as provided in Paragraph 8.b. For ease of administration, the amount of additional USF received by the Smaller ILECs under this proposal will be determined as of December 31, 2003, and will be applied effective January 1, 2004 and each year thereafter for the duration of the Pa. USF (as addressed in Paragraph 1 of the Conditions of Proposal.) Beginning in 2005, any growth in access lines shall be accounted for in accordance with the annual USF calculation in 52 Pa. Code §63.165 and the Smaller ILECs'

total receipt from the Pa. USF, including the amount provided for herein, shall be included in the Smaller ILECs' prior year funding.

8) (a) To offset the increase to Sprint's local rates described above in Paragraph 2, above, Sprint will file compliance tariff(s) to reduce its CC or TS rates, or any combination_thereof, by a revenue-neutral amount (depending upon changes undertaken in Paragraph 1, above) effective on dates consistent with the increases in Paragraph 2.

(b) Beginning on or after January 1, 2004, Sprint will reduce its receipt from the current PA USF equal to the $2 per line per month reduction to the CC or TS, from Smaller ILECs as expressed in Paragraph 7. These dollars (annual total ranging from an estimated $1.8 million to $2.2 million) will be directly paid to the Smaller ILECs, as described in Paragraph 7, from the PA USF to offset the Smaller ILECs' reduction in access charges on a revenue neutral basis.

9) On/or after January 1 of each year beginning in 2005 each ILEC may request such rate changes or rate rebalancing as are permitted by any Chapter 30 Plans and/or applicable statutory and regulatory provisions.

Conditions of Proposal

1) The only change to the existing universal service fund in PA is that Sprint will be shifting a portion (estimated to be $1.8 m - $2.2m) of its current fund receipt ($9 million) to Smaller ILECs as noted in Paragraphs 7 and 8 above. This Proposal is dependent upon all other aspects of the PA universal service program and the USF regulations remaining intact, including the recovery of rates above the rate cap into the future, specifically beyond December 31, 2003. The existing universal service fund, including the recovery of monies under Paragraph 4 of Elements of Proposal above, and regulations promulgated thereunder shall, as provided in the regulations, continue in place until modified by further Commission rulemaking.

2) Each ILEC reserves the right, subject to Chapter 30 Plan requirements, to change its access rates to ensure that each access rate element at least recovers its cost and the ILEC's service price index continues to be equal to or less than the ILEC's price stability index, in the event the ILEC's access rates are determined to be below cost based upon the development of a cost study.

3) This proposal is made in its entirety and no part hereof is valid or binding unless all components are accepted by all parties. Should any part be specifically modified or otherwise adversely impacted at any later date as to any ILEC or party, the ILEC or party shall have full unilateral rights to withdraw from the plan or revisit the plan in its sole discretion. This potential agreement is proposed by the parties to settle the instant

controversy and is made without any admission against or use that is intended to prejudice any positions which any party might adopt during subsequent litigation, including further litigation in related proceedings. This agreement is conditioned upon the Commission's approval of all terms and conditions contained herein, except for the terms of this paragraph. If the Commission should fail to grant such approval or should modify the terms and conditions herein, this agreement may be withdrawn upon written notice to the Commission and all parties within five business days by any of the parties and, in such event, shall be of no force and effect. In the event that the Commission does not approve the Settlement or any party elects to withdraw as provided above and any proceeding continues, the parties reserve their respective rights to submit testimony or other pleadings and briefs in this or a related proceeding.

4) **Elements of this Proposal shall constitute rate rebalancings or rate filings as defined and allowed under each ILEC's Chapter 30 Plan only to the extent of determining the maximum amount of an increase allowed per year, but shall not preclude the filing of one additional rate restructuring/rebalancing filing in the calendar year so long as the total rate rebalancing rate increases do not exceed the maximum annual increase allowed and comply with other Chapter 30 Plan limitations and requirements. That is, implementation of proposed Paragraphs 2, 3 and 5 under Elements of Proposal are not considered rate rebalancings under the Chapter 30 Plans except in determining the maximum limitation on per year line rate increases to monthly dial tone rates. All parties retain all other rights under the approved Chapter 30 Plan to implement or oppose all rate rebalancings and other rate filings permitted under its Chapter 30 Plan. All parties reserve all rights in any proceedings relative to Chapter 30.**

5) **Increases to weighted average business rates on a dollar basis will be less than or equal to the increases to weighted average residential rates on a dollar basis.**

6) **This access proposal will be revenue neutral relative to each ILEC implementing a rate change. Absolutely no changes shall be required which are not revenue-neutral. Other access reductions that are not revenue neutral are permissible at the ILEC's sole option, but not required.**

7) **When notice is sent to each company's customers as provided in Paragraphs 2 and 3 under elements of Proposal, it will also be served upon all parties to this Proposal.**

PTA Exhibit JJL-6

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
High-cost Universal Service Support	)	Docket No. WC 05-337
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	

THE REPLY COMMENTS OF THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

The Pennsylvania Public Utility Commission (PaPUC) is filing these Reply Comments with the Federal Communications Commission's ("FCC"). These Reply Comments address Public Notice at WC Docket No. 05-337 and CC Docket No. 96-45, *Recommended Decision of the Federal-State Joint Board on Universal Service*, adopted April 26, 2007, released May 1, 2007.[1]

The FCC seeks input, primarily, on a proposed interim, emergency cap on the amount of high-cost support that Competitive Eligible Telecommunications Carriers (CETCs) would receive in each state. The proposed cap would base support on the average level of competitive support distributed in 2006.

The PaPUC's Reply Comments are limited to the proposed interim, emergency cap on high-cost support. The FCC is seeking more comprehensive reforms in another proceeding underway in CC Docket No.

[1] The FCC later extended the period for filing Reply Comments from June 13, 2007 to June 21, 2007. *In the Matter of High-Cost Universal Service Support, Federal-State Joint Board on Universal Service,* WC Docket No. 05-337, CC Docket No. 96-45 (June 12, 2007).

96-45.[2]

[2] *Federal-State Joint Board on Universal Service Seeks Comment on Long-Term, Comprehensive High-Cost Universal Service Reform,* WC Docket No. 05-337, CC Docket No. 96-45, Comment and Reply Comment dates of May 31, 2007 and July 2, 2007, respectively.

The PaPUC Reply Comments

The PaPUC appreciates the opportunity to respond to the proposed interim, emergency price cap. The PaPUC Reply Comments should not be construed as binding on the PaPUC or individual commissioner in any proceeding before the PaPUC. The PaPUC Reply Comments could change in response to subsequent events.

The PaPUC supports the proposed interim emergency cap on high-cost universal service support. The PaPUC also proposes extension of the interim freeze to all support, including rural carrier support, for several reasons.

The PaPUC believes that an interim, emergency freeze on all support minimizes the growth in costs paid for by Pennsylvania's carriers and consumers. A uniform emergency freeze that limits support to the amounts received in 2006 treats competitors and incumbents alike. A uniform emergency freeze avoids any issues about exogenous event revenue and rate recovery for regulated telephone utilities operating in states with price cap regimes. Finally, a uniform emergency freeze provides an incentive to every recipient to propose realistic solutions.

The PaPUC makes this proposal because the PaPUC shares the concern of other states about the costs for a greatly expanded federal support fund. The PaPUC also shares the concern of net recipients, particularly the rural carriers, that this growth in federal support may undermine the support given to rural carriers even though the CTECs do not have identical service obligations. CTECs are not required to provide service ubiquitously throughout a rural carrier's study area. CTECs are not required to undertake expensive broadband deployment commitments under state law.

The PaPUC makes this proposal even though Pennsylvania has carriers that are net recipients of federal support. Pennsylvania also has significant net contributors to the federal Universal Service Fund (USF), and overall is a net contributor state. The PaPUC's experience with net contributors and net recipients gives the PaPUC a particularly important perspective on federal USF support mechanisms and required monetary amounts.

The PaPUC's experience is that federal USF support is, inevitably, recovered from end-user consumers as an increased cost in one form or another. And, as set out below, increased costs are undermining overall penetration rates for telecommunications services, particularly in Pennsylvania.

Pennsylvania's estimated contribution to the federal support fund was $124,976,000 more than the amount that Pennsylvania carriers received from the federal USF in 2006.[3] Pennsylvania's rural did get $151,884,000 or 2.33% of the total federal support. However, Pennsylvania's non-rural carriers contributed $276,859, 000 or 4.19% of total federal support. In sum, federal USF support costs Pennsylvania's end-user consumers $124,976,000. This represents 1.86% of the total federal support even though Pennsylvania only generated 4.14% of the total in national telecommunications revenues in 2004.[4]

The PaPUC is very concerned about the growth in the high-cost mechanism, and in particular the growth in support attributed to CETCs. The PaPUC is concerned that without a freeze on CETC support distributions Pennsylvania's net contributor role to the federal USF will greatly increase. By the same token, however, the PaPUC is sensitive to the needs of rural carriers and the role that federal support plays in keeping rural rates just and reasonable under state and federal law.

---

[3] *2006 USF Report,* Table 1.12, p. 1-37.

The PaPUC supports the proposed interim emergency freeze on CTEC federal support. An important factor driving the expansion in the size of the federal USF is support for CETCs that are not subject to the same conditions as other incumbent carrier recipients.

By the same token, the PaPUC believes that federal support for rural local exchange carriers (RLECs) should also be frozen. A freeze on all support limits the cost to end-users while providing every recipient with an incentive to propose realistic and concrete solutions.

However, the PaPUC opposes any freeze that reduces federal support for rural carriers. Rural carriers have complex rate structures that rely on federal support. Rural carriers have different obligations as well. These include the obligation to provide service ubiquitously throughout their respective study areas and to expand broadband deployment. CTECs do not have these obligations.

Any reduction in federal support could undermine the rural carriers' ability to meet these obligations. In addition, any reductions in federal USF support for rural incumbent local exchange carriers (ILECs) with "exogenous event" provisions in their respective alternative price cap regulation plans in various states holds the potential of triggering "revenue neutral revenue recovery" of "lost" federal USF support on the state level. Depending on the state, a carrier could claim that reduced federal support is an "exogenous event" that should be recovered from in-state rates including basic local exchange rates for legacy copper-based services. A freeze, on the other hand, does not reduce support and forecloses any effort to get in-state revenue and rate increases to cover federal support reductions.

---

[4] *2006 USF Report,* Tables 1.12 and 1.13, p. 1-37 and 1-38.

The PaPUC does not believe that an interim emergency solution should constitute a basis for significant in-state revenue and rate increases. Intrastate revenue and rate increases including local rate increases that are attributable to federal universal service reform could undermine the very efforts of both the FCC and state public_utility commissions to preserve and enhance universal service under both federal and state law.

By contrast, a uniform freeze on all federal USF support preserves existing levels and avoids the intrastate issues of "exogenous event" revenue and rate treatment. A uniform freeze does not harm current recipient expectations. However, the current recipient now has an incentive to propose realistic solutions to the escalating federal USF support requirement problem.

For these reasons, the PaPUC suggests a uniform freeze on all federal support given to all recipients. A uniform freeze limits federal support. This is particularly important given the decline in overall penetration rates for telecommunications from 2001 to 2005 in Pennsylvania during the very time that these federal USF costs expanded. Pennsylvania's household telephone penetration rate went from 97.8% in 2001 to 97.2% in 2004.[5] This penetration rate decline is evident along economic and racial lines as well.

The percentage of Pennsylvanians with $10,000-$19,999 in income and a telephone declined from 96.7% in 2001 to 93.8% in 2005. The percentage of Pennsylvanians earning $20,000 to $29,999 and with a telephone declined from 98.7% in 2001 to 95.9% in 2005. The percentage of Pennsylvanians with a telephone and an income of $30,000 to $39,999 also declined from 97.8% in 2001 to 97.7% in 2005.[6]

---

[5] *2006 USF Report,* Table 6.4, p. 6-14.

[6] *2006 USF Report,* Table 6.14, p. 6-66.

The overall decline in penetration is evident along racial lines. The percentage of African-Americans with an income of $10,000 to $12,499 and a telephone went from 86.0% in 2001 to 85.1% in 2005. The percentage of Hispanic-Americans with the same income and with a telephone declined from 85.8% in 2001 to 84.7% in 2005.[7] Telephone penetration rate for whites with a similar income and a telephone went from 91.1% in 2001 to 90.4% in 2005.[8]

There was a particularly noticeable decline in penetration for all racial groups with incomes between $30,000 and $34,999 during the 2001 to 2005 time period.[9] Penetration rates for African-Americans with this income level and a telephone went from 95.3% in 2001 to 90.7% in 2005. The corresponding figures for Hispanics with a telephone and the same income level went from 94.9% in 2001 to 91.1% in 2005. Finally, penetration rates for whites with a telephone at this income level declined from 97.0% in 2001 to 95.1% in 2005.[10]

Moreover, the total number of ILEC loops in Pennsylvania declined from 8,301,408 in 2001 to 7,345,084 in 2004.[11] The PaPUC proposes a uniform freeze on all net federal USF support recipients because of the increased costs to Pennsylvanians, particularly given that 97% of the 235% growth in USF support received by CTECs from 1999 through 2005 went to wireless carriers.[12] However, wireless carriers do not have the same "ubiquitous service" obligations as net recipient rural carriers.

---

[7] *2006 USF Report,* Table 6.10, pp. 6-39 and 6-42, respectively.
[8] *2006 USF Report,* Table 6.10, pp. 6-39 and 6-42, respectively.
[9] *2006 USF Report,* Table 6.10, pp. 6-39 and 6-42, respectively.
[10] *2006 USF Report, Table 6.10, p. 6-39 and 6-42, respectively.*
[11] *2006 USF Report,* Tables 6.4 and 3.20, p. 6-14 and 3-32, respectively.
[12] Pennsylvania Public Utility Commission, *Missoula Plan Workshop Public Hearing,* Docket No. M-00061972, Presentation of Gary Zingaretti, Rural Telephone Company Coalition, September 11, 2006, p. 187.

To minimize the cost of service from end-user consumers for the federal USF, the PaPUC suggests that incumbent ETCs be included within the proposed interim, emergency cap even if their support has remained relatively stable. A comprehensive approach minimizes future costs for all USF support while taking an even-handed approach to competitors and incumbents alike.

An even-handed approach that freezes support for all recipients at their current level on an interim, emergency basis also avoids that "poisoning of the well" feared by Commissioner Copps' in his dissent.[13] This even-handed approach gives competitors and incumbents a mutual interest in proposing the solutions needed for the long-term.

---

[13]Dissenting Statement Of Commissioner Michael J. Copps, *In the Matter of High-Cost Universal Service Support*, WC Docket No. 05-337; Federal-State Joint Board on Universal Service, CC Docket No. 96-45, May 1, 2007.

Respectfully submitted,

Joseph K. Witmer, Esq.
Assistant Counsel,
Pennsylvania Public Utility
Commission

Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
(717) 787-3663
Email: joswitmer@state.pa.us

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Petition of AT&T Inc. for Interim Declaratory Ruling and Limited Waivers	)	CC Docket No. 08-152
Developing a Unified Intercarrier Compensation Regime`	)	CC Docket No. 01-92
In the Matter of High-Cost Universal Service Support	)	WC Docket No. 05-337
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
Intercarrier Compensation for ISP-Bound Traffic	)	WC Docket No. 99-68
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
In the Matter of IP-Enabled Services	)	WC Docket No. 04-36

Introduction

The Pennsylvania Public Utility Commission (PaPUC) appreciates the opportunity to file these Comments (the PaPUC

Comments) with the Federal Communications Commission (FCC). These PaPUC Comments respond to the FCC Notice on the Petition of AT&T Services, Inc. for Interim Declaratory Ruling and Limited Waivers Regarding Access Charges and removal of the Enhanced Service Provider (ESP) Exemption for IP-enabled services filed at WC Docket No. 08-152 (the AT&T Petition). AT&T filed the AT&T Petition on July 23, 2008. The FCC posted notice of the AT&T Petition on July 24, 2008 at DA 08-1725 establishing a Comment and Reply Comment deadline of August 14, 2008 and August 25, 2008, respectively. The FCC extended the Comment deadline to August 21, 2008 by order issued August 13, 2008 at DA 08-1904.

As an initial matter, the PaPUC Comments should not be construed as binding on the PaPUC or any individual Commissioner in any proceeding pending before the PaPUC. The PaPUC Comments could also change in response to subsequent events, including subsequent state or federal developments and review of the other Comments.

Summary of the AT&T Petition and Ex Parte Filings

The AT&T Petition is part of a flurry of multiple documents recently submitted in multiple dockets by multiple incumbent telephone companies (ILECs), competitors, or trade associations addressing intercarrier compensation reform (the Reform Pleadings).[1] The AT&T Petition asks the FCC to remove the Enhanced Service Provider (ESP) exemption from access rate payments for Voice over Internet Protocol (VoIP) and to address needed compensation reform.

The AT&T Petition asks the FCC to mandate a uniform Minute of Use (MOU) rate for terminating access needed to connect long-distance calls to a local carrier's network on the Public Switched Telecommunication Network (PSTN). Any incumbent carrier that

---

[1] *In Re: Intercarrier Compensation*, Docket No. CC 01-92, *AT&T Letter* dated July 17, 2008 filed in CC Docket No. 01-92 (Intercarrier Compensation), WC 05-337 (High-Cost Universal Service); CC Docket No. 96-45 (Universal Service); WC Docket No. 99-68 (Compensation for ISP-Bound Traffic); WC Docket No. 07-135 (Local Exchange Rates). In addition, see *AT&T Ex Parte Notice* dated July 18, 2008 (the Three Filings notice); *AT&T Ex Parte Notice* dated July 24, 2008 (the Summary of the Three Filings notice); *AT&T Ex Parte Notice* dated August 5, 2008 (the Comprehensive Reform notice). Ancillary Ex Parte notices were filed as well. See Letter Notice of Verizon, AT&T, CTIA, Global Crossing, National Association of Manufacturers, T-Mobile et al. dated August 6, 2008 addressing the Vonage Preemption Decision and Intercarrier Compensation (the "*Two Proposals*" Letter); Embarq Ex Parte notices dated July 30, 2008, July 31, 2008, and August 1, 2008 supporting intercarrier compensation reform but not the AT&T Petition (the "*Embarq Opposition Letters*"); the Ex Parte notices of Core Communications, Inc. dated July 25, 2008 and July 28, 2008 addressing the *Core Remand Decision* at 2008 WL 2649636 (the "*Core Remand*" Letters).

loses revenues from these reforms would be compensated with support provided by an increased Subscriber Line Charge (SLC) up to $6.50, an increased originating access rate of $.0095, and residual funding from the Federal Universal Service Fund (FUSF).

The subsequent *Two Proposals Letter* filed by multiple parties supports this intercarrier compensation reform proposal. They also make two additional requests. First, the filers want the FCC to establish a national compensation rate of $.0007 per MOU for the transport and termination of Internet Service Provider (ISP)-bound traffic. The filers also want the FCC to reaffirm that the Vonage Preemption Order which restricted state regulation of Internet Protocol (IP) telephony encompassed wireline IP telephony as well.

The Reform Pleadings collectively propose, oppose, or provide background information on AT&T's comprehensive solution. They largely support the AT&T claim that intercarrier compensation reform will better reflect technological change and prevent the rate arbitrage attributed to the legacy practice of establishing disparate carrier access rates for virtually identical services.

Summary of the PaPUC Comments

The PaPUC has concerns with parts of this proposal. Those concerns reflect the previously filed Comments and Reply Comments in the Missoula Plan proposals currently pending before the FCC in Docket CC 01-92. The PaPUC reiterates and incorporates those concerns and builds upon them in this Comment.

One concern is the legal basis for federalizing all access rate-making authority at the FCC. While some language in the AT&T Petition disclaims federal preemption, a solution that voluntarily sets intrastate access rates at the interstate level begs the question of what will happen if a state refuses to follow this proposal. Moreover, there is no attention given to intrastate regulatory and ratemaking implications following a voluntary state decision to opt-in to this federal solution to setting intrastate rates.

The PaPUC is particularly concerned with the potential for additional local rate increases beyond the rise in federal SLC rates for states with price cap regimes, like Pennsylvania. The proposal does not explain what happens in states where carriers have approved alternative regulation plans which contain "change of law" or "exogenous event" factors in their respective price cap formulas. Those clauses could require a state commission to impose local exchange service rate increases to provide for the recovery of any decreased federal access charge revenues. This eventuality is of particular concern for "average schedule" rural incumbent local exchange carriers (RLECs).

One other legal concern is what happens under the proposed "federal benchmark mechanism" if the benchmark rate is higher than the $18 benchmark rate for basic residential local exchange service in the areas served by rural ILECs in Pennsylvania. This concern is heightened if the increased surcharges are not included in the overall rate. Pennsylvania has witnessed telephone penetration rate declines after the FCC's CALLS Order.[2] The imposition of increased SLCs or excluding SLCs from an overall rate calculation still results in increased rates. Increased rates impact the ability to buy basic telephone service, especially at lower-income levels.

---

[2] *In re Access Charge Reform et al.*, CC Docket Nos. 96-262, 94-1, 99-249, 96-45, (FCC Rel. May 31, 2000), Sixth Report and Order in Docket Nos. 96-262 and 94-1 et al., FCC 00-193, 15 FCC Rcd 12692 (the *CALLS Order*).

The PaPUC questions reliance on an outmoded pricing structure premised on outdated copper-analog networks in which distance mattered more than on modern networks. The Petition fails to explain why an MOU approach which reflects a distance-sensitive approach is relevant to reforming a network in which fiber-digital technology makes distance irrelevant,[3] particularly given the emergence of Internet Protocol (IP), and the proliferation of competition.

The PaPUC has concerns about the continued reliance on end-user SLCs collected from stand-alone narrowband voice service. Many other services are already provided over a modernized PSTN, including DSL service and special access. The PaPUC is concerned about using the FUSF to support compensation reform, particularly if the FUSF is used only if SLCs and originating access rate increases on narrowband voice service fail to generate enough money.

The PaPUC thinks that the FCC should consider expanding the revenues that fund carrier reforms beyond narrowband voice service. Regulators, industry, and consumers alike recognize the need to move

---

[3] Francis Caircross, *The Death of Distance*, (Harvard Business School Press: 2001); Accord, *In re: Intercarrier Compensation*, FCC Further Notice of Proposed Rulemaking (CC Docket No. 01-92: March 3, 2005).

"away from the PSTN business model of the past."[4] There is little disagreement that the PSTN provides any number of special access or IP-enabled, video, or internet access services. Many of these services generate revenues in addition to narrowband voice service. The AT&T Petition contains no proposal to allocate any portion of the overall costs for these interstate reforms to other interstate services. Those interstate services also need access to the PSTN regardless of whether the PSTN is circuit-switched or based on digital packet transmission technologies.

The PaPUC suggests that the FCC place less emphasis on SLCs and terminating rate increases for narrowband voice service. The FCC should focus more attention on the overall allocation of the costs for interstate reforms to interstate services and revenues that need access to the PSTN. Revenues from those services could be used to offset intercarrier compensation reform costs.

The PaPUC also suggests that the FCC should consider other funding approaches that are more technologically reflective of distance-

[4] *In re: Intercarrier Compensation,* CC Docket No. 01-92, AT&T Ex Parte Letter dated July 17, 2008, p. 1.

agnostic fiber-digital networks compared to distance-sensitive copper-analog networks. The PaPUC questions why the FCC would premise interstate reforms necessitated by technological change through perpetuating an outdated pricing structure.

The PaPUC notes that one approach could be the use of flat-rate unlimited "connection charges" in which all end-users pay a flat rate for access to advanced Voice-Data-Video (VDV) services. Another approach could be reliance on a "number based" approach in which a flat-rate would be imposed on all numbers, including ENUMs[5] when that become necessary, compared to perpetuating the copper-analog focus on narrowband voice service to fund all the costs for reform.

The PaPUC also suggests that more creative solutions may enhance support for reforms by the reimbursing carriers and the state commissions. Contributors and regulators are less inclined to challenge an intercarrier compensation solution that avoids

---

[5] ENUM means Electronic Numbering, a standard (RFC 2916) from the Internet Engineering Task Force (IETC) for a DNS-based (Domain Name Server) method for mapping telephone numbers to URLs (Uniform Resource Locations), i.e., Web addresses and, ultimately, to IP addresses. This approach is more consistent with recent provider efforts to provide "one number" services, such as T-Mobile's blended use of narrowband voice technology and WI-FI technology in their wireless service.

federalizing rate-making authority. If intercarrier compensation reform is necessary due to technological change and the proliferation of competitors and services on the PSTN, it follows that those services and the accompanying revenues are part of the funding solution for intercarrier reform.

The costs for reform can be narrowed with an expanded view of what revenues and services are actually being provided over the carriers' PSTN. The base of revenues used to collect an assessment on any fund used to underwrite reform should narrow the end-users' cost. Finally, this approach would represent a major reformation in the FCC's own traditional preference for using end-user SLCs and access rates increases applied only to narrowband voice service, as though no other services were, and are, being provided over a modernized PSTN. It is counterintuitive to have declining economic costs for access because of technological innovation, while imposing potentially higher SLC charges on end-users who continue to rely on legacy copper-based voice telephony services.

The PaPUC is concerned about the proposal to remove the Enhanced Service Provider (ESP) exemption from access rate charges for Voice over Internet Protocol (VoIP) services. The PaPUC suggests that there are major missing links between the selective imposition of telecommunications obligations on VoIP service as though it were telecommunications and the inference from past FCC actions that the states may lack jurisdiction over VoIP traffic that terminates at the PSTN.[6] These missing links are particularly evident in preempting state authority over VoIP services on the ground that the traffic cannot be jurisdictionally separated but then imposing telecommunications obligations, including this proposal to impose access rates, on the ground that the traffic is severable. The proposal to impose access rates on VoIP service, a form of IP-enabled service, compared to IP-enabled video or data (Internet) service indicates that IP traffic can be separated and identified for collecting access revenues.[7] Moreover, this

---

[6] Verizon's request to "reaffirm" the FCC's preemption of all VoIP telephony in their Ex Parte Letter is misleading. The *Comcast IP Phone* decision and its progeny hold that the FCC's *Vonage Preemption Order* extended only to "nomadic" VoIP service, and then only to certification and 911 compliance. The *Vonage Preemption Order* never included general consumer protections, public safety, or the need to support ancillary public safety or services such as TRS, USF, and 911. This sort of misrepresentation does little to promote a clear understanding of what are the root causes of, and supports the need for, compensation reform. *Compare Comcast IP Phone,* Case No. 06-4233-CV-C-NKL (WD Mo. January 28, 2007) with *Verizon Ex Parte Letter* dated August 6, 2008 p. 2.

[7] It is also worth noting that the differing packets needs of voice, data, and video warrant identification, and prioritization, as well. Edward R. Felton, *Nuts and Bolts of Network Neutrality*, 24th Annual Institute on Telecommunications Policy, (Practicing Law Institute, 2007: 317-337).

proposal's recognition of the ability to jurisdictionally separate this VoIP traffic is more consistent with the FCC's recognition of voice traffic severability in the *June 2007 VoIP USF Order*. This is different than the belief that IP traffic, including VoIP, cannot be subject to joint jurisdiction because the traffic cannot be severed.[8]

The PaPUC supports comprehensive reform but questions the need for a drastic reformation of all federal intercarrier compensation policies. A solution focused only on reciprocal compensation for dial-up internet calls may better address the federal court's frustration with the failure to explain why the FCC federalized reciprocal compensation rates for dial-up internet calls in the first place as set out in the *Core Decision*.[9]

---

[8] The recognized ability to identify, prioritize, and allocate speeds to IP packets, packets used to provide digital voice, data, and video service, rests on technological progress in the ability of IP "headers" charged with delivering IP "payload" (voice, data, and video). The FCC's NOPR identified Cisco routers able to download the Library of Congress in 3.5 seconds. Headers are a necessity given the differing IP needs of voice, data, or video service. *See* Edward R. Felton, *Nuts and Bolts of Network Neutrality*, 24th Annual Institute on Telecommunications Policy, (Practicing Law Institute, 2007: 317-337).

[9] *Core Communications Notice of Ex Parte*, CC Docket No. 99-68 and WC Docket No. 01-92, Letter dated July 25, 2008, Attachment.

The AT&T Petition raises legal, technological, economic, public policy, and equity issues in the understandable rush to reform intercarrier compensation in response to the federal court remand of the *Core Decision.*[10] The PaPUC does not support a rushed decision if it imposes an intercarrier compensation regime that raises more legal, technological, public policy and equity concerns than it resolves. As currently proposed, the AT&T Petition appears to do just that.

From a legal perspective, the proposed AT&T Petition would federalize all interstate and intrastate access rate-making authority at the FCC. AT&T and the Reform Letters fail to explain the legal basis for rewriting Section 251(b)(5) of Telecommunications Act of 1996 (TA-96), the provision governing state authority to set intrastate rates for intrastate services. The AT&T Petition also does not explain how federalization of intrastate ratemaking authority is consistent with

---

[10] Core Communications Ex Parte letter dated July 25, 2008 Attachment, *In Re: Core Communications, Inc.* 2008 WL 2649636 (C.A.D.C.); *In re: Intercarrier Compensation,* Docket No. 01-92, *AT&T Ex Parte Letter* dated July 17, 2008, p. 17 (AT&T is concerned that the FCC's failure to address intercarrier compensation, either separately or comprehensively, will vacate the FCC's ISP-bound traffic compensation structure and "throw open the door" to renewed regulatory arbitrage by CLECs).

Sections 252(d)(2), Section 152(b), Section 201(b), and the universal service provisions of Section 254.[11]

The federalization of access rate-making authority relies on the faulty preemption logic rejected by the federal courts in the *Comcast IP Phone v. Missouri Public Service Commission* decision at Case No. 06-4233-CV-C-NKL (WD Mo. January 28, 2007).[12] Reliance on the FCC's express forbearance authority to overturn another express provision granting authority to the states may come close to violating a dormant prohibition against delegation of legislative authority, as opposed to implementation authority, to federal agencies.[13]

The PaPUC is very concerned that federalization will require substantial increases in the local service rate for narrowband voice service. The PaPUC has concerns about those increases in states with price-cap regimes, particularly Pennsylvania, if reform means carriers

---

[11] *In Re: Intercarrier Compensation*, Docket No. 01-92, Pennsylvania Public Utility Reply Comments (February 1, 2007), pp. 3-17.

[12] *In Re: Intercarrier Compensation*, Docket No. 01-92, Pennsylvania Public Utility Reply Comments (February 1, 2007), pp. 3-17.

[13] *Carter v. Carter Coal Company*, 298 U.S. 238, 56 S.Ct. 855, 80 L.Ed. 1160 (1935). While this limitation is little used today, the rule serves to effectively limit agency authority. Kenneth Culp Davis, *Administrative Law*, §2.02 (West Publishing, 1972: 28-29). This may become particularly relevant if an agency is elevating one provision of a statute to overturn other express provisions of a statute.

can invoke a "change of law" or "exogenous events" clause in their approved price cap alternative regulation plans to secure dollar-for-dollar compensation for federal reforms in local rates.

The PaPUC has made extensive intrastate access charge reforms costing more than $1 Billion in magnitude and direction as was previously explained in the PaPUC's comments on the Missoula Plan proposals.[14] The PaPUC is also governed by Pennsylvania law that binds the PaPUC to further reduce intrastate carrier access rates only "on a revenue-neutral basis."[15] If the AT&T proposals prevail, the PaPUC may be faced with the unenviable task of having to conduct a "revenue neutral" pass through of ILEC intrastate access rate reduction to basic local exchange service rates. Federal preemption of intrastate ratemaking is not a principle that has been condoned, and should not be lightheartedly applied in the instant proceeding. *Louisiana v. FCC,* 476 U.S. 355, 368, 90 L.Ed. 369 (1986).

The PaPUC is aware of the AT&T Petition's claim that the proposal does not result in exercising jurisdiction over intrastate access

---

[14] *In re: Intercarrier Compensation,* CC Docket No. 01-92 Reply Comments of the PaPUC, (February 1, 2007), p. 27.
[15] *See* 66 Pa. C.S. § 3017(a).

rates. AT&T claims that the provider's decision to lower their intrastate access rates is a voluntary one but that the compensation for that decision is a federal one.[16] While a voluntary proposal to lower intrastate access rates is not strictly tantamount to preemption, there may be an indirect preemption in the proposal's plan to lower intrastate terminating access rates to a rate that is "equal to or less than" the interstate rate.[17]

A properly structured voluntary participation by state commissions avoids the inevitable legal appeals following any preemption action. State commissions would find a voluntary opt-in particularly palatable if the state retains authority to ensure the flow-through of all access rate reforms. This is also more probable if SLCs and originating rate access increases are devices of last, not first, resort. Acceptance is more likely if carriers cannot seek "revenue neutral" recovery under state law, and states with higher intrastate access rates see a reduction in their FUSF support funding including, possibly, Schools & Libraries, Rural Health, and Lifeline, but, most certainly, High-Cost funding.

---

[16] AT&T Petition, p. 10, n. 27.
[17] AT&T Petition, p. 5.

A final legal concern is the benchmark's operation. The proposal does not indicate what happens if the state's benchmark rate, as in Pennsylvania's case of $18 for residential service by rural ILECs, is lower than the contemplated federal benchmark rate. Moreover, the benchmark proposal is premised on access lines. However, the trigger date for counting the access lines and a true-up to reflect customer migration from an ILEC's wireline service to its wireless affiliate is not addressed. Moreover, there is no true-up component that would reduce the support to reflect customer migration from an ILEC.

From a public policy perspective, the PaPUC is concerned about the lack of consideration given to other equally effective ways to fund intercarrier compensation reform. The AT&T Petition does not address use of a flat-rate unlimited usage "connection-based" compensation structure. A flat-rate unlimited usage "connection-based" charge on consumers avoids the costs of monitoring and ensuring the payment of "metered" minutes, a traditional given in the MOU regime. A flat-rate unlimited usage "connection-based" approach also better reflects the distance-agnostic nature of IP-enabled services and the "bundled" VDV services provided by cable and telephone companies.

The PaPUC notes that the AT&T Petition has not considered the use of a "number-based" approach. A "number-based" approach to underwriting reform would spread the costs over a far larger contribution base compared to end-user SLCs and originating access rate increases on primarily narrowband voice service. A "number-based" approach could allocate costs to every number used on the PSTN which, when appropriate, will eventually have to include ENUMs.

In addition, the AT&T Petition has not addressed the expanded use of the PSTN to provide any number of services, particularly IP-enabled services, over the PSTN. The PaPUC suggests that reform should consider expanding the definition of what "interstate revenues" or "interstate services" are being provided over the PSTN. This, in turn, could also expand the contribution based needed to underwrite the costs for reform.

The PaPUC has equitable concerns as well. One equitable concern is the proposal to ***increase*** the Average Traffic Sensitive (ATS) originating access rates on an MOU basis. The AT&T Petition will compensate incumbent carriers for revenue losses attributable to reforms made necessary because of technological change and competitive entry.

The AT&T Petition does not explain why use of a distance-sensitive compensation structure (MOUs), which reflects the outdated copper-analog network, must become the basis for compensation for distance-agnostic fiber-digital networks that use Internet Protocol (IP). IP-enabled networks provide far more services at a fraction of the cost for narrowband voice on the traditional copper-analog network. The failure to explain why a copper-analog pricing model is appropriate is also a problem because recovery appears to be in perpetuity, but only for ILECs.[18]

The AT&T Petition relies on rates already established in the CALLS Order to support this proposal. The CALLS Order established three tiers of rates for originating access. The first rate of $.0055 per MOU applied to Regional Bell Operating Local Exchange Carriers (RBOC LECs). This includes AT&T, since AT&T merged with SBC,

[18] The AT&T Petition does not address access recovery for wireless or cable telephony providers. The proposal fails to include these carriers although they will most likely have to pay to support compensation for ILEC reforms. This was a Missoula Plan concern.

and Verizon because Verizon was an original RBOC LEC. The second rate was $.0065 per MOU for all other price cap companies. The third and highest rate was $.0095 per MOU. This was set for "low density price cap" carriers.

The PaPUC questions the wisdom of advancing reforms by imposing the *highest* originating access rate, the rate established for low-density price cap carriers, to offset revenue losses attributable to access rate reform. This problem is particularly acute if the highest rate will now apply to RBOCs and others that already have a lower rate.

The AT&T Petition does not explain why this low-density price cap rate, a rate established for more rural carriers, should be the rate for RBOCS like Verizon and AT&T, carriers already subject to TELRIC. The AT&T Petition fails to explain how increasing an RBOC's originating access rates using a potentially outmoded compensation regime and setting it at the highest originating access rate under that regime, notwithstanding the considerable differences in population and cost, can be justified on the basis of declining economic cost for access services because of continuous technological innovation.

The second equitable concern is the excessive reliance on SLCs. The AT&T Petition proposes three funding sources for compensation i.e., SLCs, originating access rate increases, and FUSF, in that order. The AT&T Petition relies on SLCs, originating access rate increases, and FUSF[19] in that order. The proposal would use a FUSF assessment but only if SLCs and originating access rate increases fail to provide enough money.

The PaPUC is concerned about this continued reliance on end-user SLCs imposed on narrow-band voice service as the preferred source for funding intercarrier compensation reform. Compensation reform is needed because a modernized IP-enabled PSTN can provide bundles of Voice-Data-Video services following the deployment of fiber networks. The providers' continuing reliance on the PSTN is not altered because that PSTN is evolving from a circuit-switched architecture into an architecture centered on digital packets. The use of SLCs would allocate the vast bulk of reform costs on narrowband

---

[19] The AT&T Petition raises serious questions about the failure to consider expanding the contribution to the costs for these reforms from the interstate services that generate interstate revenues. Those services already support the FUSF.

voice customers, and primarily residential and small business customers at that. There seems to be no recognition that many other IP-enabled services, like VoIP, Video, Data (Internet Service), and even special access also use the PSTN.

The reliance on SLCs will increase local rates. This adversely impacts telephone penetration rates. In that regard, the PaPUC disputes the AT&T Petition's claim that penetration rates for narrowband voice service have increased since implementation of the CALLS proposal since 2001.[20]

The PaPUC previously noted that the November 2006 Universal Service Monitoring Report showed that the penetration rate for telephone service declined from 97.85 to 97.2% from 2001 through 2004. Delaware, the District of Columbia, Kentucky, Maryland, Virginia, and West Virginia also experienced similar declines in telephone penetration rates as well.[21]

---

[20] AT&T Petition, p. 12, fn. 129.

[21] *Universal Service Monitoring Report,* CC Docket No. 98-202 (Data Received through May 2006) (*USF Monitoring Report),* Table 6.4, p. 6-14.

In addition, the PaPUC notes that the most recent 2007 Universal Service Monitoring Report contradicts AT&T's claim. The MACRUC Region has witnessed penetration rate declines since the CALLS Order imposed higher-cost SLCS starting in 2001. The MACRUC Region contains a significant portion of the nation's population and net contributor states to the current FUSF.

The MACRUC region witnessed penetration rate declines, most notably for end-users in the $15,000 to $49,999 annual income range. The PaPUC is concerned because these classes of consumers are more likely to feel the direct impact to SLC increases from the proposed reform. Pennsylvania and the MACRUC Region witnessed these penetration rate declines notwithstanding the growth in wireless service. That is because wireless service and other voice services are factored into these penetration rates. [22]

The latest report shows that Pennsylvania's penetration rate declined from 97.0% in 2001 to 96.1% in 2007.[23] Penetration rates in the District of Columbia declined from 94.5% in 2001 to 92.5% in March

[22] *2007 Universal Service Monitoring Report*, pp. 6-2 to 6-3.
[23] *2007 USF Monitoring Report*, Table 6-9, pp. 6-30 and 6-33.

2007. Maryland's declined from 96.0% in 2001 to 95.5% in March 2007. New York's penetration rate declined from 95.1% in 2001 to 93.0% in 2007.

Nationwide, the penetration rate decline is more noticeable at income levels below $50,000 during the same period. Penetration rates for incomes in the $40,000-$49,999 range were 97.8% in 2001 and 97.0% in 2007. Penetration rates in the $15,000-$19,999 range declined from 93.2% in 2001 to 92.3% in 2007.[24] Penetration rate declines at these income levels are generally more pronounced in minority communities as well.[25]

The PaPUC agrees that there was a decline in access rates following promulgation of the ESP Exemption. However, they are not

[24] *2007 USF Monitoring Report*, Table 6-10, pp. 6-40 and 6-44.

[25] Caucasian-American telephone penetration rate at the $40,000-$49,999 income level declined from 97.9% in 2001 to 97.4% in 2008. The African American telephone penetration rate at that income level declined from 97.0% in 2001 to 94.1% in 2008. The Hispanic-American telephone penetration rates declined from 96.0% in 2001 to 94.3% in 2008. *See 2007 USF Monitoring Report*, Table 6-10, pp. 6-40 and 6-44. At the $15,000-$19,999 income levels, the Caucasian-American telephone penetration rate declined from 93.8% in 2001 to 92.6% in 2007. The African American telephone penetration rate barely increased from 91.1% in 2001 to 91.2% in 2008. The Hispanic-American telephone penetration rates witnessed a significant decline from 87.7% in 2001 to 87.0% in 2008, virtually wiping out the .1 percentage increase in African American telephone penetration rates. *See 2007 USF Monitoring Report*, Table 6-10, pp. 6-40 and 6-44.

related as suggested by the AT&T Petition. The imposition of increased SLCs to underwrite the CALLS Order increased costs to consumers. The SLC increased dramatically in 2001, the same time period in which penetration rate declines became more noticeable. The decline in penetration rates followed adoption of the CALLS Order not promulgation of the ESP exemption. It was SLC increases that resulted in end-user rate increases which, in turn, affected penetration rates.

The fact that the SLC proposed will be capped at $6.50[26] as opposed to $10.00 under the Missoula Plan,[27] and even that is not certain[28], does not make the continued use of end-user SLC rate increases any more palatable. Perpetuation of a cost-recovery mechanism that undermines telephone penetration rates and universal

---

[26] AT&T Petition, pp. 8-9.

[27] *In re: Intercarrier Compensation,* CC Docket No. 01-92, Missoula Plan Filing (July 18, 2006), Executive Summary, p. 6. Thereafter, the SLC increases along with inflation. The FCC published notice of this Missoula Plan on July 25, 2006 in Docket No. CC 01-92 at DA 06-1510.

[28] *Compare In re: Intercarrier Compensation,* CC Docket No. 01-92, *AT&T Notice of Ex Parte* dated July 17, 2008, p. 7 ("the FCC should set an absolute cap on the amount of the SLC increase") with *AT&T Petition,* WC Docket No. 08-152, pp. 8-9 ("This petition requests a limited waiver of the rules that prevent AT&T from increasing its SLC up to (but not above) the existing SLC caps established in the CALLS Order i.e., $6.50 for residential and single-line business lines; $7.00 for non-primary residential lines; and $9.20 for multi-line business lines.").

service is a problem, particularly when those increases underwrite reforms whose cost is determined based on outmoded and legacy copper-based network architecture.

The AT&T proposal seems to use SLCs to ensure access revenue recovery for carriers in perpetuity, particularly for rural ILECs. There is no revenue recovery for "over the top" or nomadic VoIP providers, wireless providers, or cable telephony even if they may ultimately underwrite these costs in the FUSF.

This AT&T Proposal, just like the pending Missoula Plan or the earlier CALLS Order, does not contain any assurances that access rate reductions funded by SLC increases will actually be flowed through to end-users in the form of lower long-distance rates. There is no authority given to the state commissions to ensure that end-users actually receive the benefits from access rate reductions. Moreover, the claim that the CALLS Order resulted in penetration rate increases sufficient to warrant consideration in AT&T's proposal is simply not the case in the MACRUC Region, a region with a substantial number of the nation's population that will ultimately experience SLC and originating access rate increases under this plan.

The PaPUC agrees that an allocation of reform costs to the FUSF warrants serious consideration if the result minimizes impacts on end-users. The problem with the AT&T Petition is that the proposal only allocates reform costs to the FUSF as a measure of last resort in the three-part funding solution. Reforms are supported almost exclusively by SLC and originating access rate increases as FUSF is used only as a last resort.

. The AT&T Petition does not propose increasing the cost burden on interstate services to support these interstate reforms. At a minimum, the FCC needs to consider increasing the costs for reform shouldered by interstate services to support interstate reforms. This may be better public policy compared to increasing intrastate rates through larger SLCs and increasing originating access rates, particularly given the penetration rate declines associated with the last CALLS reform. The PaPUC suggests that some services which warrant consideration could include interstate bundled services or special access.[29]

---

[29] The role of special access is particularly relevant given the *Sprint Ex Parte Letter* dated August 7, 2008. Sprint outlines considerable rates of return on

In addition, the PaPUC addresses the proposal to remove the ESP exemption from access rates. Currently, access rates are not recovered by VoIP because it is, apparently, classified as a form of Enhanced Service and exempt from access rates.[30] The proposal remedies some alleged practice in which VoIP providers get reciprocal compensation for some calls but charge access for other calls. However, the proposal contains no detailed information or evidence showing that all VoIP providers are doing this.

If the ESP exemption was removed for VoIP, the PaPUC notes that there would still be policy disconnects between the professed goal

---

interstate special access in the 2005-2007 time periods. This is the same time that end-user penetration rates for narrowband voice service were declining after implementation of the CALLS Order. Compare *Sprint Ex Parte Notice* dated August 7, 2008, p. 3 and 2007 USF Monitoring Report, Tables 6-9 and 6-10.

[30] The *AT&T Petition* proposes to "remove" the Enhanced Service Provider (ESP) exemption from access rates for VoIP service. The *AT&T Petition* does not explain whether VoIP over a "dial-up" service will be priced on a MOU originating access rate of $.0095 (since VoIP provided by a dial-up ISP does involve an outgoing local call if within a LATA) or if the $.0007 rate proposed by Verizon for terminating access in Verizon's August 6, 2008 Ex Parte filing at Docket Nos. 04-36 and 01-92 will apply (since a dial-up ISP call, even the one used for VoIP, terminates somewhere). Importantly, removal of the ESP Exemption and imposition of access for VoIP could ultimately meter advanced services like VoIP whereas a flat-rate connection charge better avoids this issue. Also, MOU metering is more a feature of copper-analog network technology not the distance-agnostic nature of fiber-digital network technology.

of achieving rate uniformity on a MOU basis and the AT&T Petition and the Two Proposals Letter. The PaPUC does not see how rate uniformity is obtained if the FCC adopts the AT&T rate for *originating* access rate of $.0095 for VoIP calls sent in an IP-to-PSTN direction while adopting the Verizon proposal to charge $.0007 per MOU as the reciprocal compensation rate for *terminating* access if the VoIP call comes in over a dial-up connection. Final rate proposals with different rates for *originating* access ($.0095) and reciprocal compensation ($.0007) are not uniform.[31] Rate arbitrage is not addressed by adopting proposals which would resolve rate disparities through another set of different rates.

The PaPUC appreciates that the FCC, the RBOCs, and the supporting proponents are trying to quickly craft a compensation structure, particularly the need to address the federal court decision in the *Core Remand*.[32] This decision apparently raises the fear that

---

[31] *Compare AT&T Petition,* p. 9 ($.0095 originating access rate) with *Two Proposals Letter* dated August 6, 2008 at p. 2, Docket Nos. Docket 04-36 and 01-92, (the Commission should establish uniform rates for *all* traffic exchange with or on the PSTN), emphasis supplied. The *Two Proposals Letter* supported by Verizon later proposes a $.0007 ISP-bound rate as a uniform terminating rate whereas AT&T proposes an originating access rates for VoIP calls. The rates are not the same.

[32] *Core Communications Notice of Ex Parte,* CC Docket No. 99-68 and WC Docket No. 01-92, Letter dated July 25, 2008, Attachment. This decision caps

further court action will "throw open the door" to renewed regulatory arbitrage by CLECs.[33] However, at this time, there is no uniform and unqualified support for the AT&T Petition or the Verizon proposal.[34]

---

a ten-year dispute traceable to the ILECs' securing a favorable compensation approach for competitors' local calls in the ILECs' local markets. Prior to the internet and at the dawn of local competition, a 3-minute voice call was the dominant use of the ILECs' networks. At that time, the ILECs and CLECs disputed the compensation structure governing local voice calls. ILECs demanded reciprocal compensation at state set rates. CLECs pleaded for bill and keep. Most state commissions adopted some form of reciprocal compensation. The advent of dial-up internet calls over the ILECs' networks turned a favorable ILEC compensation balance into an unfavorable one after the CLECs got a larger number of dial-up ISPs. The CLECs' dial-up internet "local" calls for their ISP clients required the ILECs to pay large reciprocal compensation payments to CLECs far in excess of what the ILECs got for the average 3-minute voice call. Dial-up internet calls were far longer than the 3-minute average. Compensation was based on negotiated and state approved reciprocal compensation rates. The ILECs asked the FCC to stop "rate arbitrage" and federalize dial-up calls and the resulting reciprocal compensation. The federal court vacated two prior FCC decisions which gave the ILECs the requested relief. This mandamus and the AT&T Petition are the latest attempt to address problems arising because a benefit became a burden.

33 AT&T Notice of Ex Parte, Docket No. 01-92, Letter dated July 17, 2008, p. 8.

34 *AT&T Petition*, Docket No. 08-152, *Core Communications Notices of Ex Parte* dated July 25, 2008 and July 28, 2008 (States should set intrastate reciprocal compensation rates); *Embarq Notice of Ex Parte* dated July 30, 2008 (AT&T Petition is not good for rural carriers); *Sprint Notice of Ex Parte* dated August 7, 2008, p. 3. n. 4 (special access rates of return are significant); *In Re: Intercarrier Compensation*, Docket No. CC 01-92, *Pac-West Notice of Ex Parte* dated August 18, 2008 ($.0007 rate has never been cost justified by this or any other Commission); Level 3 Notice of Ex Parte dated August 18, 2008 ($.0007 rate is above some Level 3 rates but the proposed rate should be extended to all locally-dialed ISP calls); *Feature Group IP Notice of Ex Parte* dated August 11, 2008 (Feature Group supports rate but proposal lacks the requirement that all carriers must interconnect with one another and route traffic originating on one network but addressed to another, regardless of technology and on equal terms and conditions.); *Sprint Nextel Notice of Ex Parte* dated August 11, 2008 ("Sprint Nextel supports a uniform rate but

Conclusion

The PaPUC asks the FCC to require additional information on the AT&T Petition before reaching a decision on compensation reform. The PaPUC has serious reservations with centralizing access rate-making authority at the FCC. The PaPUC is particularly concerned that local rates will increase in states with price cap regimes and approved alternative plans that contain dollar-for-dollar recovery rights for "exogenous events" or "change of law" events, or mandate intrastate access charge reforms only on a "revenue neutral" basis. The PaPUC does not support reforms that preempt Pennsylvania law, impose dramatically larger SLC burdens with minimal benefit, or undermine universal service telephone penetration rates.

The PaPUC questions the continued reliance on using an outdated MOU compensation structure designed to address the constraints of an outdated copper-analog network. The PaPUC is particularly concerned about the continued reliance on SLCs and the

---

rejects the notion that any carrier or class of carriers is automatically entitled to a guaranteed revenue stream to neutralize the impact of regulatory reforms").

proposed SLC rate increases to fund reforms. The use of SLCs imposes more costs on consumers in net contributor states to the FUSF, unless the contribution base is expanded or the FCC uses other funding methods.

The PaPUC notes that the absence of any consideration for a flat-rate □connection based□approach to funding carrier compensation similar to that set suggested in the earlier NPRM. The AT&T Petition appears to abandon any use of a number-based approach as well. The proposal fails to address the rate shock, also noted in the earlier NPRM, if the FCC removes the ESP exemption.

Respectfully submitted,
Pennsylvania Public Utility Commission

Joseph K. Witmer, Esq., Assistant
Counsel
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
(717) 787-3663
Email: joswitmer@state.pa.us

Dated: August 21, 2008.

PTA Exhibit JJL-7

R-LEC PSI Banked Revenues
(as of 6/24/08)

BENTLEYVILLE TELEPHONE COMPANY

Amount Banked in 2007 Filing	$37,156.53
Amount Banked in 2008 Filing	$40,796.89
Cumulative Banked Revenue	**$77,953.42**

BUFFALO VALLEY TELEPHONE COMPANY

Amount Banked in 2006	$110,960
Amount Banked in 2007	$50,812
Amount Banked in 2008	$72,628
Cumulative Bank	**$234,400**

CITIZENS TELEPHONE COMPANY OF KECKSBURG

2005 Banked Amt	$52,812
2006 Banked Amt	$70,590
2007 Banked Amt	$66,385
2008 Banked Amt	$49,114
Cumulative Bank	**$238,901**

CONESTOGA TELEPHONE COMPANY

Amount Banked in 2006	$406,703
Amount Banked in 2007	$140,378
Amount Banked in 2008	$614,864
Cumulative Bank	**$1,161,945**

CONSOLIDATED COMMUNICATIONS OF PA

Current PSI Filing is still under review with PUC

D&E TELEPHONE COMPANY

Amount Banked in 2006	$584,211
Amount Banked in 2007	$299,449
Amount Banked in 2008	$699,206
Cumulative Bank	**$1,582,866**

FRONTIER COMMUNICATIONS OF BREEZEWOOD

Year	Net Banked Amount
2005	$35,941.23
2006	$47,941.83
2007	$0.00
2008	$0.00
Total	**$83,883.06**

FRONTIER COMMUNICATIONS OF CANTON

Year	Net Banked Amount
2005	$40,690.89
2006	$60,331.60
2007	$0.00
2008	$0.00
Total	**$101,022.49**

FRONTIER COMMUNICATIONS COMMONWEALTH

Year	Net Banked Amount
2005	$80,667
2006	$405,895
2007	$0.00
2008	$0.00
Total	**$486,562**

FRONTIER COMMUNICATIONS OF PA

Year	Net Banked Amount
2005	$238,943.54
2006	$359,698.21
2007	$0.00
2008	$0.00
Total	**$598,641.75**

FRONTIER COMMUNICATIONS OF LAKEWOOD

Year	Net Banked Amount
2005	$15,593.59
2006	$22,392.00
2007	$0.00
2008	$0.00
Total	**$37,985.59**

FRONTIER COMMUNICATIONS OSWAYO RIVER

Year	Net Banked Amount
2005	$20,788.41
2006	$29,791.97
2007	$0.00
2008	$0.00
Total	**$50,580.38**

HICKORY TELEPHONE COMPANY

Remaining 2007 Banked Amt	$3,771
Amount Banked in 2008 Filing	$24,895
Cumulative Banked Revenue	**$28,666**

IRONTON TELEPHONE COMPANY

Remaining 2005 Bank	$73,738
Amount Banked in 2006 Filing	$96,395
Amount Banked in 2007 Filing	$95,011
Amount Banked in 2008 Filing	$72,902
Cumulative Banked Revenue	$338,046

LACKAWAXEN TELEPHONE COMPANY

Amount Banked in 2006	$32,339
Amount Banked in 2007	$53,668
Amount Banked in 2008	$43,407
Cumulative Bank	**$129,414**

MARIANNA & SCENERY HILL TELEPHONE COMPANY

Amount Banked in 2006	$54,243
Amount Banked in 2007	$38,014
Amount Banked in 2008	$40,872
Cumulative Bank	**$133,129**

NORTH-EASTERN PENNSYLVANIA TELEPHONE COMPANY

Amount Banked in 2006	$179,052
Amount Banked in 2007	$205,967
Amount Banked in 2008	$174,246
Cumulative Bank	**$559,265**

TDS MAHANOY & MAHANTANGO

Amount Banked in 2006	$23,501
Amount Banked in 2007	$157,234
Amount Banked in 2008	$54,793
Cumulative Bank	**$235,528**

TDS SUGAR VALLEY

Amount Banked in 2006	$3,713
Amount Banked in 2007	$41,300
Amount Banked in 2008	$14,496
Cumulative Bank	$59,509

WINDSTREAM PA, LLC

Remaining 2006 Bank	$1,210,151.55
Amount Banked in 2007 Filing	$3,353,377.48
Amount Banked in 2008 Filing	$2,872,646.05
Total Cumulative Bank	**$7,436,175.08**

PTA STATEMENT NO. 1R

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

Prepared Rebuttal Testimony
of
Joseph J. Laffey

On Behalf of
The Pennsylvania Telephone Association

Served: January 15, 2009

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. My name is Joseph J. Laffey. I am currently employed as a Senior Consultant for ICORE, Inc., 326 South Second Street, Emmaus, PA 18049.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes. I previously submitted direct testimony, which has been marked as PTA Statement No. 1. In that testimony I described the current weighted average residential benchmark rate, or rate cap, of $18.00. I explained the origination of the original $16.00 residential benchmark rate and the equivalent proportionate business rate cap in the Commission's *Global Order*. In my testimony, I also addressed why the Commission should maintain the current benchmark rate, and why it is necessary, and indeed wholly in conformance with this Commission's own past rulings, for the Commission to increase the current PAUSF to allow RLECs whose weighted average residential rate (and equivalent proportionate business rate) pierce the benchmark rate under the operations of their alternative regulation plans to receive universal service funding to recover the difference. Finally, I addressed why it is not necessary, and would be contrary to the RLECs' existing alternative regulation plans, for the Commission to impose a new needs-based test on the RLECs beyond the needs-based test already imposed in the RLECs' Chapter 30 plans in order to obtain the universal service support to maintain affordable rural local rates that are comparable to urban rates.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My testimony is again offered on behalf of the PTA, and will respond to the direct testimonies offered by other parties in this proceeding. In main, my testimony will respond to the testimonies of the Verizon companies ("Verizon"),[1] the Comcast companies ("Comcast"), [2] the AT&T companies ("AT&T"), [3] the Office of Small Business Advocate ("OSBA"), and the Office of Consumer Advocate ("OCA"). My failure to address any particular aspect of another parties' testimony should not imply agreement.

II. THE RESIDENTIAL RATE CAP

A. The Current Rate Cap

Q. SEVERAL PARTIES TESTIFIED TO THE CURRENT RATE CAP LIMITATIONS AND EXPRESSED A VARIETY OF OPINIONS, INCLUDING DENIAL OF THE CAPS' EXISTENCE, LIMITATIONS AS TO THEIR INTENT, AND QUESTIONS AS TO THEIR LEGALITY. DO YOU HAVE ANY RESPONSE?

A. Yes. As I described in my direct testimony, the Commission formally established rate caps in the *Global Order*. The Telecommunications Act of 1996 ("TCA-96") requires rates to be affordable. The residential rate cap is an upper limit on the weighted average residential local rate(s) that a company may charge to residential customers, exclusive of fees, taxes, and surcharges. It was originally set at $16.00, and is currently $18.00. The

---

[1] The Verizon companies are identified by Verizon witness Price as Verizon Pennsylvania, Inc., Verizon North Inc., and MCImetro Access Transmission Services LLC d/b/a Verizon Access Transmission Services, with reservations for any other Verizon entities that may intervene in this proceeding. Verizon Statement 1 at 2, and note 1.

[2] The Comcast companies are identified by Comcast witness Pelcovits as Comcast Phone of Pennsylvania, LLC and Comcast Business Communications, LLC. Comcast Statement 1 at 2.

[3] The AT&T companies are identified on the cover of the AT&T direct testimony of witnesses Nurse and Oyefusi as AT&T Communications of Pennsylvania, LLC, TCG Pittsburgh, Inc., and TCG New Jersey, Inc.

business rate cap is an upper limit on the equivalent weighted average business rate. As established in the *Global Order,* it was set in proportion to the residential rate cap. Therefore, each individual RLEC's weighted average equivalent business benchmark rate will likely be different, because it will have been set based upon its relationship to the weighted average residential rate at the time the $16.00 cap was established in the *Global Order.*

Q. PLEASE EXPLAIN WHAT YOU MEAN BY WEIGHTED AVERAGE?

A. When a company has more than one local service rate, the average rate can be calculated by using a "simple" or "weighted average" approach. For example, a company that has one exchange with a $15.00 per line rate and another exchange with a $10.00 per line rate, the simple average is $12.50. The weighted average calculation reflects the relative distribution of lines within each exchange. As further detailed in the table below, the weighted average would be calculated by dividing total revenue from the service by the number of lines in service.

Exchange	Lines	Rate	Revenue
A	2,000	$15.00	$ 30,000
B	500	$10.00	$ 5,000
Total	2,500	$14.00	$ 35,000

This company would have a weighted average local service rate of $ 14.00 per line based on the distribution of lines between exchanges A and B.

Q. OSBA WITNESS BUCKALEW CONTENDS THAT NO RATE CAPS EXIST AT ALL. VERIZON WITNESS PRICE DISPUTES THE EXISTENCE OF A BUSINESS RATE CAP. DO YOU AGREE WITH THESE WITNESSES?

A. No. While I believe I have made it clear in my direct testimony how the local rate caps were established, in light of the fact that these witnesses dispute the very existence of the caps, I think it is necessary to respond further.

Q. PLEASE EXPLAIN.

A. The RLECs' local rate cap was first adopted in the Commission's *Global Order,*[4] and was increased and reaffirmed by the Commission in its Order entered July 15, 2003.[5] On advice of counsel, Mr. Buckalew testifies that in the *Global Order*, and in the *July 15, 2003 Order*, what he refers to as the "Sprint/RTCC Settlement case," the Commission addressed caps on local exchange rate increases resulting from changes in access and toll charges, but that neither case addressed rate caps with respect to annual rate changes outside of rebalancing. Mr. Price contends that the rate caps and the "plan" self-terminated on December 31, 2006.

Q. DO YOU AGREE WITH MR. BUCKALEW'S AND MR. PRICE'S CHARACTERIZATIONS?

A. No, I do not. I will leave legal interpretation to the lawyers. However, I believe that both Mr. Buckalew and Mr. Price are attempting to isolate and narrow the impact of both the *Global Order* and the *July 15, 2003 Order* in order to support their conclusions.

The parties to the *Global Order* proceeding clearly recognized that local rates could increase outside of the access charge reductions contemplated in the two

---

[4] *Re Nextlink Pennsylvania, Inc.*, Docket Nos. P-00991648 and P-00991649, Order entered September 30, 1999 ("*Global Order*").
[5] This order was attached to my direct testimony as PTA Exh. JJL-5. I refer to it in my testimony as the "*July 15, 2003 Order.*"

settlements proposed before the Commission. In my direct testimony, I explained how this provision was included in the "1648 Petition." The "Consumer Parties," which included the OCA, the OSBA, the Office of Trial Staff ("OTS") and others, were not signatories to either the 1649 or the 1648 Petitions. The "Prehearing Conference Memo of the Consumer Parties," which the Small Business Advocate signed, included the following statement:

> The Senators-CLEC [1648] plan calls for moneys [sic] from the USF to be used not only to reduce access charges but also to support and reduce higher costs local service rates, both presently and in the event of future rate increases which would push local residential rates above $16.00 per month. Local rate increases above the $16.00 would be reduced by a withdrawal from the USF so that the basic rates paid by residential customers would not exceed $16.00 through the life of the settlement. If the USF is inadequate to recover the required level of support, the Senators-CLEC settlement proposes that the Commission direct all contributors to increase their payments to bring the USF up to the necessary level. The Senators-CLEC settlement specifies that the USF initially be set at the $12 million based on Bell's contribution, without that figure acting as a cap on Bell's contribution.[6]

The OCA's witness, Mr. Mark Cooper, described the Consumer Group's position in more detail:

> Q. HOW SHOULD FUTURE RATE INCREASES BE HANDLED?
>
> A. If the PUC determines that the small telephone companies must recover more revenues for local service after the $16.00 rate limitation is put into effect, that should promptly be funded from the USF, with contributions from all the companies in the state. Under the Consumer Parties' proposal, the small telephone companies could increase rates after that time, but the USF would then pay additional funds back to those companies in order to avoid charging such additional amounts to consumers taking service from those small telephone companies.[7]

---

[6] Global Proceeding, Prehearing Statement of Position of the Consumer Parties Regarding the Petitions for Settlement at 9-10 (fn. omitted).

[7] Global Proceeding, Direct Testimony of Mark N. Cooper on behalf of the OCA, dated April 22, 1999 at 11.

AT&T witness G. Blaine Darrah III, concurred in the Consumer Parties' understanding of the 1648 Petition:

> For ILECs other than Bell, a rate ceiling of $16.00 per month will be imposed, which caps the residential local rates of each ILEC other than Bell, including charges for dial tone, touch tone, and local usage, for the life of the agreement. If in the future the Commission concludes that the just and reasonable rate for these services is above $16.00, any revenue above the rate ceiling and approved rate will be recovered via the Small Company Fund [PAUSF]. This concession assures that there will be mechanism in place to provide for rate stability for ILEC end user customers and revenue stability for high cost ILECs.... In contrast, the Bell Settlement [1649] only provides one time protection for Small Company customers for which the companies' local rates are already over $16.00. Future protection is simply not provided.[8]

Verizon (then Bell Atlantic) did not address the subject at all in testimony, either to agree with the 1648 Petitioners (and Consumer Parties) or to oppose the provision which would allow future rate increases above the benchmark rate to be derived from the PAUSF.

Similarly, characterizing the *July 15, 2003 Order* as the "Sprint/RTCC Settlement case,"[9] Mr. Buckalew gives the impression that only the RLECs designed and agreed to the further actions taken in that order. Verizon witness Price likewise characterizes the Joint Access Proposal as something contrived by "a group of RLECs" proposed to "avoid litigation."[10] In fact, Sprint and the RTCC were not the only parties to that proceeding. It was an adversarial proceeding that culminated in further access/universal service action by the Commission based upon input from all interested stakeholders, including customer advocates, all ILECs, IXCs and CLECs.

---

[8] Global Proceeding, Direct Testimony of G. Blaine Darrah III on Behalf of AT&T Communications of Pennsylvania (Updated Version - June 23, 1999) at 43.
[9] OSBA Statement 1 at 6.
[10] Verizon Statement 1 at 9.

Q. WOULD YOU PROVIDE THE BACKGROUND TO THAT ORDER, PLEASE?

A. Yes. The *July 15, 2003 Order* approved a Joint Access Proposal that was developed and agreed to by a wide group of interested stakeholders, including the OSBA and Verizon. That proposal was developed in response to a Commission Secretarial Letter issued October 1, 2001. In this Secretarial Letter, the RTCC companies and Sprint/United only were directed to submit a proposal to the Commission by January 15, 2002 "outlining proposed changes in access charges and a reduction in the carrier charge pool" (a term synonymous with the PAUSF)[11] and "outlining a time frame for changes to take effect." Absent the submission of a joint proposal, the Commission intended to commence an investigation in January 2002.

After review of various proposals and extensive discussions in which all parties were invited and had the opportunity to participate, on December 16, 2002, the RTCC, Sprint/United, the OCA, OTS, and OSBA filed the Joint Access Proposal and accompanying Statements in Support. A copy of the Joint Access Proposal was attached to the *July 15, 2003 Order* in my direct testimony. I attach as PTA Exhibit (Rebuttal) JJL-8 a copy of the petition accompanying the proposal and the various parties' statements in support, including that of the OSBA, that were filed.

The Joint Access Proposal was published in the *Pennsylvania Bulletin*, and comments and replies were received. Although originally opposed by AT&T and MCI, and only "conditionally" accepted by Verizon, ultimately all parties agreed to a procedural stipulation that provided a procedure for the Commission to address remaining legal issues. This "Joint Procedural Stipulation" was filed on June 4, 2003,

[11] The Commission used the term "Universal Service Fund/Carrier Charge Pool" to mean the Small Company USF as attached to the 1649 Petition and ultimately adopted by the Commission. (*See e.g. Global Order* at 50, 153); PTA Exh. (Direct) JJL-1 at 8, ¶ C.11(g)(Settlement), at 7, ¶ IV.B (Appendix A).

signed by the OCA, RTCC, Sprint/United, OTS, OSBA, AT&T, Verizon, and MCI. Among other things,[12] it provided for the Commission's unopposed adoption of the Joint Access Proposal.[13]

Thus, this further Commission action in the 2002-2003 time frame with respect to access charge and universal service issues was not merely an RTCC/Sprint settlement, as Mr. Buckalew would suggest. Nor was it merely a "group of RLECs" contriving some settlement to avoid litigation as Mr. Price would suggest. Rather, it was a joint effort directed by the Commission and conducted with the active participation of the entire industry and customer representatives, and it culminated in the Commission's *July 15, 2003 Order*.

Q. IS THE JOINT ACCESS PROPOSAL'S REFERENCE TO THE RATE CAPS LIMITED?

A. No. In fact, again while the documents speak for themselves, the Joint Access Proposal very clearly retained all attributes of the *Global Order*. Therefore, while the Joint Access Proposal may have only provided for increases in local rates due to the specific rebalancing filings authorized in the proposal, the Commission's language in the *Global Order*, including the ability of RLECs' to receive universal service support for rate increases that exceeded the rate cap, continued unimpaired.

[12] Among those other things was agreement to allow Verizon to use its negative 2003 PCO filing, which would otherwise have compelled a rate decrease, to fund its contribution to the PAUSF.
[13] *See July 15, 2003 Order*, PTA Exh. (Direct) JJL-5, at 3-4.

Q. OSBA WITNESS BUCKALEW CHALLENGES THE RLECS TO DEMONSTRATE THAT THEIR CHAPTER 30 PLANS, AS THEY EXISTED AT THE ENACTMENT OF ACT 183, ADDRESSED THE RATE CAPS. WHAT IS YOUR RESPONSE?

A. Not only are the orders underlying the PAUSF germane, but the Chapter 30 orders and Plans also address and memorialize the rate caps. As I stated in my direct testimony, all Chapter 30 plans that were pending or filed after the PUC's entry of the *Global Order* contained the directive from that order establishing the rate cap and providing that allowable revenue increases beyond the rate cap limitations were to be funded by the PAUSF. I provided an example of the language that addressed the cap and revenue recovery above the cap. That language was the subject of further orders from the Commission, as I also addressed in my direct testimony.

RLECs that had Chapter 30 Plans approved prior to the Commission's entry of the *Global Order* each had language addressing the affordability rate or cap that had been pending as an issue in the Commission's Universal Service Dockets[14] that ultimately were consolidated with and resolved in the *Global Order*. The TDS Companies, Sugar Valley and Mahanoy and Mahantango, for example, in their original Chapter 30 plans had language that stated as follows:

---

[14] *In Re: Formal Investigation to Examine and Establish Updated Universal Service Principles and Policies for Telecommunications Services in the Commonwealth; Declaratory Order, Advance Notice of Proposed Rulemaking, Scheduling of Public Forum*, Docket Nos. I-00940035, L-00950102 (Order entered April 10, 1995); *Rulemaking to Establish a Universal Service Funding Mechanism; 52 Pa. Code §§63.141 et seq.*, Docket No. L-00950105 (Order entered June 21, 1996); *In Re: Formal Investigation to Examine and Establish Updated Universal Service Principles and Policies for Telecommunications Services in the Commonwealth*, Docket No. I-00940035 (Order entered January 28, 1997); *In Re: Formal Investigation to Examine and Establish Updated Universal Service Principles and Policies for Telecommunications Services in the Commonwealth*, Docket No. I-00940035 (Order on Reconsideration entered July 31, 1997), collectively referred to as "Universal Service Dockets"; individually referred to as "Universal Service Order" by date.

> The rates for those services which are established by the Commission as universal services **shall not exceed either the level determined by the Commission to be affordable pursuant to the Universal Service Investigation and related dockets (provided that contributions from the Universal Service Fund make up the revenue difference between rates the Companies are entitled to under the Plan versus the R-1 equivalent Universal Service Rate)** or the costs of providing such service, unless the Commission rules, in a generic proceeding or in a proceeding specific to the Companies, that rates for universal service may exceed the cost thereof. ... This universal/cost limitation shall also apply under the same terms to B-1 service, as described in this Plan, except that the rate for such small business customers may be increased to its cost if that cost exceeds the affordable rate determined in the Universal Service investigation and related dockets.[15]

Q. WHAT ABOUT THE AMENDED CHAPTER 30 PLANS?

A. Each RLEC that had a Chapter 30 Plan, and that amended that plan after the enactment of Act 183 (and I believe all companies with Chapter 30 Plans filed Act 183 amendments), was required to file that Plan with the Commission.

To my knowledge, each Pennsylvania RLEC participating in this investigation did precisely that. In fact, not only did the OSBA participate in each proceeding before the Commission in which the original Chapter 30 Plans were approved, but also each RLEC that filed an amended Plan served a clean and redlined copy of the plan on both the OCA and OSBA, and each of those parties was provided an opportunity to file comments with respect to the amended plans. The OSBA did file letters with the Commission acknowledging review of the Amended Plans, and concluded there were no violations of Act 183 in the Amended Plans. Ultimately the Commission entered orders approving the RLECs' amended plans.

---

[15] Streamlined Regulation Plan of TDS/TELECOM/Mahanoy And Mahantango Telephone – Docket No. P-00961115; TDS TELECOM/Sugar Valley Telephone – Docket No. P-00961116, Part I.A.6 (emphasis added).

Q. PLEASE DESCRIBE HOW THE LANGUAGE ADDRESSING THE RATE CAP AND REVENUE RECOVERY FOR INCREASES BEYOND THE RATE CAP WERE ADDRESSED IN THE RLECS' AMENDED CHAPTER 30 PLANS.

A. For those RLECs whose plans were pending or approved after the entry of the *Global Order*, the Part 3.D Consumer Protections section of the plans again brought language regarding the rate caps to the Commission's attention. This Section was a part of the Price Stability Plan, or PSP, that included both PSM rate increases and rate rebalances. This change specifically reflected the fact that by 2005 (the date of the amendments), the $16.00 cap referenced in the original Chapter 30 Plans had been increased to $18.00. Otherwise, this same straight-forward language authorizing the RLECs to recover from the PAUSF revenue increases brought about by rate changes authorized under the plans that exceeded the rate cap again appeared in the Amended Chapter 30 Plans, as follows:

> Pursuant to the <u>Global Order</u> entered September 30, 1999, the Commission instituted a transitional universal service funding mechanism, i.e. the Pennsylvania USF, with a projected termination date of December 31, 2003. During the pendency of the Pennsylvania USF, the Company retains the right to change and rebalance its intrastate rates in accordance with the PSP, and if such rates are found to be just and reasonable, they shall be permitted to become effective. **Further, should the new rates exceed the $16.00 monthly residential rate ceiling and applicable business rate ceiling established in the <u>Global Order</u> for the duration of the Pennsylvania USF, the Company is permitted to recover the revenue difference arising from application of the <u>Global Order</u> rate ceilings from the Pennsylvania USF.** ***By Order entered July 15, 2003, at Docket No. M-00021596, et al., the Commission approved modifications to the Global Order including a continuation of the USF and an increase of the $16.00 residential cap to $18.00.***[16]

So, not only did the language appear in original plans, but also it was carried forward in the amended plans. RLECs with plans approved prior to the *Global Order*, which

[16] Amended Alternative Form of Regulation and Network Modernization Plan of Alltel Pennsylvania, Inc., Part 3.D, Consumer Protections, at 30 (emphasis added).

referenced the "affordability cap" as being addressed in the Commission's Universal Service Dockets, likewise continued that language in those RLECs' amended plans.

Q. OSBA WITNESS BUCKALEW ALSO TESTIFIES THAT THE MARCH 30, 2000 ORDER, WHICH YOU ADDRESSED IN YOUR DIRECT TESTIMONY, "NEVER AMOUNTED TO ANYTHING WITH REGARD TO RATE CAPS"[17] BECAUSE OF A COMMISSION RULEMAKING ORDER ESTABLISHING THE UNIVERSAL SERVICE REGULATIONS. WHAT IS YOUR RESPONSE?

A. While I recognize that much of Mr. Buckalew's opening testimony was provided "on advice of counsel," many of his statements, and this is a good example, clearly draw legal conclusions to which I believe a response is appropriately left to counsel. That said, I would like to make one comment with respect to the Commission's USF rulemaking order identified by Mr. Buckalew, though, again, I believe that order speaks for itself.

In addition to the powers to appoint a Fund administrator and auditor, the PAUSF regulations primarily set forth the mechanics for the collection of the Fund on a going forward basis necessary to *sustain* the Fund at its *established* level, accounting *at that time* only for increases that resulted from growth in access lines. The rate changes made in the *Global Order* included establishing a universal service credit for the companies whose weighted average R-1 rate exceeded the then-existing $16.00 rate cap. However, the extent of that "overage," or the amount above the cap, was *already accounted for in the size of the Fund* (which had been sized by the 1649 Petitioners, and modified by the Commission in that respect only to include Sprint/United as a recipient).

---

[17] OSBA Statement 1 at 7.

The import of this fact, of course, is that the USF regulations did not need to address the manner of funding for increases above the cap, because at that time no other RLEC had rates exceeding the cap. And, even more importantly, the change to accommodate the Independent Regulatory Review Commission certainly did not diminish the holdings of the Orders, previous and subsequent, that have clearly recognized that a USF-recipient company may recover the difference between the $16.00 residential (and corresponding business rate caps) from the PAUSF.

Q. DO YOU HAVE ANY COMMENT WITH RESPECT TO OSBA WITNESS BUCKALEW'S OBSERVATION THAT ACT 183 CONTAINS A CAP ON NON-RURAL INCUMBENT LOCAL EXCHANGE CARRIER'S ANNUAL PSM FILING RATE INCREASES BUT NONE ON RURAL COMPANIES?

A. Yes. While I am not entirely sure what Mr. Buckalew's point is, the fact is that the limitation Mr. Buckalew references with regard to non-rural annual PSM rate increases is not a rate cap. It is a limitation specific to Verizon (the only non-rural ILEC in Pennsylvania) restricting how Verizon may allocate an allowed annual increase within its residential class by limiting the maximum percent rate increase deviation among all residential lines. In effect, this requires Verizon to spread the increase relatively evenly among all residential customers, with an increase deviation of only 20% allowed within that class. It does not cap the allowable increased *rate* to any specific level beyond which that rate or rates may not be increased. Therefore, the reference to Section 3015(a)(3) is meaningless.[18] The fact that there is no similar restriction on how the RLECs implement the allowed rate increase within a class has no bearing on whether a rate cap – a point

[18] *See* Section 3015(a)(3) of Act 183.

beyond which rates may not be increased regardless of the percent increase being implemented – exists. As I previously stated, the requirements of Act 183 requiring an affordable rate for customers, as well as TCA-96 requiring affordable rates and ensuring that rural customers have access to telecommunications services at comparable rates as urban customers, continue in force today. So Mr. Buckalew's reference, in my mind, is meaningless.

Q. VERIZON WITNESS PRICE CONCEDES THAT THERE IS A RESIDENTIAL RATE CAP, BUT DISAGREES THAT THERE IS AN APPLICABLE BUSINESS RATE CAP, CITING HIS INABILITY TO FIND ANY MENTION OF A "CORRESPONDING" BUSINESS CAP OF $23.58 IN EITHER THE *GLOBAL ORDER* OR THE *JULY 15, 2003 ORDER* IN A PRIOR PROCEEDING INVOLVING D&E. WHAT IS YOUR REACTION?

A. As I stated in my direct testimony, the Small Company USF Plan adopted by the Commission in 1999 clearly established a "proportionate" rate cap on the business line equivalent to the R-1 (generally a B-1 line, or a business customer with 3 or fewer lines).[19] To the extent the establishment of the proportionate business cap was not at controversy in the Global proceeding, and it was not, it is not surprising that it may not be mentioned in the body of the *Global Order*. The pertinent fact is that the proportionate business cap was included in the Small Company Plan that the Commission adopted. As for the precise "$23.58" cap that Mr. Price contends he could not find, as I stated earlier, each RLEC's corresponding business rate cap is relative to its R-1 rate that was in effect

[19] PTA Exh. (Direct) JJL-1, Settlement at 4, B.5.d.5. (referencing Appendix A, Exhibit 1, page 4, providing the R-1 - B1 ratio); Appendix A at 4, II.C.2.

at the time the $16 cap was established. So the actual dollar rate cap will differ from company to company, and will not appear as a precise dollar figure anywhere in any Commission order or Chapter 30 plan.

Q. AT&T WITNESSES NURSE AND OYEFUSI CHARACTERIZE THE CURRENT $18.00 CAP AS ARBITRARY, INCONSISTENT WITH THE INTENT OF THE CURRENT CHAPTER 30, WHICH THEY STATE WAS TO ALLOW NOMINAL RETAIL RATE INCREASES TO RISE EACH YEAR BY THE RATE OF INFLATION, AND BASED ONLY ON POLITICAL COMPROMISE AND SETTLEMENT.[20] WHAT IS YOUR RESPONSE?

A. I disagree with both witnesses on all counts.

Very early on, the Commission's goal of establishing an "affordability" rate, or a rate cap, was to ensure a rate level for basic local exchange service that allowed consumers of telecommunications services "to pay for basic universal service without experiencing an unacceptable effect on basic universal service penetration rates in the Commonwealth[.]"[21] This goal has been previously identified to be a requirement of TCA-96. Ultimately, the Commission established the $16.00 rate cap in the *Global Order*. The underlying Universal Service Dockets were litigated, on-the-record proceedings, in which costing methodologies were at issue, and in which many parties representing all affected interest groups (ILECs, CLECs, IXCs, and consumer groups) had participated, including many that are participating in this proceeding. The $18.00 cap established in the *July 15, 2003* Order recognized a modest increase to the

[20] AT&T Statement 1 at 4-6.
[21] June 21, 1996 Universal Service Order at 8.

benchmark rate, which the Commission recognized "avoid[ed] customer rate shock, and, at the same time, encourage[d] the IXCs, CLECs and wireless telecommunications carriers to compete on a more level playing field with the ILECs."[22]

Further, I'm not aware of any "intent" of Act 183 to allow *rates* to rise – without any limitation – in line with inflation. The price cap Chapter 30 alternative regulation plans limit *revenue* increases to a specific formula that is tied to inflation.

The original Chapter 30 and Act 183, however, recognized affordability and universal service requirements as limitations on *rate* increases. Both versions of Chapter 30 required this Commission to balance the introduction of competition and alternative forms of regulation against traditional principles of universal, affordable, comparable service throughout the Commonwealth. I will note that Sections 3011(2), (3), (5), (8), and (12) of Act 183 all mention the promotion of competition and the deployment of a modern network while retaining affordable, universal service with reasonably priced protected services. And I have already mentioned on previous occasions TCA-96's language in the Universal Service section requiring affordability as a universal service principle. Clearly, the Commission has some balancing to achieve, but a very significant feature to successful achievement of that balance includes the maintenance of universal service at affordable rates.

I also draw attention to Section 3015(g) of Act 183, which, in my non-legal opinion, was intended to preserve existing *rate* limitations, such as the rate cap. *Revenue* increases are guided by the rate of inflation; *rate* increases are not. The only way for this Commission to reconcile that distinction is to continue the support and development of an explicit universal service funding mechanism.

[22] *July 15, 2003 Order* at 10.

Q. IS THE CONCEPT OF UNIVERSAL SERVICE LIMITED TO VOICE SERVICE?

A. I don't believe so. The Commission's regulations define "basic universal service" as an "evolving set of telephone services, as defined by the Commission, which represents the set of services essential for a resident of this Commonwealth to participate in modern society at any point in time."[23] The General Assembly statutorily mandated universal service to include the benefits of a broadband network. In today's Internet-influenced society, broadband access is critical. Act 183 intended the ubiquitous (universal) availability of both voice and broadband services while maintaining affordable rates, and doing so by allowing the RLECs the revenue increases they were authorized to achieve for undertaking these ubiquitous network deployment obligations, both voice and data, while receiving *explicit* universal service support on behalf of their customers. This is also consistent with the TCA-96's "universal service principles,"[24] and the FCC's pending NPRM addressing access charge reform.[25]

Q. SO DO YOU AGREE WITH AT&T WITNESSES NURSE AND OYEFUSI THAT "FORCING COMPANIES WHO COMPETE DIRECTLY WITH THE RURAL ILECS TO HELP FUND THEIR COMPETITOR'S ADVANCED NETWORK DEPLOYMENT

[23] 52 Pa. Code §63.162.

[24] 47 U.S.C. § 254(b) included "access to advanced services" among the principles.

[25] In the Matter of High-Cost Universal Service Support, WC Docket No. 05-337, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Lifeline and Link Up, WC Docket No. 03-109, Universal Service Contribution Methodology, WC Docket No. 06-122, Numbering Resource Optimization, CC Docket No. 99-200, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92, Intercarrier Compensation for ISP-Bound Traffic, CC Docket No. 99-68, IP-Enabled Services, WC Docket No. 04-36, Order On Remand and Report and Order and Further Notice of Proposed Rulemaking, released November 5, 2008. Offering "Broadband Internet access service" throughout a recipient's supported study area within five (5) years is proposed to be a condition of eligibility to receive high cost support. Id. ¶ 20. Broadband definition includes access to internet service and not just broadband transmission. Id. at ¶¶ 24 and 28. The ETC's commitment must include download speeds equal or greater than 768 kbps and upload speeds greater than 200 kbps. Id. at ¶ 28.

WOULD BE BOTH CONTRARY TO THE INTENT OF CHAPTER 30" AND "EXPANDING THE PAUSF BEYOND ITS INTENDED PURPOSE"?[26]

A. No. I do not agree with their basic premise that there is a direct and simple causation between the Act 183 broadband commitment and inflation increases in the way that these witnesses claim. Obviously, the RLECs' willingness to accelerate broadband deployment was a factor in relieving the offset, but nowhere in the Act are the costs of broadband deployment isolated or the inflation-based revenue increases earmarked for that purpose. The revenue increases allowed in the Act are spent across the full spectrum of everything the RLECs do, whether its purchasing a new truck, replacing the roof or setting a new fiber route.

It is wrong for AT&T and the others to argue that the money is intended to be (or is) exclusively spent for broadband deployment. Their argument, therefore, that they are being coerced into supporting one aspect of the companies' business is simply wrong. Nor, is it accurate for the IXCs to claim that they are funding a network that will compete with them. In reality, the RLECs' networks, in a symbiotic way, support the IXCs' ability to receive and terminate a call on the local network. Indeed, the IXCs should support a modern network, because it is the RLECs' network that the IXCs use to provide long distance toll service to customers. Moreover, broadband deployment, under the DSL technology used by many of the RLECs, improves the same facilities that are used to make the voice call. The provision of quality DSL service requires the RLEC to shorten the loops in order to improve bandwidth. Shorter loops has the benefit of improving voice quality and customer satisfaction.

[26] Direct Testimony of AT&T Witnesses Nurse and Oyefusi at 17.

Q. THE VERIZON[27] AND COMCAST[28] WITNESSES CONTEND THAT THE CURRENT CAP WAS SET SOLELY TO CONTROL ACCESS RATE REBALANCING, WITH COMCAST WITNESS PELCOVITS ALSO ADDING THAT THE PAUSF WAS NOT ESTABLISHED TO GUARANTEE REVENUE NEUTRALITY TO THE RLECS. DO YOU AGREE?

A. No.

Q. WOULD YOU PLEASE EXPLAIN WHY YOU DISAGREE?

A. The rate cap was set as a means to assure an "affordable" rate, irrespective of the underlying cause for the rate increases that ultimately might invoke the cap.

As I stated, the Commission clearly had been seeking to establish an affordable rate as far back as the Universal Service Dockets of the mid-1990's. The Commission noted long ago that the dual goals of "assuring affordable rates and bringing competition to all areas of the Commonwealth are two of the primary responsibilities assigned to the Commission by the General Assembly through enactment of Chapter 30 of the Public Utility Code[.]"[29] These goals are in direct agreement with universal service principles mandated by TCA-96. While the existing PAUSF was ultimately established in the *Global Order*, which also for the first time specifically referenced a $16.00 rate cap, nothing in the order limited the rate cap to a cap "not-to-exceed solely as the result of . . . rebalancing" filings. In fact, as I explained in great detail in my direct testimony, reference to the rate cap in relation to an RLEC's ability to receive funding as a result of rate changes in addition to rate rebalancings was clearly the subject of several

[27] Verizon Statement 1 at 23.
[28] Comcast Statement 1 at 6.
[29] June 21, 1996 Universal Service Order at 11, note 5.

Commission Orders and RLEC Chapter 30 Plans. There is only one "affordable rate" mandated by Act 183 and TCA-96. While some parties today may wish to revisit and change that history by restricting application of the rate cap to only certain rate increases, the Commission itself never established a "qualified" rate cap.

With regard to Comcast's claim that the PAUSF was not designed to guarantee revenue neutrality, that is precisely the intended impact. As for the specific access, toll and local rate increases that comprised the three rate changes responsible for sizing the current PAUSF, there was a dollar-for-dollar matching of revenues lost to access/toll reductions and rate cap "overages" to the amount of PAUSF funding that eligible recipient RLECs are to receive. While deferring to counsel on the legal aspect of this issue, to the extent further USF funding is required to support rate increases that pierce the affordability cap, if an RLEC otherwise should be permitted to increase its noncompetitive rates under Chapter 30, which rates include not just local rates, but access and other rates as well, but is precluded from doing so either because the local rate is subject to an affordability cap or Commission policy precludes increases to access rates, then the only results are either to provide support to recoup that lost revenue from an explicit USF source or deny the RLECs' the allowable revenue increases. The latter option I am advised by counsel would be contrary to law.

B. The Appropriate Rural Residential Benchmark

Q. TO THE EXTENT THAT OTHER PARTIES HAVE ADVOCATED A HIGHER BENCHMARK RATE, ON WHAT BASIS HAVE THEY PROPOSED TO ESCALATE

THE RATE FROM THE CURRENT $18.00 LEVEL AND WHAT IS YOUR RESPONSE?

A. Verizon and AT&T advocate that the benchmark rate should be annually increased by the overall rate of inflation. The OSBA suggests, also based upon inflation, a new $21.00 rate is appropriate. I do not agree with this approach as it contradicts requirements in TCA-96 for rural customers to have access to telecommunications at rates similar to what urban customers pay. I am more persuaded by OCA witness Colton's observations that the changes in the benchmark rate could track changes in mean rural household income as long as they do not exceed similar rates of urban customers.

Tracking the changes in household income is a more accurate measure of the customer's ability to pay. Changing the benchmark based on the rate of inflation, simply reflects that the household's cost of other goods and services has changed. Inflation is not relevant to calculating affordability in the first place and is not an accurate measure of the continuing affordability of telephone rates going forward. Indeed, escalation in other costs could jeopardize affordability, if income is static or even declining. Household income is the appropriate measure to change the affordability rate, if it is to be changed.

Local rates do not follow inflationary indices and, therefore, inflation is not a meaningful measure for establishing an affordable local service rate. Nationally, the "residential monthly charge" in urban areas has increased from $12.58 in 1986 to $14.47

in 2006.[30] If the 1986 rate had been escalated at the rate of inflation, the 2006 rate would be $33.48, instead of $14.47.[31] The comparable nominal single line business rate has increased even less, relatively speaking, from $31.06 in 1989 to $36.59 in 2007.[32]

Q. HOW HAVE THE OTHER PARTIES ADDRESSED THE REQUIREMENT OF THE TELECOMMUNICATIONS ACT REGARDING THE COMPARABILITY OF URBAN AND RURAL RATES?

A. Only the OCA witnesses addressed the TCA-96 mandate that urban and rural rates and services be "comparable." The dictionary definition of the word "comparable" is "equivalent" or "similar." My direct testimony, simply noted that Verizon's current urban and suburban rates are $15.14 (Density Cell 1) and $15.44 (Density Cell 2), respectively, and that the current $18.00 residential benchmark rate exceeds both the national average rate per line, as well as Verizon's urban and suburban rates. I recommended, therefore, that "the benchmark rate should not be increased at this time."

Dr. Loube seeks to quantify the term "comparable" and proposes that the Commission should adopt a standard under which residential rates should be no higher than 120% of Verizon's statewide weighted residential rate.[33] This approach has the advantage of being quantifiable, but it deviates from the statute by using average statewide rates, rather than comparing urban and rural rates specifically.

---

[30] http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-284932A1.pdf; Table 13.1. "Rates are based on flat-rate service where available, and measured/message service with one hundred five-minute, same-zone, business-day calls elsewhere. As of 2001, all 95 cities in the *Urban Rates Survey* offered flat-rate residential service, which made measuring the cost of such calls unnecessary. Source: Industry Analysis and Technology Division, Wireline Competition Bureau, *Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service (2006)* .... Beginning in 2002, additional monthly charges for touch-tone service."

[31] http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-284932A1.pdf; Table 13.3.

[32] http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-284932A1.pdf; Table 13.4.

[33] OCA Statement No. 1 at 5.

While not recognizing the federal act, the OSBA's witness proposes a test using 150% of Verizon's rates, but only where the rural ILEC demonstrated that its "actual costs" to provide local service were higher.[34] There are several problems with the OSBA's approach, which I address elsewhere. I would note here that 50% more expensive is hardly "comparable."

Q. SOME WITNESSES HAVE SUGGESTED THAT THERE IS NO NEED FOR A RESIDENTIAL RETAIL CAP DUE TO THE COMPETITIVE NATURE OF THE RURAL MARKETS. DO YOU AGREE?

A. No. A residential rate cap is important. While competition is increasingly making inroads into our rural territories, there are still areas of little or no alternative service.

Cable coverage, while growing, is not ubiquitous. The PTA has been attempting to obtain meaningful (and verifiable) cable voice availability figures from the Broadband Cable Association of Pennsylvania ("BCAP"), but has not yet been able to do so. However, BCAP's President described the organization in 2006 as "a trade association representing over 40 companies that provide voice, video and data services to more than 3.6 million households in our Commonwealth."[35] (I assume that the services should be listed as "and/or" with cable being the most widely available service.) In 2006, Pennsylvania had 4.8 million occupied housing units.[36] That's 75% of households with cable television service. So, by inference, cable television service may be at that 75% level of service with cable telephone availability below that figure. By way of

---

[34] OSBA Statement No. 1 at 13-14.
[35] http://www.senatorwonderling.com/pages/committee/Tunnell.pdf
[36] http://factfinder.census.gov/servlet/NPTable?_bm=y&-geo_id=04000US42&-qr_name=ACS_2006_EST_G00_NP01&-ds_name=&-redoLog=false

confirmation, the map listed on the Department of Community and Economic Development ("DCED") website, and compiled pursuant to that agency's mandate under Chapter 30 shows large areas of Pennsylvania unserved by cable broadband service also.[37] (There is no comparable map showing cable voice service availability).

Comcast reports that neither of its CLEC affiliates in this case has applied for or been qualified as an eligible telecommunications carrier pursuant to 47 U.S.C. § 254.[38] Of course, by not seeking ETC status, Comcast has not agreed to provide its voice services throughout the areas for which it is certificated.[39] In other words, Comcast has no commitment to provide ubiquitous voice service in any area of Pennsylvania.

There is more information available on cellular service. Senate Resolution 2008-206 directed the Legislative Budget and Finance Committee ("LB&FC") "to study the improvement and enhancement of telecommunications in the cell phone industry" and "determine the extent to which gaps (no signal or dropped calls) exist in cell phone service for major cell phone providers in the Commonwealth and identify recommendations to reduce or eliminate such gaps in service without unnecessary proliferation of cell towers."[40] The Report found that:

> Gaps in cell phone coverage exist in some regions of this Commonwealth, which result in interruption of (dropped calls) or lack of (dead zones) telecommunication coverage. The areas with the largest "dead zones" are in the Northern Tier of Pennsylvania, with little of Potter, Cameron, and Clinton counties having cell phone coverage (see map on page 4). There are also areas of Wayne, Susquehanna, Bradford, Sullivan, Columbia, Lycoming, Tioga, Somerset, and Greene counties with no coverage from any provider. Although coverage in the Northern Tier is incomplete, there

---

[37] https://www.imapdata.com/client/net/pa/pa_bb_map.aspx?Feature_ID=42&COV=CAB&LargeMap=on. PTA Exhibit (Rebuttal) JJL-9.

[38] Comcast Response to PTA Interrogatory I-2.

[39] 47 U.S.C. § 214(e)(5).

[40] *Cell Phone Service in Pennsylvania* (Conducted Pursuant to SR 2008-206), Legislative Budget and Finance Committee, released November 2008.

> is at least some coverage in every county, and there are areas in each county where there is a choice of four or more carriers. Statistics are not available on the actual number of dropped calls.[41]
>
> The solution to most dropped calls and dead zones is to increase the number of cell towers and antennas available for service. Siting cell phone towers is a business decision made by the cell phone or tower siting companies based on their analysis of the potential market for the service. Cell phone companies cite several difficulties in siting towers in Pennsylvania, including:
>
> - hilly terrain;
> - complex siting zoning that varies by municipality and the "not in my back yard" concerns of citizens;
> - difficulty in working with state agencies when siting on Commonwealth-owned property; and
> - difficulty in finding private landowners willing to sell or lease land.
>
> Many of the locations without coverage are in scarcely populated and less accessible areas of the state, making siting costly, with little potential gain in subscribership.

The source of the data was the cellular carriers themselves and data reporting services. The report states that "Statistics are not maintained on the number of dropped calls and dead zones in Pennsylvania or nationwide.... The cell phone companies we spoke with were unable to provide this information."[42]

In the context of this case, we undertook discovery on the cellular companies to determine the level of coverage available. AT&T appears to have a significant presence in the southwest and southeast corners of Pennsylvania, which labels its website as "best" coverage.[43] There are large swaths in the middle and northern tier portions of

[41] *Id.* at S-1.
[42] Id. at 29.
[43] The AT&T interrogatory response referred us to the website http://www.wireless.att.com/coverage of your/.

Pennsylvania which either have no coverage or coverage is indicated only to be "moderate."

AT&T agreed, in an interrogatory response, that its service is not guaranteed to be of the highest quality available, without static, distortion or loss of signal, in all parts of its serving area. AT&T's website confirms this when it states:

> Map may include areas served by unaffiliated carriers, and may depict their licensed area rather than an approximation of their coverage. Actual coverage area may differ substantially from map graphics, and coverage may be affected by such things as terrain, weather, foliage, buildings and other construction, signal strength, customer equipment and other factors. AT&T does not guarantee coverage.

Verizon Wireless also referred us to their website (http://www.verizonwireless.com) and the coverage maps located there. Verizon's coverage seems to be similar to that of AT&T Wireless and is lacking in the central and northern portions of the Commonwealth. Unlike the AT&T map, there is no indication of the quality of service available at any specific locations. The website does offer, however, the following caveat to the coverage areas shown:

> These Coverage Locator maps are not a guarantee of coverage and may contain areas with no service. These maps reflect a depiction of predicted and approximate wireless coverage of the Verizon Wireless Network and the network of other carriers. The coverage areas shown do not guarantee service availability, and may include locations with limited or no coverage. Even within a coverage area, there are many factors, including a customer's equipment, terrain, and proximity to buildings, foliage, and weather that may impact service. An all-digital device will not operate or be able to make 911 calls when digital service is not available. Some of the coverage area includes networks run by other carriers; some of the coverage depicted is based on their information and public sources and we cannot ensure its accuracy.

T-Mobile, the third cellular carrier participating in this case, also referred us to their website for coverage maps. There are substantial portions of Pennsylvania that are not served by T-Mobile. T-Mobile appears to be the least substantial of the three cellular carriers participating in this case. Within the service area claimed, the website contains the following disclaimer:

> MAP INFORMATION: Maps predict and approximate our anticipated wireless coverage area outdoors, which varies from location to location. Maps may include locations with limited or no coverage, and do not guarantee service availability. Even within coverage areas, factors — including network changes, traffic volume, service outages, technical limitations, signal strength, your equipment, terrain, structures, foliage, weather and other conditions — may interfere with service quality and availability, including the ability to make, receive and maintain calls and to send and receive data & messages. Portions of the mapped areas include networks operated by our roaming partners, and we are not responsible for the performance of those networks. 3G Coverage requires a 3G-capable device.

These coverage maps are attached to my testimony as PTA Exhibit (Rebuttal) JJL-10.

Q. OTHER WITNESSES HAVE SUGGESTED THAT HIGHER RLEC LOCAL RATES WILL NOT ADVERSELY AFFECT PENETRATION RATES. DO YOU AGREE WITH THIS STATEMENT?

A. No. While the demand for telephone service is relatively inelastic as compared to a customer's discretionary purchases, it is not zero. Also, I am aware from the PUC's filings at the FCC that the Commission is very concerned about a negative impact on penetration levels in Pennsylvania if customer bills increase.

C. The Commission's Authority To Conduct A Just And Reasonable Rate Analysis

1. Retention of Just and Reasonable Oversight is a Part of the Chapter 30 Paradigm, Not in Addition to the Chapter 30 Paradigm

Q. AT&T WITNESSES NURSE AND OYEFUSI TESTIFY THAT THE RLECS SHOULD BE SUBJECT TO COMPETITIVE CONSTRAINTS AS WELL AS A REGULATORY "JUST AND REASONABLE" RESTRAINT.[44] DO YOU AGREE WITH THESE WITNESSES' CONCLUSIONS?

A. I agree that "just and reasonable" remains a regulatory restraint on pricing. I disagree to the extent that any party contends that "just and reasonable" may be interpreted liberally without any regard to the RLECs' existing Chapter 30 plans.

While leaving the legal briefing for the lawyers, I am advised that the Commission may not simply employ a traditional regulatory standard for determination of what constitutes "just and reasonable." Imposition of a "just and reasonable" regulatory standard must be in concert with the RLECs' Chapter 30 Plans. Section 3015(g) clearly states that rate changes made within the limitations of an alternative regulation plan are *per se* just and reasonable under Section 1301. To assure that regulatory oversight remains within the construct of the RLECs' Chapter 30 plans, Section 3013(b) of Act 183 also prohibits the Commission from unilaterally altering the terms of a plan without the regulated ILEC's express agreement, a provision that was not in original Chapter 30.

I agree with those witnesses who contend that as competition increases, the role of regulation is diminished. I also believe that that is reflected in how the General Assembly has addressed "just and reasonable" in Act 183, by referencing back to the RLECs'

[44] AT&T Statement 1 at 11.

Chapter 30 plans. Therefore, I believe that any regulatory application of the "just and reasonable" standard must be limited to application of the constraints imposed upon the RLECs in their Chapter 30 Plans.

Q. HOW DOES YOUR POSITION COMPORT WITH THAT ESPOUSED BY OTHERS IN THIS PROCEEDING?

A. It's not at all clear to me what restraints other witnesses recognize continue to apply in today's telecommunications market, or whether or not they agree, or have even considered, that the Commission's traditional regulatory "just and reasonable" standard no longer applies. In fact, it really seems to me that parties who oppose the Commission's efforts to provide explicit universal service support for affordable rates testify, on *that* issue, that Commission regulation is not necessary because competition will control. However, those same parties reserve rights in the event they wish to have some regulatory constraint imposed upon the RLECs on *another* matter. In that event, they testify that the need for Commission regulatory oversight remains, and they present, by accident or design, standards so vague as to preserve their ability to pick and choose what form of regulation ought to be applied depending on the specific issue they are addressing at the time.

Q. COULD YOU BE MORE SPECIFIC?

A. Yes. AT&T witnesses Nurse and Oyefusi testify on one hand that "[w]ith the amount of competition that exists in Pennsylvania, and that continues to grow, it is no longer necessary for the Commission to impose a regulatory rate cap on retail rates."[45] On the other hand, however, they state that "[t]his is not to say the Commission has no role in overseeing the market [and if] "a particular ILEC were to file a tariff proposing an increase in local retail rates that substantially exceeds what other carriers are charging, or that establishes questionable terms or conditions, or that otherwise proposes some extraordinary measure that merits scrutiny, the Commission always has the authority to review the tariff and ensure that it complies with the just and reasonable standard."[46] What is "substantial" and how do you measure it? What is extraordinary, and how do you measure it? And, to the point, what is "just and reasonable" and how do you measure it?

While these standards appear facially reasonable, their lack of definition, particularly coupled with the implication that they are dynamic considerations subject to change at whim or depending on the "particular ILEC," quickly render them severely subject to abuse and burden.

Similarly, Verizon witness Price suggests that while "competition will discipline and regulate the RLECs' retail rates[,]" the Commission nevertheless "retains authority to review rate levels on a case-by-case basis."[47] What standard applies? Does each RLEC remain subject to intensive investigation, including Commission process and intervention by all its competitors whenever Verizon determines that a rate change should be subject to individual review? How does that comport with the RLECs' Chapter 30 plans?

So, clearly, while the General Assembly has not abandoned the "just and reasonable" standard, it does not and cannot remain a vague, broad invitation to conduct intensive review of RLEC rate changes whenever the impact is one that one or more

[45] AT&T Statement 1 at 10.
[46] AT&T Statement 1 at 10-11.
[47] Verizon Statement 1 at 24-25.

other telecommunications or other providers dislike. The terms of the RLECs' Commission-approved, Chapter 30 plans must prevail. If not, the RLECs revert to an even more burdensome and now particularly arbitrary standard of regulation than that which preceded Chapter 30's alternative and streamlined regulation.

III. THE PENNSYLVANIA UNIVERSAL SERVICE FUND

A. The Existing Pennsylvania Universal Service Fund

1. The Existing PAUSF Must Continue and Be Expanded To Provide Support for Rate Increases That Pierce the Rate Cap.

Q. HOW IS THE EXISTING PAUSF FUND RELEVANT TO THIS PROCEEDING?

A. To a certain extent, in order to address the issues the Commission set forth in its April 24, 2008 Order in this investigation, it was necessary to establish some history regarding where the RLECs are now with respect to universal service support and how they got here. I, along with others, set up this background in my direct testimony. Unfortunately, in my opinion, some parties have engaged in revisionist history in describing the background and nature of the existing PAUSF and rate caps. This may be because they were not a party to the Plan or the proceeding in which it was adopted. Or it may be because the *Global Order* addressed myriad, complicated issues, and perhaps some parties were paying more attention to some issues than others. Also, establishment of the current PAUSF was not particularly controversial, since both the 1648 and the 1649 Petitioner groups appended a Small Company USF Plan to their settlement petitions. Some parties, perhaps, simply overlooked the full ramifications of the Fund when it was established and as the Commission continued to address its terms in relation to rate change opportunities under Chapter 30 as it did in several orders.

On the other hand, I was the RLEC witness in the Global Proceeding, and the prime sponsor of the Small Company USF Plan. I testified to the plan in my direct testimony, and also in response to the testimony of then-AT&T witness G. Blaine Darrah III. I also worked in concert with former Verizon employee William Mitchell in the development of the particular parameters of the plan. So, I believe I bring an unparalleled level of first-hand knowledge to the table that I believe allows me to speak more accurately to the terms of the PAUSF in today's proceeding almost a decade after it was adopted. Ultimately, whatever the reason or motivation, parties in this proceeding make several misstatements about the Fund that must be corrected.

Q. IN PRESENTING HIS VERSION OF THE RELEVANT BACKGROUND OF THE USF AND RATE CAPS, VERIZON WITNESS PRICES STATES THAT THE PAUSF WAS NOT INTENDED TO BE PERMANENT.[48] IN A SIMILAR FASHION, AT&T WITNESES NURSE AND OYEFUSI TESTIFY THAT "THE COMMISSION SPECIFICALLY PLANNED TO ELIMINATE THE PaUSF BY THE END OF 2003."[49] DO YOU AGREE?

A. Not at all.

These witnesses rely heavily on the description of the PAUSF as a "transitional" and "interim" pass-through mechanism to support their conclusions that the PAUSF was never intended to remain in existence, let alone be used to support local rate increases that pierce the affordability rate cap. For example, Mr. Price repeatedly recites the Commission's description of the PAUSF as a "passthrough mechanism to facilitate the

[48] Verizon Statement 1 at 8-9.
[49] Direct Testimony of AT&T Witnesses Nurse and Oyefusi at 18.

transition from a monopoly environment to a competitive environment"[50] to support his conclusion that "[t]he PUC should conclude that there is no longer a need for such a 'transition' mechanism."[51] Witnesses Nurse and Oyefusi similarly testify that the PAUSF was an *interim* funding mechanism set to expire on December 31, 2003. These witnesses, however, misconstrue the terms "transitional" and "interim" to mean finite, when instead they were intended to describe the Fund, as it was then sized to accommodate the initial toll, local and access rate changes, as an interim funding mechanism until a permanent funding mechanism could be developed.

From its very beginnings, in both the FCC's dockets implementing TCA-96, as well as the Commission's Universal Service Dockets, the Commission, industry and consumer participants recognized the need to make *explicit* what was previously the *implicit* funding of affordable local rates through the concept of residual pricing.[52] This regulatory ratemaking allowed a form of industry-wide, geographic, and inter-rate class support that was manageable under a monopoly system. However, the Verizon and AT&T witnesses confuse the goal of transitioning RLEC rate structures from implicit support to explicit support mechanisms with transitioning from implicit support to *elimination of support*. The goal of the FCC's and the Pennsylvania Commission's access and intercarrier reform proceedings is not now, and never was, to *eliminate* support. Rather, it is, as Mr. Price acknowledges the Commission stated in the *Global Order*, to

[50] *See e.g.* Verizon Statement 1 at 8, 27.
[51] Verizon Statement 1 at 28.
[52] The concept of residual pricing was the regulatory policy of pricing some jurisdictional services (local) at low levels in order to maintain ubiquitous, affordable service and allowing the remaining revenue requirement to be derived from other jurisdictional services (toll and access). *See Global Order* at 15, note 10.

"*replace* the system of implicit subsidies with 'explicit and sufficient' support mechanisms to attain the goal of universal service in a competitive environment."[53]

Q. WHAT WAS INTENDED WHEN THE PAUSF WAS DESCRIBED AS TRANSITIONAL?

A. Transitional did not mean temporary and subject to flash-cut elimination on a date certain. In the context of the existing PAUSF, transitional was meant to describe both the process and the mechanism. In terms of the process, transitional meant moving gradually from a historic, monopolistic rate structure constrained with implicit subsidies to an increasingly competitive environment in which support for affordable local service had to be made explicit and sufficient. In terms of the mechanism, transitional meant the support – initially in the form of a fund funded by contributions from all telecommunications carriers except wireless carriers based upon their level of intrastate operating revenues – was going to be subject to future Commission consideration, and possible *replacement* with a different *funding* mechanism, like a separate toll line charge. This change would not affect the existence or purpose of USF payments to the RLECs.

Q. WHAT SUPPORT DO YOU HAVE TO OFFER FOR YOUR EXPLANATION?

A. In my opinion, it was clearly understood at the time of the Global Proceeding and to the parties involved at the time that the existing PAUSF was established as a first step *transitional* fund to make *implicit* support from the identified rate changes *explicit* until a *permanent* PAUSF could be established following a further access investigation. Unfortunately, when speaking of termination of the "fund," the accompanying condition

[53] Verizon Statement 1 at 7 (emphasis added).

that alternative funding be in place was often left unstated, even though it was clear in the Small Company Plan and the *Global Order*. Now, some parties selectively quote language about the "interim" fund terminating and ignore the condition that "permanent" funding should be in place.

Q. WOULD YOU PLEASE PROVIDE SPECIFIC REFERENCES?

A. Yes. In quoting Sprint/United's position in the Global Proceeding, the Commission summarized the proposals to reduce access charges as follows:

> The small/rural company fund is a *transitional* fund to be used until the Commission establishes a *permanent* universal service fund, *consistent with federal rules*. The Commission will initiate an investigation on or about January 2, 2003 to *develop a long-term solution to universal service*. This proceeding should be coordinated with the long-term review of the Carrier Charge.[54]

As the Commission further stated in adopting Sprint's proposal to be included as a USF recipient:

> ...Sprint/United will use the basic structure of the Small Company Universal Service Fund Plan and the Sprint/United Fund *will be included in the Commission Investigation referenced elsewhere in this Order*.[55]

The Commission continued that Sprint's "access reduction plan" was to expire on December 31, 2003, as the Commission likewise noted with the Small Company Universal Service Fund Plan. However, expiration of the initial phase of access reductions, and the concomitant sizing and establishment of the PAUSF was never intended to occur in a vacuum. The initial fund was to transition into *permanent* relief with the development of a *permanent replacement mechanism following the next Commission investigation*. Thus, the *transitional* PAUSF was the first phase in

[54] *Global Order* at 46 (quoting Sprint's Main Brief) (emphasis added).
[55] *Global Order* at 46-47 (emphasis added).

access/toll/local reform subject to initiation of a further investigation to complete the process, in conjunction with the FCC, to render all *implicit* support *explicit* while maintaining affordable local rates.

As explained further in the *Global Order*, the Commission was to consider alternative funding sources upon the commencement of a further investigation in order to accommodate the *Global Order's* specific rate changes while acknowledging the need and authority to continue to preserve affordable local service:

> [T]he 1648 Petitioners requested that the Commission initiate an investigation involving various matters as summarized below:
>
> 17. The Commission will initiate an investigation on or about January 1, 2001, to develop a solution to the question of how the Bell, GTE, Sprint/United and Small Company *Pools will be reduced and then eliminated.* ... In conducting the investigation, the Commission will consider whether merger savings and other expense reductions [from the BA-PA/GTE merger] are an *appropriate funding source for reducing the pool.* In addition, the Commission will consider whether new revenue opportunities presented by the actual or potential approval of a Bell Section 271 application represents an *appropriate funding source for reducing the pool.*[56]
>
> The 1649 Petitioners, for their part, request that the Commission initiate an investigation on or about January 2, 2003, to *develop a long-term solution* to the question of the proper level for the Carrier Charges (CC). We believe that the sooner that we resolve the reduction and possible elimination of the carrier pool, the better it would be for the competitive environment in Pennsylvania. Therefore, we shall initiate an investigation on or about January 2, 2001, to further refine a solution to the question of how the Carrier Charge (CC) pool can be reduced. *At its conclusion, but no later than December 31, 2001, the pool will be reduced. In addition, we shall consider the appropriateness of a toll line charge (TLC) to recover any resulting reductions.*[57]
>
> * * *
>
> At the outset, we categorically reject the notion that the Commission lacks the statutory authority to establish a Universal Service Fund to ensure the

[56] *Global Order* at 59, quoting the 1648 Petition (emphasis added).
[57] *Global Order* at 60 (emphasis added).

availability of basic telecommunications services to all Pennsylvania citizens. Even before the enactment of Chapter 30, this Commission recognized that its broad powers to regulate public utilities on a statewide basis provided support for the establishment of a universal service fund. Rulemaking to Establish a Universal Service Funding Mechanism, Docket No. L-00950115 (June 21, 1996).

With the subsequent enactment of Chapter 30, the Commission now has explicit regulatory authority to take appropriate actions to maintain universal service at affordable rates. In particular, we note the legislative objective of "maintaining universal service at affordable rates statewide, the requirement that telecommunications customers pay only "reasonable charges" for local service, and that the Commission may "establish such additional requirements and regulations as it determines to be necessary and proper to ensure the protection of consumers." 66 Pa. C.S. §§3001(1), 3001(2), 3009(b)(3). *Indeed, we view the establishment of a Universal Service Fund as an essential element of the series of rate level and rate structure changes embodied in this opinion and order.*[177]

As referenced in our Motion, we adopt the modified Small Company Plan, as amended therein. Of particular significance, we are including Sprint LTD in the plan, which must be restructured accordingly. The fund must be sized according to the structure delineated in the parties' proposed plan, but increased to take into account Sprint's participation. Under what we will now categorize as the amended Small Company Plan, all telecommunications providers (excluding wireless carriers) will contribute to the USF on the pro rata basis of their intrastate end-user telecommunications revenues. All small ILECs, which include all ILECs other than BA-PA and GTE, will be USF recipients. The participants may not pass through as a charge to their end-users any contributions that they make to the USF. The USF will offset the immediate rate rebalancing revenue needs of the smaller, rural local exchange carriers. Finally, this plan terminates on December 31, 2003, *subject to the provisions regarding the access charge investigation*. If, on or after that date, the Commission receives compliance filings demonstrating that the USF may be dissolved, *and no alternative funding has been established through that investigation, residential and business universal service credits will be eliminated.*[58]

[177] Section 254(f) of TA-96 also serves to provide state authority to establish a universal service fund, providing that "[e]very telecommunication carrier that provides intrastate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, in an manner determined by the State to the preservation and advancement of universal service in that State."

[58] *Global Order* at 150-51 (emphasis added).

Thus, transitional meant to move universal service support from its implicit existence to an explicit form of support through a process to occur over a period of time and through a mechanism that was initially established as a carrier pool (the universal service fund) but which was clearly subject to future consideration and perhaps modification as to form. Transition did not mean to exist for a set number of years and then expire on its own without explicit replacement support to take its place. That's elimination, not transition, and that is not what was intended.

In my direct testimony in the Global Proceeding, I specifically described the PAUSF as set forth in the Small Company Plan attached to the 1649 Petition as follows:

> The RTCC Settlement Plan reflects a first step in the process of addressing access reform and universal service. It is not intended as a final solution. It is proposed as an interim measure to allow the Commission to begin to address these issues while providing additional time to develop a permanent plan. The permanent solution to these issues must be developed jointly by this Commission and the FCC. *The final plan should consider needed access reform, local affordability issues, the appropriate definition of universal service costs, and funding mechanisms.*[59]

This also comports with the Commission's efforts in the Universal Service Dockets, wherein the Commission recognized that the universal service plan it was then devising (which was then incorporated into the Global Proceeding), would be *transitional*, meaning evolving to a competitive market by phasing in a funding mechanism over a four year period.[60]

Q. VERIZON WITNESS PRICE CONTENDS THAT BY THE TERMS OF THE *GLOBAL ORDER*, THE INTERIM PAUSF CREATED IN GLOBAL WAS TO TERMINATE ON

[59] Global Proceeding, Docket Nos. P-00991648, P-009991649, RTCC Statement 1 at 10-11.
[60] *See* January 28, 1997 Universal Service Order at 113.

DECEMBER 31, 2003,[61] AND IF NOT THEN, THEN AGAIN ON DECEMBER 31, 2006.[62] WOULD YOU PLEASE EXPLAIN THE SIGNIFICANCE OF THE PURPORTED PAUSF TERMINATION DATES OF DECEMBER 31, 2003, AND DECEMBER 31, 2006?

A. These dates were, essentially, triggers intended to compel further Commission action in continuing the process of rate reformation and the development of a permanent universal service funding mechanism. They were not dates for termination and elimination of the PAUSF without further resolution of the trilogy of issues the FCC and the Commission had determined were necessary to complete the transition from a fully regulated to a competitive environment. This is evident not only from the history of the Commission's initial universal service attempts in the mid-1990's to develop universal service support as a permanent, explicit, external funding mechanism, but also reinforced by a complete reading of the *Global Order*. In particular, parties must coordinate their reading of the Commission's discussions in three very discrete sections of the *Global Order* – Section III addressing access charges, Section X addressing universal services and the carrier charge pool, and Section XIII addressing the rate cap and rate ceiling – rather than rely on an isolated excerpt or excerpts as Messrs. Price, Nurse, and Oyefusi have done.

Q. WOULD YOU PLEASE EXPLAIN FURTHER WHAT YOU MEAN?

A. Yes. For example, if one simply read the quotation as set forth by Verizon witness Price on page 9 of his testimony, one would likely conclude, as Verizon suggests, that the adopted funding mechanism would function only until December 31, 2003 at the latest,

---

[61] Verizon Statement 1 at 9.
[62] Verizon Statement 1 at 10.

regardless whether the institution of a subsequent investigation occurred or a new process was developed. In fact, that is neither how the 1649 Petitioners nor the Commission intended the process of transitioning to an explicit universal service funding mechanism to proceed.

As I stated earlier in my testimony addressing the origination of the rate cap, the Commission commenced first with its discussion of a plan to reduce access charges by specifically targeting access and toll reductions, and making those reductions subject to revenue neutral recovery by the RLECs (now also including Sprint/United) in conjunction with universal service support for increases that took RLEC local rates above $16.00.[63] After establishing the initial size of the Fund, the Commission specifically determined it would initiate a further investigation.[64]

After determining that a new investigation would commence January 1, 2001, the Commission next revisited the issue of the time-line for the Small Company Plan in its discussion of the universal service fund/carrier charge pool in Section X of the *Global Order*. In that Section, the Commission did in fact reference a December 31, 2003 termination date for the Small Company USF. However, the PAUSF was not set to terminate in a vacuum and without further funding in place. Rather, as the Commission stated, "this plan terminates on December 31, 2003, *subject to the provisions regarding the access charge investigation.*"[65] It was this further investigation that the Commission envisioned implementing on January 1, 2001, to consider reduction of the PAUSF (the

[63] See the Commission's discussion of access charges in Section III of the *Global Order*, specifically the adoption of the Small Company Plan for "Other Incumbent Local Exchange Carriers" (other than Bell and Sprint/United) at pages 48-59.
[64] *Global Order* at 59-60 (emphasis added).
[65] *Global Order* at 151 (emphasis added).

"pool") by implementation of a "toll line charge (TLC) to recover any resulting reductions"[66] and any further necessary rate changes.

That discussion consequently, and finally, led to the quotation offered by Verizon witness Price, that the "interim funding mechanism that we create through this order [the Small Company USF] will function until December 31, 2003, or until the subsequent in (sic) investigation develops a new process, whichever comes first."[67] The *new process,* at least as considered by the Commission at the time, was the implementation of a toll line charge (TLC) – an explicit line-item on a customer bill that allowed a pass through billing by all carriers to their respective end-users so that the carriers could recover their contributions. The TLC mechanism would have allowed the revenue losses to RLECs associated with rate rebalancings and increases above the local rate cap to be recovered by carriers through their subscribers, much like the federal Universal Service Charge is recovered today, rather than paid by the carriers directly as a percentage of their intrastate revenues, as the current PAUSF funding mechanism does.

Thus, the Commission expected to continue the *process* and revisit and possibly revise the *form* of the funding mechanism that allowed for the recovery of the explicit universal service support. It was not intended to be eliminated by termination of the USF without an alternative funding mechanism in place. Were that to happen, in other words in the event that "no alternative funding has been established through that investigation," then the Commission recognized that "residential and business universal service credits

[66] *Global Order* at 60.
[67] *Global Order* at 153.

will be eliminated."[68] Further, as I pointed out in my direct testimony, the terms of the Small Company USF further allowed for the access and toll reductions to be reversed.[69]

Q. WHAT ABOUT VERIZON WITNESS PRICE'S ASSERTION THAT THE PAUSF TERMINATED ON DECEMBER 31, 2006 BECAUSE THE PUC DID NOT "TAKE ANY ACTION TO EXTEND THIS PLAN BEYOND" THAT DATE?

A. With respect to his testimony on this point, I agree only with Mr. Price's assertion that the Commission ultimately did open a docket at M-00021596 to address the further investigation promised in the *Global Order*. As to the remainder of Mr. Price's interpretation of that investigation, and its result, I wholly disagree.

Q. WOULD YOU PLEASE EXPLAIN THE NEXT SERIES OF EVENTS IN THE LIFE OF THE CURRENT PAUSF AND HOW THAT RELATES TO THE CONTINUED EXISTENCE OF THE FUND AND ALL ITS ATTRIBUTES, INCLUDING THE RATE CAP AND THE ABILITY TO COLLECT RATE INCREASES ABOVE THE RATE CAP FROM THE FUND?

A. Certainly. As the Commission determined in the *Global Order*, a new investigation into a permanent funding mechanism for the universal service fund/carrier charge pool was scheduled to commence January 1, 2001. The Commission summarized its actions with respect to initiation of this investigation and the industry's cooperative Joint Access Proposal that resulted in the *July 15, 2003 Order*. As I testified earlier, the Commission adopted a Joint Access Proposal that called for further revenue-neutral access reductions

---

[68] *Global Order* at 151.

[69] PTA Exh. (Direct) JJL-1; Settlement at 4-5 (¶ B.5(d)(6)) and 8 (¶ C.11(g) and Appendix A at 4 (¶ II.C.2).

and further local rate increases. It also increased the weighted average R-1 rate cap from $16.00 to $18.00 for a *minimum* period of 3 years, or through at least December 31, 2006.

Q. WHO SUPPORTED THIS PROPOSAL?

A. As I testified earlier, all interested industry and customer representatives supported this proposal.

Q. WHY DID THE FURTHER REFORM ADOPTED IN THE JOINT ACCESS PROPOSAL, INCLUDING THE PAUSF AND THE RATE CAPS, NOT EXPIRE ON DECEMBER 31, 2006?

A. By its own terms, the new rate cap adopted in the Joint Access Proposal was designed to exist for a *minimum* period of 3 years, or until December 31, 2006. Nothing in the proposal suggested that without further Commission action it "terminated" on that date. Moreover, by its very terms, nothing in the Joint Access Proposal intended to alter the terms of the existing PAUSF or any other terms of the *Global Order* at all. In fact, just the opposite was intended. Other than increasing the weighted average R-1 rate cap from $16 to $18 dollars and providing for new revenue-neutral access/local rate rebalancing filings, the Joint Access Proposal *retained* all aspects of the PAUSF adopted by the Commission in the *Global Order*, including, for example, the proportionate business rate cap and the ability of RLECs to recover rate increases above the cap from the PAUSF. That was made clear in Condition 1 of the Joint Access Proposal, which stated as follows:

> 1) The only change to the existing universal service fund in PA is that Sprint will be shifting a portion (estimated to be $1.8 m - $2.2m) of its current fund receipt ($9 million) to Smaller ILECs as noted in Paragraphs 7 and 8 above. **This Proposal is dependent upon all other aspects of the**

PA universal service program and the USF regulations remaining intact, including the recovery of rates above the rate cap into the future, specifically beyond December 31, 2003. The existing universal service fund, including the recovery of monies under Paragraph 4 of Elements of Proposal above, and regulations promulgated thereunder shall, as provided in the regulations, continue in place until modified by further Commission rulemaking.[70]

Q. WAS FURTHER COMMISSION ACTION REQUIRED TO EXTEND THE PAUSF OR THE RATE CAPS BEYOND DECEMBER 31, 2006?

A. No. The Commission has always recognized, since implementing the PAUSF support mechanism adopted in the *Global Order* through a regulatory rulemaking proceeding, that the PAUSF would continue indefinitely until modified or rescinded through another rulemaking proceeding. It is for that reason, and again always intending to replace the current funding mechanism with a permanent explicit support mechanism that may or may not include a line-item on customers' bills, that the Commission set December 31, 2004, as the next target date for an investigation.[71] It is this investigation that remains pending, stayed by the Commission in order to reconcile and coordinate the state action with the action pending at the FCC in its combined intercarrier compensation, access reform, and universal service proceedings. In sum, no further action by the Commission was necessary either to continue the PAUSF or the rate caps. The PAUSF continues until

[70] PTA Exh. (Direct) JJL-5 at 19 (emphasis added).

[71] *See July 15, 2003 Order*, PTA Exh. (Direct) JJL-5, at 11 ("Accordingly, since we find the Joint Proposal to be in the public interest, we shall order that the Joint Proposal, included as 'Attachment A' to this Order is granted. The PaUSF will continue beycnd December 31, 2003, until amended through a rulemaking proceeding which will commence before December 31, 2004."); and 12 ("The Commission agrees to open a rulemaking proceeding to be initiated no later than December 31, 2004, to address what *if any* modifications should be made to the PaUSF regulations and we agree to the simultaneous institution of an appropriate proceeding for consideration of any and all rate issues and rate changes which should or would result in the event that disbursements from the PaUSF are reduced.") (emphasis added).

there is a further rulemaking. The rate caps certainly continued until otherwise revised by the Commission, and are now subject to the terms of Act 183.

Q. WOULD YOU PLEASE SUMMARIZE YOUR CONCLUSIONS WITH RESPECT TO THE PAUSF AND THE RATE CAPS?

A. In short, the PAUSF continues until the Commission revisits it in another rulemaking proceeding. The Commission never intended that the PAUSF would be eliminated without some permanent, alternative funding mechanism being adopted in its place. In the event the Commission did act to terminate the PAUSF without providing for permanent, alternative funding, it recognized that there would be a rate impact. The Commission also always considered that final resolution of access, intercarrier compensation, and universal service reform would have to be coordinated with the FCC in order to devise a permanent solution. Finally, the Commission recognized that affordability and universal service went hand-in-hand, and established a weighted average residential rate cap and corresponding proportionate business rate cap in the *Global Order*, which caps were increased and continued by the Commission in the *July 15, 2003 Order* adopting the Joint Access Proposal, and ultimately codified by the General Assembly in Section 3015(g) of Act 183.

B. Needs-Based Test (and Applicable Criteria)

Q. HOW HAVE THE PARTIES ADDRESSED THE NEEDS-BASED TEST AS A CONDITION TO DRAWING RATE INCREASES FROM THE FUND?

A. The witnesses' testimony is a little bit of a hodgepodge. The PTA has taken the position that a needs test is already contained within the companies' Chapter 30 Plans and another test is not required. Two of the parties, the OCA and Comcast, also address the issue of a needs-based test as a criterion for companies that propose to draw more when their rates would exceed the $18.00 residential cap.

The OCA also does not recommend a needs test. The OCA supports the use of USF for both the current and banked rate increases where the local rates would otherwise exceed the $18.00 benchmark. This is the same as the PTA's position, so I find myself in agreement with Dr. Loube.

Comcast argues that the Fund should not be increased to collect rate increases above the benchmark. Moreover, the witness states that determining the profitability of local service, as a stand-alone service, would be difficult, if not "impossible" to administer. Mr. Pelcovits points out that asset use and revenue streams tend to overlap in a multi-product business enterprise. Mr. Pelcovits, on behalf of Comcast, asserts that "the ILECs are not entitled to" rate increases derived from the price cap form of regulation, since "[t]he sought after revenues did not emerge from a new rate case...."[72]

Other parties, notably Verizon and the OSBA, who both oppose increasing the Fund to accommodate revenue increases, go well beyond the scope of this case and assert that a needs test should be imposed upon the **current fund**.

Verizon proposes that the PAUSF "should be phased out and eventually eliminated, or at least confined only to those small RLECs that demonstrate need."[73] Verizon proposes that the "mid-tier RLECs" should be eliminated from the Fund and "a

[72] Comcast Statement 1 at 21.
[73] Verizon Statement 1.0 at 30.

thorough needs based test to determine which of the remaining carriers actually need USF support." This recommendation should not be adopted by the Commission for several reasons. First, it is well outside the scope of this case as noted in my direct testimony. Second, the current Universal Service Fund is inextricably intertwined with the access charge reductions that were effectuated and, if the USF is discontinued for an RLEC, then access charges would be increased and universal service credits reversed. Verizon makes no mention of this revenue shortfall and the effect on access rates. Presumably, Verizon prefers that the "mid-tier RLECs" simply absorb the decrease and that Verizon continue to enjoy the access rate reductions. This is both contrary to the underlying plans and statutes, as was pointed out in my direct testimony. Moreover, Verizon provides no detail on how a "needs based" test should be undertaken.

The OSBA also advocates a complete revamping of the current Universal Service Fund, restructuring it to provide revenues where the RLEC can demonstrate "actual costs" in excess of "one and one-half times Verizon's average rate," which the witness claims "is about $21…."[74] There are several problems with this approach. First, the current PAUSF funding levels are not within the scope of this proceeding and a revamp of the existing distribution is far outside the scope of this case as defined by the Commission. Even were one to use the OSBA recommendations for the purpose of addressing funding of revenue increases, the witness fails to describe how "actual costs" will be calculated, as did Verizon. As noted in previous discussions addressing Comcast testimony specific cost studies are increasingly difficult and, indeed, the Comcast witness characterizes the exercise as "impossible." Thirdly, I do not agree that Verizon's urban rate is $21.00. As described in my direct testimony, Verizon's Density Cell 1 (most

[74] OSBA Statement 1 at 11 and 14.

urban) rate is $15.14 and its suburban (Density Cell 2) rate is $15.44. Finally, the OSBA testimony does not explain what occurs in the zone between the benchmark rate and the 150% level at which universal fund receipts would be appropriate. Using the $21.00 benchmark suggested by the OSBA witness, there is $10.50 of costs (50% of $21.00), which apparently would be ignored and implicitly absorbed by the RLEC with no revenue support. As I stated previously, TCA-96 requires rural consumers to have access to telecommunications services at similar rates as urban customers, the OSBA witnesses approach would violate that requirement.

Finally, Mr. Pelcovits, on behalf of Comcast, recommends that "all support payments" should be ended and "[i]f an ILEC believes it must receive additional subsidy payments or else increase its rates, it would be required to present a rate case to the Commission."[75] Again, these several attacks on the operation of the current fund are access charge related and outside the scope of this proceeding. I would further note that Mr. Pelcovits does not describe how this rate case would be conducted or address any other issues set forth in my direct testimony regarding the continuation of the current Fund.

C. Whether the PAUSF Funding Support Should be Received for Chapter 30 Revenue Increases That Exceed the Cap and the Role of Banked Revenues

Q. SHOULD THE USF SUPPORT BE RECEIVED FOR REVENUE INCREASES CALCULATED UNDER THE COMPANIES' CHAPTER 30 PLANS?

A. Yes, for the reasons explained elsewhere. There should be no difference if the revenue increase is derived from the current or a prior year (within the allowed 4 year banking

---

[75] Comcast Statement 1 at 23.

period). There is only one affordability rate cap and the same rationale applies when exceeding that cap.

D. Anti-Competitive Effect of Availability of PAUSF Support

Q. SEVERAL WITNESSES ARGUE THAT RECOVERING RATE INCREASES FROM THE FUND WOULD HAVE AN ANTI-COMPETITIVE AFFECT. DO YOU AGREE?

A. No, I do not agree that additional funding would have an anti-competitive affect. As pointed out in my direct testimony, additional costs are imposed upon the operations of the incumbents, based upon unique universal service obligations, which are not incurred by other carriers. So, for example, Verizon witness Price argues that recovering revenue increases from the Fund would allow the RLECs "to obtain subsidies toward operating costs," which is disadvantageous to competitors[76] which "must operate without these subsidies..." and who, in fact, may be partially funding the "subsidies."[77] Mr. Pelcovits makes similar observations.[78] The OSBA witness makes the blanket statement that "any subsidy program that is applied to select companies (ILECs only) in a competitive market is anti-competitive."[79]

These observations are simplistic and ignore the fact that the competitive playing field is tilted toward the competitors in the first place. Local exchange companies have a public obligation to serve even the most remote, expensive customer in low density rural areas. Coupled with extensive Commission service regulations, reporting, broadband deployment and all the other public obligations that the policy-making body has

[76] Verizon, the wireline company, is not a competitor of the RLECs for local service.
[77] Verizon Statement 1.0 at 31.
[78] Comcast Statement 1 at 22.
[79] OSBA Statement 1 at 15.

imposed, means that the RLECs will have higher costs. It is not at all reflective of reality to state RLECs are in an equal and competitive environment. For these reasons, I took the position in my direct testimony that recovering authorized rate increases from the Fund is not anti-competitive.

As incumbent local telephone companies, Verizon and Verizon North serve **all** the urban areas of Pennsylvania without exception; Pittsburgh, Philadelphia, Altoona, Wilkes-Barre, Scranton, Harrisburg, Hershey, Erie, Johnstown, Lancaster, Allentown, Uniontown, Bethlehem, York, etc. The largest "city" served by any of the RLECs, Chambersburg (served by Embarq), is really a town of 18,000 residents. Beyond that, the service territory is composed of villages and hamlets.

Verizon Pennsylvania's urban customers subsidize its rural customers. In a prior proceeding, instituted after the initiation of its original Chapter 30 Plan:

> … Bell claimed that the urban residential customers paid more than their fair share of costs and, consequently, subsidized rural and other high cost residential customers [clarified as "residential dial tone line service"]. By lowering urban residential rates and raising rural and other high cost residential rates, Bell proposes moving both groups within one market basket closer to cost.[80]

While the Commission agreed with the ALJ that Verizon (Bell) did not meet its burden proving its assertions, the Commission agreed that this did prejudicially affect its consideration of "the existence of subsidies by lower cost (generally more urban) to higher cost (generally more rural) customers in other pending Commission dockets."[81] Given that rates in urban areas of Verizon are still higher than those in Verizon's rural areas, it would appear that this internal cross-subsidization continues.

---

[80] *PA PUC, et al. v. Bell Atlantic-Pennsylvania, Inc.*, Docket R-00963550, Opinion and Order entered December 16, 1996 at 9 (footnote omitted).
[81] *Id.* at 12.

Without an urban customer base to "average down" its costs per customer, the RLECs are legitimately seeking external support for rural telephone consumers.

IV. THE RLECS

Q. VERIZON WITNESS PRICE CREATES A NEW TIER FOR THE RLECS, "MID-TIER RLECS," AND SUGGESTS THAT THESE RLECS DO NOT REQUIRE UNIVERSAL SERVICE SUPPORT.[82] DO YOU HAVE ANY RESPONSE?

A. Yes. Verizon witness Price discusses the differences between the large RLEC and small RLEC recipients of PAUSF funding. He uses the term, "mid-tier RLECS," in referring to several fund recipients and provides a substantial amount of information regarding these "larger" companies. In doing so he focuses on the Pennsylvania RLECs corporate affiliations and provides data on a holding company basis. He also provides access line data on these companies in order to reinforce the fact that these companies are larger than other fund recipients. Based on this data he concludes that these large companies are completely dissimilar from the smaller RLEC fund recipients and eventually concludes that funding for these RLECS should be discontinued.

A more relevant discussion would focus on the operating characteristics of the larger RLECS as compared to the smaller fund recipients. Of course, the major driver of cost is the overall "ruralness" of the area served by a local exchange carrier. The lesser the population density within the service territory, the longer the average loops required to serve the customer base, physical facts which result in higher capital and maintenance costs. The greater the population density, the lesser the investment and cost per subscriber.

[82] Verizon Statement 1 at 14-20.

Following Mr. Pelcovits' division of the RLECs into two cases, small and "mid-tier," I calculated the number of "plain old telephone service" ("POTS") lines served in 2007 divided by the square miles of service territory to derive "density," which is nothing more than lines served per square mile.[83] As a group, the small companies serve an average of 60.9 lines per square mile. On the other hand, the "mid-tier" LECs are **less dense** with only 43.4 lines per square mile. Verizon, by comparison, has a density factor of 193.2 customers per square mile, almost five times more dense than the average "mid-tier LEC" and approximately three times as dense as the average small LEC. Verizon's density factor is well above the state average of 130.3 lines per square mile.

This information shows quite clearly that the "mid-tier" RLECS and small RLECS share significant similarities. They provide service in areas of the state where access line density is generally very low. This reliable indicator of a higher cost of service is not influenced by the overall size of the company or its corporate affiliations. Mr. Price's mid-tier" RLECs are actually more rural than the small companies. The PAUSF was created to insure that basic local service rates in rural territories remain at affordable levels. The current levels of USF support to all fund recipients must continue and should be allowed to increase when necessary in order to continue to insure affordable local rates in the rural territories of Pennsylvania. To reduce or eliminate funding to certain RLECs because of overall size or corporate affiliation would ignore the basic reason for the creation of the PAUSF.

As previously stated, if PAUSF were to be discontinued, then the USF credits would be reversed and access charges increased to pre-*Global Order* levels.

[83] Attached as PTA Exhibit (Rebuttal) JJL-11.

Q. IS THE RELATIVE SIZE OF SOME RLEC USF RECIPIENTS RELEVANT TO WHETHER OR NOT THEY RECEIVE USF SUPPORT?

A. No, particularly when comparing the relative size of all the RLECs compared to a carrier such as Verizon or AT&T. Verizon is clearly the dominant incumbent wireline carrier in Pennsylvania. In 2006 there were 6,602,383 total loops of which 5,447,602 or 83% were served by Verizon. The FCC reports that only 376,312 loops were served by (federal level) price cap regulated companies (which Mr. Price calls the "mid-tier" companies) and 546,707 loops were served by the average schedule regulated companies. 231,762 loops were classified as served by "other."[84]

Nationally, AT&T and Verizon are huge, mega-carriers compared to the "mid-tier" companies focused upon by Mr. Price:

Holding Companies[85]	**Loops**	**Percent of Loops**
AT&T Inc.	65,669,563	44.72 %
Verizon Communications Inc.	45,524,091	31.00
Qwest Communications	13,066,748	8.90
Embarq Corporation	6,603,481	4.50
Windstream Corporation	3,014,037	2.05
Citizens Communications Company	2,001,652	1.36
Commonwealth Telephone Enterprises, Inc.	298,947	0.20
Consolidated Communications, Inc.	219,929	0.15
D&E Communications, Inc.	129,313	0.09
North Pittsburgh Telephone Company	65,270	0.04

Comcast recently reported 6.1 million total Digital Voice customers nationwide.

...

Q. BOTH VERIZON WITNESS PRICE AND COMCAST WITNESS PELCOVITS SPEND A CONSIDERABLE AMOUNT OF TIME FOCUSED UPON WINDSTREAM PENNSYLVANIA'S CORPORATE AFFILIATIONS AND LINES OF BUSINESS.

[84] http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-284932A1.pdf; Table 7.2.
[85] http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-284932A1.pdf; Table 7.3.

DO YOU HAVE ANY OBSERVATIONS TO MAKE ON THIS ASPECT OF THE WITNESSES' TESTIMONY?

A. Yes. There is little reason to distinguish Windstream from other RLECs, but much reason to distinguish the Company from Verizon, in terms of Windstream's rural nature. Windstream's rural service areas have little resemblance to Verizon's urban customer base in Pennsylvania. The density of Windstream's customer base in Pennsylvania is 37.5 lines per mile, yet this fact does not tell the full story. Windstream has 83 exchanges in Pennsylvania. Of these, 23 exchanges have fewer than 1,000 lines and their density is 12.4 lines per mile. Conversely only 3 of Windstream's 83 exchanges are larger than 10,000 lines and have a density of 191.3 lines per mile, but this fact is far outweighed by the fact that 55 of Windstream's exchanges are smaller than 2,000 lines. As noted previously, density is a key cost driver to provide service, causing higher capital and maintenance costs. When a company, such as Windstream, is serving very small exchanges with very low density, its costs for providing service increase significantly.

Also, Verizon witness Price misrepresents the impact of Windstream's price-cap petition at the FCC and its conversion to price-cap regulation. Mr. Price seems to imply that as a result of its price-cap conversion, Windstream specifically no longer needs universal service support in Pennsylvania.[86] The FCC made no finding that Windstream's universal support should cease or decrease. While the FCC acknowledged that as a *general* proposition it expects price cap regulation to benefit consumers directly or indirectly through lower access prices,[87] the FCC also recognized that Windstream's high

[86] Verizon Statement 1 at 17-18.
[87] *Windstream Conversion Order* at ¶ 8.

cost areas should continue to receive universal service support and granted a waiver of the Interstate Common Line Support ("ICLS") rules to ensure support would continue.[88]

Verizon's witness Price asserts that Windstream is a large firm and that there is "no justification for continuing to allow Windstream the unfair advantage of recovering its network costs disproportionately from other carriers through USF subsidies, rather than its own end users."[89] However, witness Price fails to note that if this is true for Windstream it is exponentially more accurate for Verizon which is the second largest federal USF recipient among price cap companies. Windstream should not be punished by being denied universal service support simply because of its statements that it seeks to operate efficiently rather than relying exclusively on USF or access revenues. Windstream's USF support, like all RLECs, should be determined based upon the high-cost geographic areas it serves.

Q. AT&T AND VERIZON HAVE TESTIFIED HERE THAT THE PENNSYLVANIA UNIVERSAL SERVICE FUND SHOULD NOT BE ALLOWED TO CONTINUE BECAUSE IT IS UNFAIR FOR SOME CARRIERS' CUSTOMERS TO ASSIST IN SUPPORTING THE COSTS ASSOCIATED WITH OTHER CARRIERS' CUSTOMERS. DO THESE FORMER BELL OPERATING COMPANIES RECEIVE ANY UNIVERSAL SERVICE SUPPORT THEMSELVES?

A. Yes. AT&T, Verizon and Qwest, as the first, second and third largest operating telephone companies in the country, all receive large amounts of both federal and state USF support.

---

[88] *Windstream Conversion Order* at ¶ 20.
[89] Verizon Statement 1 at 18.

At the federal level, AT&T, for the last two years for which information is available, has been the largest single recipient of federal High Cost Fund payments. In both 2006 and 2007, Verizon and its recent acquisition, ALLTEL, received on a combined basis, by far the largest aggregate payments. So clearly, AT&T and Verizon have been and continue to be the largest recipients of federal High Cost Fund payments.

2006 Annual High-Cost Payments by Year-End Holding Company Structure

Rank	Holding Company Name	Support
1	AT&T Inc.	$377,532,170
2	Verizon Communications Inc.	$358,031,363
3	CenturyTel, Inc.	$286,647,156
4	ALLTEL Corporation	$269,302,830
5	Telephone and Data Systems, Inc.	$161,342,108
6	Citizens Communications Company	$116,399,796
7	Embarq	$106,768,440
8	Sprint Nextel Corporation	$ 86,091,218
9	Qwest Communications	$ 83,317,108
10	Windstream Corporation	$ 80,983,859

2007 Annual High-Cost Payments by Year-End Holding Company Structure

Rank	Holding Company Name	Support
1	AT&T Inc.	$440,707,434
2	ALLTEL Corporation	$335,628,551
3	CenturyTel, Inc.	$300,960,213
4	Verizon Communications Inc.	$287,233,533
5	Telephone and Data Systems, Inc.	$193,608,400
6	Embarq	$102,799,732
7	Sprint Nextel Corporation	$100,979,503
8	Citizens Communications Company	$ 95,206,230
9	Windstream Corporation	$ 78,480,346
10	Qwest Communications	$ 76,776,626

The Total High Cost fund disbursements in 2007 were approximately $4.6 billion.

In 2006, wireless providers received almost $1 billion or 17% of the approximately $4 billion federal High Cost Fund. In 2007, that amount escalated to $1.2 billion or 19% of the federal fund, while the overall incumbent carrier portion sank both in dollar and percentage terms.[90] I believe that Verizon Wireless and AT&T Wireless, as well as other wireless carriers, receive these funds in part, due to their classification as competitive eligible telecommunications carriers in Pennsylvania.

At the state level, according to a report of the National Regulatory Research Institute ("NRRI"), twenty-two of the states had a functioning or transitioning high-cost fund in 2006 ranging in size from $182,571 (Nevada) to over $468 million (California).[91] Several of the states reported that AT&T and Verizon receive support from their high cost fund, as well as wireless carriers.[92]

Q. COMCAST WITNESS PELCOVITS TESTIFIES THAT BECAUSE OF TODAY'S ILEC BUSINESS MODEL AND DIVERSIFICATION, THE PAUSF SHOULD NOT BE INCREASED AND THAT AS A MATTER OF PUBLIC POLICY THESE COMPANIES SHOULD NOT RECEIVE UNIVERSAL SERVICE SUPPORT.[93] DO YOU AGREE?

A. No. All PAUSF recipients have approved Chapter 30 Plans that provide for an alternative regulatory mechanism as compared to traditional rate base rate of return regulation. Many of the smallest fund recipients' alternative regulatory plans reflect a streamlined form of alternative regulation that is based upon a simplified rate of return approach to traditional rate of return regulation. I will refer to these companies as the Simplified Ratemaking Plan, or SRP, companies. Other RLECS are now under price cap form of regulation.

[90] http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-284932A1.pdf; Table 19.2.
[91] http://nrri.org/pubs/telecommunications/06-09.pdf.
[92] *Id.* at Table 11.
[93] Comcast Statement 1 at 11-20.

If an SRP company were to seek a rate increase under its plan (including a filing that could result in increased USF support) the appropriateness of the request would be considered based on that Company's return on common equity. In developing this filing the Company's diversification into lines of business or non-regulated activities would be considered. The appropriate cost and expense allocations would be made to insure that the rate increase request was based only on the Company's regulated operations.

Comcast witness Pelcovits suggests that this process is arbitrary, imprecise and incapable of producing an equitable result. I disagree with this conclusion. The Commission and other interested parties would have ample opportunity to review the filing to insure a fair and accurate result.

For those RLECs under price cap regulation the process is different. Under price cap regulation, a Company's *prices* are regulated, not *earnings* as with rate of return. For a price cap company, costs and earnings are not relevant. When choosing price cap regulation these companies eschewed the safety net provided by rate of return regulation. In other words a price increase request resulting from a Company's price cap formula does not insure that the resulting revenues will be sufficient to produce what might be considered an acceptable level of earnings. Only rate of return regulation provides that type of assurance. It should also be noted that not all non-regulated lines of business are necessarily profitable as Mr. Pelcovits implies. If a Price Cap company rate filing produces a request to increase basic service rates and possibly increased USF funding, it cannot be assumed that the resulting revenue will produce excessive earnings. What must be acknowledged is that the resulting local service rates, due to the rate cap and the availability of USF funding, are kept at affordable levels.

Q. VERIZON WITNESS PRICE STATES THAT NOT ALL PENNSYLVANIA RLECS ARE UNDER AN ALTERNATIVE FORM OF REGULATION. IS THIS ACCURATE?

A. No. All RLECs have approved Chapter 30 Plans that contain provisions for an alternative regulatory structure. As I stated, some RLECs plans provide for a streamlined and simplified rate of return approach while the remaining RLECs have elected price cap regulation.

Q. COMCAST WITNESS PELCOVITIS SUGGESTS THAT FUTURE CHANGES TO THE PAUSF WILL ONLY IMPACT A FEW COMPANIES.[94] WHAT IS YOUR RESPONSE?

A. Mr. Pelcovits reaches this conclusion by pointing out that the majority of the fund dollars currently flow to only a few carriers. I don't disagree with his calculations, but I do disagree with what I perceive to be the implication that the larger companies are receiving an undeserved windfall and that the relatively small amounts paid to the other companies are insignificant to those companies. This conclusion totally ignores the fact that the PAUSF is designed to insure affordable local service rates. It is only logical that the companies serving the largest number of rural lines would need and receive the most support.

Further, although the amounts paid to the smaller carriers are less, the impact of eliminating funding on their customers would be just as significant.

[94] Comcast Statement 1 at 4-5.

Q. VERIZON WITNESS PRICE REFERS TO RLEC ACCESS RATES AS EXCESSIVE AND THE AT&T WITNESSES DESCRIBE THEM AS UNFAIR. DO YOU HAVE ANY RESPONSE?

A. Yes. Verizon witness Price refers to the RLEC access rates as excessive.[95]

Although access charges are not a part of this proceeding I want to address this statement. The RLEC access rates were established as Commission ordered rates in 1984 and have been reduced on several occasions as a result of Commission proceedings and individual company rate filings that were approved by the Commission. One such occasion was the establishment of the PAUSF at which time, as I testified to earlier, the RLECs' rates were deemed to be just and reasonable by the Commission. The RLEC rates were again deemed to be just and reasonable with the approval of each company's Chapter 30 Plan. The Commission and the RLECs have been reluctant to take further steps to reduce state access rates because of the impact these reductions would have on basic service rates and the PAUSF. The Commission decided not to address access charges in this proceeding opting instead to wait for the FCC to act in order to insure that all intercarrier compensation, access reform and universal service issues are addressed in a comprehensive manner. We support this decision by the Commission.

Further, AT&T refers to its inability to compete because AT&T is required to pay access rates differently than wireless carriers and VOIP providers.[96] We acknowledge the disparity in terminating fees paid by different types of carriers and agree that it should be addressed by the FCC in a comprehensive intercarrier compensation plan.

---

[95] Verizon Statement 1 at 4-8.
[96] Direct Testimony of AT&T witnesses Nurse and Oyefusi at 20-21.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, thank you, although I reserve the right to revise my testimony as necessary, including upon the further review of discovery.

PTA Exhibit JJL-8

Thomas, Thomas, Armstrong & Niesen
Attorneys and Counsellors at Law
Suite 500
212 Locust Street
P. O. Box 9500
Harrisburg, PA 17108-9500
www.ttanlaw.com
Firm (717) 255-7600
Fax (717) 236-8278

Patricia Armstrong

Direct Dial: (717) 255-7627
E-Mail: parmstrong@ttanlaw.com

Charles E. Thomas
(1913 - 1998)

December 16, 2002

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Access Charge Investigation Per Global Order of September 30, 1999
Docket Nos. P-00991648, P-00991649 and M-00021596

Dear Secretary McNulty:

By Secretarial Letter dated October 24, 2001 in the above referenced docket, the Commission directed the Parties to submit a proposal outlining changes in access charges.

Enclosed for filing on behalf of the Office of Consumer Advocate, the Office of Trial Staff, the Office of Small Business Advocate, The United Telephone Company of Pennsylvania d/b/a Sprint and the Rural Telephone Company Coalition, are an original and three (3) copies of the Parties' Joint Access Proposal in Response to Access Charge Investigation - Phase II.

Very truly yours,

THOMAS, THOMAS, ARMSTRONG & NIESEN

By Patricia Armstrong
Patricia Armstrong

Enclosure
cc: Philip L. McClelland (w/encl.)
Kandace F. Melillo (w/encl.)
Zsuzsanna Benedek (w/encl.)
Steven Gray (w/encl.)
Susan Paiva (w/encl.)
Robert Barber (w/encl.)
Michelle Billand (w/encl.)
Elizabeth Barnes (w/encl.)
Gary Wagner (w/encl.)
Robert A. Marinko (w/encl.)

F:\CLIENTS\UTILITY\Rural Company Coalition\USF Access II\letters\021216 Sec. McNulty.wpd

Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Access Charge Investigation Per	:	Docket Nos. P-00991648
Global Order of September 30, 1999	:	P-00991649
	:	M-00021596

JOINT ACCESS PROPOSAL IN RESPONSE TO ACCESS CHARGE INVESTIGATION - PHASE II

I. Background

1. In its *Global Order*,[1] the Pennsylvania Public Utility Commission ("Commission") established the Pennsylvania Universal Service Fund ("PA USF"). As the Commission held:

> The USF is a means to reduce access and toll rates for the ultimate benefit of the end-user and to encourage greater toll competition, while enabling carriers to continue to preserve the affordability of local service rates. Although it is referred to as a fund, it is actually a passthrough mechanism to facilitate the transition from a monopoly environment to a competitive environment – an exchange of revenue between telephone companies which attempts to equalize the revenue deficits occasioned by mandated decreases in their toll and access charges.

Global Order at 142. In adopting a PA USF, the Commission approved a modified version of a settlement plan submitted by the Rural Telephone Company Coalition ("RTCC") and Bell Atlantic-Pennsylvania, Inc. (then "Bell," now "Verizon-PA"). The PA USF was established on a revenue-neutral basis and provided for, among other things, the rebalancing of intrastate access charges, toll rates, and local rates by all incumbent local exchange carriers except Bell and GTE North (now "Verizon-North"). The *Global*

---

[1] *Joint Petition of Nextlink Pennsylvania, Inc. et al.*, and *Joint Petition of Bell Atlantic-Pennsylvania, Inc., et al.*, Docket Nos. P-00991648 and P-00991649, Order entered September 30, 1999 ("*Global Order*").

Order also established a rate cap limiting the average amount that residential consumers will pay for basic local service with any rate amount in excess of that cap coming from the PA USF. The Commission formalized the terms of the PA USF by rulemaking conducted after entry of the *Global Order*, with the PA USF officially codified at 52 Pa. Code §§63.161-63.171. Pursuant to those regulations, the PA USF continues until further rulemaking of the Commission.

2. In the *Global Order*, the Commission further stated as follows:

> [W]e shall initiate an investigation on or about January 2, 2001, to further refine a solution to the question of how the Carrier Charge (CC) pool can be reduced. At its conclusion, but no later than December 31, 2001, the pool will be reduced. In addition, we shall consider the appropriateness of a Toll Line Charge (TLC) to recover any resulting reductions.

Global Order at 60. The Commission also raised the possibility of instituting an intrastate Subscriber Line Charge ("SLC") in the context of the subsequent access charge investigation. *Id.* Due to the significant changes subsequently taking place in the telecommunications industry and the regulation thereof, this investigation was not instituted as initially set out by the Commission. However, as discussed below, access reform continued.

3. While implementation of the Commission's proposed January 2001 access investigation was delayed, access reform by the RTCC members and Sprint continued nonetheless. Numerous RTCC members and Sprint filed revenue-neutral rate rebalancings under their respective Chapter 30 plans approved by the Commission

after the entry of the *Global Order*, resulting in further reductions to their access charges.[2]

4. Further, by Order entered November 4, 1999 at Docket No. A-310200F0002 involving the merger of Bell and GTE North to form Verizon-PA and Verizon-North, the Commission adopted an agreement of the parties to that merger that provided that within 30 months of the merger closing, or on or about December 31, 2002, Verizon-PA and Verizon-North would commence an access charge proceeding specific to the Verizon companies for the purpose of further accomplishing access charge parity for those companies by developing access charge parity based on a consolidated cost study.

II. The Phase II Proposal

5. By Secretarial Letter dated October 24, 2001, the Commission provided as follows:

> The Global Order of September 30, 1999, ordered an investigation into access charges beginning on January 2, 2001, and that following said investigation a reduction of the carrier charge pool take place by the end of the year 2001.
>
> Due to the more pressing matter of Verizon's Section 271 application filing at the beginning of this year, this investigation was postponed. Also, in light of the recent ruling of the FCC, *In the Matter of*

---

[2]*See e.g. Pa. PUC v. Denver and Ephrata Telephone and Telegraph Company*, Docket No. R-00016682, Order entered November 30, 2001; *Pa. PUC v. North Pittsburgh Telephone Company*, Docket No. R-00016681, Order entered November 30, 2001; *Pa. PUC v. Conestoga Telephone & Telegraph Company*, Docket No. R-00016321, Order entered June 21, 2001; *Pa. PUC v. Buffalo Valley Telephone Company*, Docket No. R-00016320, Order entered June 21, 2001; *Pa. PUC v. The United Telephone Company of Pennsylvania d/b/a Sprint*, Docket No. P-00981410, Order entered October 24, 2002; *Pa. PUC vs. Frontier Communications of Pennsylvania, Inc., Frontier Communications of Breezewood, Inc., Frontier Communications of Canton, Inc., Frontier Communications of Lakewood, Inc. and Frontier Communications of Oswayo River, Inc.*, Docket No. P-00951005, Order entered June 15, 2001; *Pa. PUC vs. Frontier Communications of Pennsylvania, Inc.*, Docket No. R-00027424, Order entered July 1, 2002; *Pa. PUC vs. Frontier Communications of Lakewood, Inc.*, Docket No. R-00027427, Order entered July 1, 2002.

Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers (CC Docket No. 00-256); Federal-State Joint Board on Universal Service (CC Docket No. 96-45); Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate of Return Regulation (CC Docket No. 98-77); and Prescribing the Authorized rate of return for interstate services of local exchange carriers (CC Docket No. 98-166), the Commission wishes to give the RTCC and Sprint/United time to review the FCC's Order, which may have an impact on the RTCC's and Sprint/United's intrastate access charges in Pennsylvania, before offering the Commission a proposal regarding the issue of reducing access charges.

Therefore, the Commission hereby directs, that the RTCC and Sprint/United have until **January 15, 2002** to submit a proposal with the Commission outlining proposed changes in access charges and a reduction in the carrier charge pool, and outlining a time frame for changes to take effect. If the RTCC and Sprint/United fail to file a proposal, a formal investigation into the reduction of access charges shall commence in January, 2002.

6. Following the submission of various proposals pursuant to the October 24, 2001 letter and extensive discussions on this matter, all public parties and all ILECs except Verizon-PA and Verizon-North, specifically the Office of Consumer Advocate, Office of Trial Staff, Office of Small Business Advocate, RTCC and Sprint, have agreed to a proposal[3] for further reform of access charges for the RTCC members and Sprint and a time frame for these changes to take effect. The proposal, attached in full hereto as Exhibit B, in summary provides for the following salient access charge reforms:

- Revenue-neutral rebalancings resulting in access reductions in 2003 of approximately $25 million;

[3]Extensive highly confidential and proprietary data, detailing the specific impact of this Joint Access Proposal, has been provided to Commission Staff by the signatory companies and has been reviewed in detail by the statutory parties to this Proposal.

- Further revenue-neutral rebalancings resulting in access reductions for the Smaller ILECs of $2.2 million on January 1, 2004;

- Opportunity for further revenue-neutral rebalancings resulting in additional access reductions in 2004;

- Establishment of a new weighted average rate cap of $18.00 from January 1, 2004 through December 31, 2006 to replace the current $16.00 rate cap, which expires 12/31/03. In a manner proposed to be consistent with the terms of the *Global Order*, any approved future increase in rates above the $18.00 rate cap shall also be recoverable from the USF under the exact same terms and conditions as provided in the *Global Order* and in orders approving RTCC members' Chapter 30 plans;

- Redistribution of a portion of Sprint's current USF receipt to the Smaller ILECs, which can be accomplished through the Fund's administration;

Further, the following benefits are readily attainable with Commission approval of the responsive proposal and implementation of those access reforms:

- All access reductions benefit the toll carriers;

- No change to the existing USF that impacts what is paid into the Fund or by whom;

- No changes are made to, or are required of, the existing PA USF which shall, as provided in the regulations, continue in place until modified by the Commission.

III. Conclusion

7. The parties to the Joint Access Proposal have provided Statements in Support, attached hereto as Exhibit A, which set forth the reasons why the party believes the proposal to be in the public interest.

Respectfully submitted,

Kandace F. Melillo
Kandace F. Melillo

Counsel for the
Office of Trial Staff

Philip L. McClelland

Counsel for the
Office of Consumer Advocate

Steven C. Gray
Steven Gray

Counsel for the
Office of Small Business Advocate

D. Mark Thomas
Patricia Armstrong
Regina L. Matz

Counsel for the
Rural Telephone Company Coalition

Zsuzsanna Benedek

Counsel for The
United Telephone Company of
Pennsylvania (d/b/a Sprint)

Dated: December 16, 2002

F:\CLIENTS\UTILITY\Rural Company Coalition\USF Access II\documents\PROPOSAL FOR CHANGES IN ACCESS CHARGES.rlm.wpd

EXHIBIT A

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Access Charge Investigation Per Global Order of September 30, 1999	:	**Docket Nos. P-00991648**
	:	**P-00991649**
	:	**M-00021596**

OFFICE OF CONSUMER ADVOCATE
STATEMENT IN SUPPORT OF
ACCESS PROPOSAL

The Office of Consumer Advocate (OCA) supports the Joint Access Proposal for RTCC and Sprint. The OCA recognizes that the PUC has generally supported the concept of access reform for these companies and initiated this proceeding in the context of the Global Order. The OCA is also concerned, however, about the achievement of access reform through local rate increases. The OCA recommends that the PUC approve this proposal as it includes certain important rate rebalancing limitations.

The attached proposal includes a number of safeguards concerning prospective rate rebalancing. The proposal continues to offer protection concerning the maximum amount that consumers will be required to pay through their basic monthly rates. The maximum average basic local rates paid by residential consumers shall remain at $16.00 through 2003. This amount will increase to $18.00 in 2004 and such rate cap will remain at that level through 2006. Importantly, the Proposal contains no provision allowing a Toll Line Charge that would further add to the burden of paying for local service.

The rate cap for Sprint and the RTCC continues to be an important protection so that residential consumer rates will remain affordable and reasonably comparable to those charged to consumers in urban areas as required by 66 Pa.C.S. § 3004(d)(1) and 47 U.S.C. § 254(b)(1) and (3). The OCA is concerned about the escalating level of local rates and supports the restrictions in the Proposal so that there will continue to be a limit for such charges. The Commission must consider that, even though the Commission has worked to maintain the affordability of local rates, other surcharges have continued to accumulate on the local bill. The present federal Subscriber Line Charge is scheduled to increase to $6.50 in July 2003. That charge was only $3.50 a few years ago. Additional federal universal service charges and federal local number portability charges as well as 911 surcharges and others have increased basic service rates far beyond the local rate set by the PUC.

The OCA recognizes the importance of access reform for these companies as well as the critical need to maintain the affordability of local rates. This is all the more important for the higher cost companies such as the RTCC and Sprint. Accordingly, the OCA has joined in this Proposal and requests its approval by the PUC.

Respectfully submitted,

Philip F. McClelland
Senior Assistant Consumer Advocate

Counsel for:
Irwin A. Popowsky
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
(717) 783-5048

Dated: December 16, 2002
00072028.wpd

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Access Charge Investigation Per Global Order of September 30, 1999	: :	Docket Nos. P-00981648 P-00981649 M-00021596

STATEMENT OF SUPPORT OF THE
OFFICE OF TRIAL STAFF
RE: JOINT ACCESS PROPOSAL
IN RESPONSE TO ACCESS CHARGE
INVESTIGATION – PHASE II

The Office of Trial Staff (OTS) of the Pennsylvania Public Utility Commission (Commission) provides the following Statement in Support of the Joint Access Proposal (hereinafter "Proposal") in response to the Commission's Access Charge Investigation – Phase II:

1. In its Opinion and Order in the Global Order, at page 80, the Commission provided for the initiation of an access charge investigation on or about January 2, 2001, to resolve certain remaining access issues. See, Joint Petition of Nextlink PA, Inc. et al., Docket Nos. P-00981648, P-00981649, Opinion and Order entered September 30, 1999 (Global Order).

2. Due to other pressing state and federal matters, the access charge investigation was not initiated as initially set out by the Commission. However, by Secretarial Letter dated October 24, 2001, the Commission directed The Rural Telephone Company Coalition (RTCC) and Sprint/United to submit a proposal to the Commission by January 15, 2002, outlining proposed changes in access charges, and a reduction in the carrier charge pool, and outlining a time frame for changes to take effect.

3. Extensive discussions of various proposals followed. The public advocates (specifically the Office of Consumer Advocate, the Office of small Business Advocate, and OTS) were brought into the discussions and provided input. In addition, the public advocates were provided supporting data and calculations for the proposed rate changes, including some cost data. Eventually, after considerable evaluation and negotiation, the RTCC, Sprint/United, and the public advocates agreed to the foregoing Joint Access Proposal and ask that it be approved by the Commission.

4. OTS submits that the Proposal achieves an appropriate balance between the important goals of access reform and promotion of Universal Service. The Commission has previously indicated a concern that access restructure not impede its goal of promoting universal service and avoiding rate shock to local exchange customers. Global Order, p. 37.

5. While the Proposal increases the weighted average residential rate cap from $16.00 to $18.00, effective upon expiration of the current rate cap on

December 31, 2003, it extends a rate cap at this level through December 31, 2006. This provides for a considerable measure of rate stability, which may not have been achieved if this matter was to have been litigated. There is no provision for a Toll Line Charge in the proposal, which reflects a further benefit to ratepayers. Also, any approved rate increases above the $18.00 cap would be recovered from the Universal Service Fund, under the exact same terms and conditions approved in the Global Order.

6. The Proposal also provides for limited and gradual local rate increases, over a two-year period, to avoid rate shock. Specifically, increases in local exchange rates are limited to $3.50 per month in each calendar year, and most local exchange increases will be considerably smaller.

7. The above-mentioned increases are to be accompanied by access reductions, on a revenue neutral basis.

8. The Proposal requires no changes to the PA Universal Service Fund, which shall, as provided in the regulations, continue in place until modified by the Commission.

9. OTS supports this Proposal because it achieves a reasonable resolution of issues, without protracted litigation. However, in the event this matter proceeds to full litigation, OTS and the other parties have reserved their right to take litigation positions that are different from what is set forth in the Proposal.

WHEREFORE, for the reasons set forth above, the Office of Trial Staff requests that the Joint Access Proposal be approved.

Respectfully submitted,

Kandace F. Melillo

Kandace F. Melillo
Prosecutor

Charles F. Hoffman
Chief Prosecutor
Office of Trial Staff

Pa. P.U.C.
P.O. Box 3265
Harrisburg, PA 17105-3265

Dated: December 12, 2002

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ACCESS CHARGE INVESTIGATION PER GLOBAL ORDER OF SEPTEMBER 30, 1999	: : :	Docket Nos. P-00991648 P-00991649 M-00021596

**STATEMENT OF THE
OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE
JOINT ACCESS PROPOSAL IN RESPONSE TO
ACCESS CHARGE INVESTIGATION – PHASE II**

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, 73 Pa. C.S. 399.41 et seq. Pursuant to that statutory authority, the Office of Small Business Advocate ("OSBA") has actively participated in the negotiations that has led to the proposed settlement, and is a signatory to the Joint Access Proposal in Response to Access Charge Investigation – Phase II ("Joint Proposal") that will be filed on or about December 16, 2002.

The Joint Proposal sets forth a detailed procedural history of the matter, and a detailed list of the issues that were resolved through the negotiation process. The following issues were of significance to the OSBA when it concluded that the Joint Proposal Petition was in the best interests of Sprint's and RTCC's small business customers:

1) As a general matter, the Joint Proposal's reduction in state access charges will help to promote the full development of the intrastate toll market in Pennsylvania. This is not only critically important to the overall development of telecommunications in Pennsylvania, but

will ultimately help small businesses in the Commonwealth by creating a marketplace that offers cheaper and more diverse options.

2) The Joint Proposal specifies that any increases to the business rates will be determined on a dollar basis, not on a percentage basis, and those increases will be less than or equal to the increases to the residential rates. This is an excellent result for the small business customers of Sprint and RTCC, as historically such increases to the rates of residential and business customers have frequently not been on an equal basis. Thus, the Joint Proposal's equitable treatment of class rate increases is a large selling point for the OSBA in this matter.

3) Finally, the Joint Proposal offers the prospect of resolving these issues without the full hearings and briefing schedules common to such matters. The Joint Proposal would thereby enable the OSBA to conserve its resources and avoid the uncertainties inherent in a fully litigated case.

For the reasons set forth in the Joint Proposal itself, as well as the additional factors that are enumerated in this statement, the OSBA supports the Joint Proposal and respectfully requests that the Commission approve the Joint Proposal in its entirety.

Respectfully submitted,

Steven C. Gray

Steven C. Gray
Assistant Small Business Advocate

Date: December 13, 2002

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ACCESS CHARGES INVESTIGATION PER GLOBAL ORDER OF SEPTEMBER 30, 1999	:	Docket Nos.: P-00991648 P-00991649 M-00021596

STATEMENT IN SUPPORT OF
THE UNITED TELEPHONE COMPANY OF PENNSYLVANIA *d/b/a* SPRINT

The United Telephone Company of Pennsylvania d/b/a Sprint ("Sprint") hereby sets forth its reasons in support of the Joint Access Proposal In Response To The Pennsylvania Public Utility Commission's ("PUC" or "Commission) Access Charge Investigation – Phase II ("Joint Access Proposal").[1] Sprint reserves the right to raise additional supporting reasons as may be needed.

Sprint believes that this Joint Access Proposal represents a fair and reasonable result to further reform access charges for the RTCC companies and Sprint. The Joint Access Proposal continues the access reform initiatives begun by the Commission in the *Global Order*.[2] In further support, Sprint states as follows:

1. The Joint Access Proposal arises out of the Commission's October 24, 2001 Secretarial Letter, dated October 24, 2001, at Global Order Docket Numbers

---

[1] Sprint, the local exchange company, is a signatory to the Joint Access Proposal. The Joint Access Proposal, however, is fully consistent with the corporate objectives of Sprint's other divisions, notably Sprint long distance.

[2] *Joint Petition of Nextlink Pennsylvania, Inc., et al.*, P-00991648, P-00991649, Order entered September 30, 1999 (hereinafter "*Global Order*"); Clarification Order, entered November 5, 1999. *See also, Bell Atlantic – Pennsylvania, Inc. et al. v. Pa. Public Utility Commission et al.*, 763 A.2d 440, 2000 Pa. Commw. LEXIS 592 (Pa. Commw.Ct. 2000) (hereinafter "*Global Order Appeal*").

P-00991648 and P-00991649. The October 24, 2001 Secretarial Letter directed Sprint and the Pennsylvania Rural Telephone Company Coalition ("RTCC") to submit a proposal with the Commission outlining proposed changes: (1) in access charges; (2) a reduction in the carrier charge pool; and (3) a time frame for changes to take effect.

2. After much deliberation and compromise, Sprint and the RTCC companies developed a joint access proposal that complied with the three (3) requirements outlined in the October 24, 2001 Secretarial Letter. The RTCC/Sprint proposal was submitted to the Commission. The RTCC/Sprint proposal was also provided to other industry members and to the statutory stakeholders, namely the Office of Consumer Advocate ("OCA"), the Office of Trial Staff ("OTS") and the Office of Small Business Advocate ("OSBA"). In addition, Commission Staff [3] and the statutory parties were provided supporting data and calculations on a proprietary basis.

3. The instant Joint Access Proposal was ultimately agreed to by Sprint, the RTCC companies, OCA, OTS and the OSBA. The Joint Access Proposal complies with the October 24, 2001 Secretarial Letter in that it: (1) outlines proposed reductions in the access charge rates of Sprint and the individual RTCC companies; (2) reduces the Carrier Charge; and (3) provides a time frame for these proposed changes to take effect.

4. In addition, the Joint Access Proposal contains several public interest benefits that, Sprint submits, amply support Commission adoption of the Joint Access Proposal in totality. First, the Joint Access Proposal enables RTCC companies and

---

[3] Namely: Bureau of Fixed Utility Services, Law Bureau, and Office of Special Assistants.

Sprint to transition their respective access charges closer to cost. Thus, the Joint Access proposal continues with the same access reform initiatives begun by the Commission in the *Global Order*.[4]

5. Second, the Joint Access Proposal tracks with the "mirroring" measures set forth in the FCC's recent MAG order and with the FCC's previously-released CALLS order, as referenced in the Commission's October 24, 2001 Secretarial Letter.[5] Thus, the Joint Access Proposal, if approved, would enable affected Incumbent Local Exchange Carriers ("ILECs") to lower intrastate traffic sensitive ("TS") rates to match or move closer to interstate TS rates – to the benefit of IXCs.

6. Third, the Joint Access Proposal maintains the existence of the Universal Service Fund ("USF") <u>and</u> retains the existing contributor and recipient framework, as approved in the *Global Order* and ultimately promulgated in regulations governing the Pennsylvania USF following entry of the *Global Order*.[6] The Commission's USF regulations need not be modified or altered in any manner in order to implement this Joint Access Proposal in its entirety. Therefore, all public benefits due to the existence and implementation of the Pennsylvania USF – such as preservation of the affordability of local service rates – have been maintained under this Joint Access Proposal.

---

[4] The benefits of the Pennsylvania USF have been noted by the Commission and the Commonwealth Court as follows:

> The USF is a means to reduce access and toll rates for the ultimate benefit of the end-user and to encourage greater toll competition, while enabling carriers to continue to preserve the affordability of local service rates. . .

Global Order Appeal, 763 A.2d at 492, *quoting*, *Global Order* at 142.

[5] *See*, October 24, 2002 Secretarial Letter at para. 2. While the RTCC member companies follow the FCC's MAG Order, Sprint, which since 1991 has been a price cap company with respect to interstate rates, has been implementing the FCC's CALLs Order relative to interstate access reform.

[6] *Global Order* at 142-155; 52 Pa. Code §§63.161 – 63.171.

7. Fourth, in the *Global Order* and in the regulations implementing the USF, the Commission determined to draw the line for recipient status as between the dominant ILEC in the Commonwealth (Bell Atlantic, now Verizon, and GTE) and the other ILECs in the state. As the Commonwealth Court found, the Commission's "grouping larger companies serving low cost areas separately from smaller companies serving higher cost areas . . . made a reasonable classification under the familiar rational basis doctrine . . ." [7] This Joint Access Proposal employs this same classification, as adopted by the Commission in the *Global Order* and the Commission's regulations.

8. Fifth, the revenue-neutral rate rebalancings as structured in this Joint Access Proposal are a moderate, just and reasonable means by which to accomplish the further access reductions contained within this Joint Access Proposal. For example, under the Joint Access Proposal, the weighted-average residential rate cap of $16.00 established in the *Global Order* will only increase to $18.00 and will remain at the weighted-average rate of $18.00 through December 31, 2006 unless otherwise approved by the Commission.

9. Finally, Sprint submits that an amicable resolution, such as the Joint Access Proposal, is appropriate when it is consistent with Commission regulations, when it reduces regulatory resources and when it is in the public interest. Those

---

[7] *Global Order Appeal*, 763 A.2d at 492. As the Commission in the *Global Order* also noted: "Sprint LTD's service territory is more rural than average." *Global Order* at 149.

factors being present, Sprint supports the Joint Access Proposal and requests that the Commission approve the Joint Access Proposal in its entirety.

Respectfully submitted,

Zsuzsanna E. Benedek, Esquire
The United Telephone Company of Pennsylvania *d/b/a* Sprint
240 North Third Street, Suite 201
Harrisburg, PA 17101

Phone: (717) 245-6346 (Direct)
(717) 236-1385 (General)
Fax: (717) 238-7844
e-mail: sue.e.benedek@mail.sprint.com

DATED: December 13, 2002

Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Access Charge Investigation per Global Order of September 30, 1999	: : :	Docket Nos. P-00991648 P-00991649 M-00021596

RURAL TELEPHONE COMPANY COALITION STATEMENT IN SUPPORT OF JOINT ACCESS PROPOSAL IN RESPONSE TO ACCESS CHARGE INVESTIGATION - PHASE II

TO THE HONORABLE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

AND NOW comes the Rural Telephone Company Coalition ("RTCC"), by its attorneys, and files this statement supporting this Honorable Commission's approval of the Joint Access Proposal submitted in response to the Commission's Access Charge Investigation - Phase II by the RTCC,[1] The United Telephone Company of Pennsylvania d/b/a Sprint ("Sprint"), Office of Consumer Advocate ("OCA"), Office of Trial Staff

[1]The RTCC member companies are ALLTEL Pennsylvania, Inc. ("ALLTEL"), Armstrong Telephone Company - PA, Armstrong Telephone Company- North, Bentleyville Communications Corporation, d/b/a The Bentleyville Telephone Company, Buffalo Valley Telephone Company ("Buffalo Valley"), Citizens Telephone Company of Kecksburg, Commonwealth Telephone Company ("Commonwealth"), Conestoga Telephone and Telegraph Company ("Conestoga"), Denver and Ephrata Telephone and Telegraph Company ("D&E"), Deposit Telephone Company, Frontier Communications of Breezewood, Inc., Frontier Communications of Canton, Inc., Frontier Communications of Lakewood, Inc., Frontier Communications of Oswayo River, Inc., Frontier Communications of Pennsylvania, Inc. ("Frontier PA"), The Hancock Telephone Company, Hickory Telephone Company, Ironton Telephone Company, Lackawaxen Telecommunications Services, Inc., Laurel Highland Telephone Company, Mahanoy & Mahantango Telephone Co., Marianna & Scenery Hill Telephone Company, The North-Eastern PA Telephone Company, North Penn Telephone Company, North Pittsburgh Telephone Company ("NPTC"), Palmerton Telephone Company, Pennsylvania Telephone Company, Pymatuning Independent Telephone Company, South Canaan Telephone Company, Sugar Valley Telephone Company, Venus Telephone Corporation, and Yukon-Waltz Telephone Company. This comprehensive coalition of rural incumbent local exchange carriers excludes the Citizens Telecommunications Company of New York, which operates under New York access tariffs, and West Side Telephone Company, which operates under West Virginia Tariffs and was not a party in the Global proceeding.

("OTS"), and Office of Small Business Advocate ("OSBA"). In support of such approval, the RTCC represents as follows:

1. Initial steps toward reforming access charges and implementing explicit universal service support were initiated by the Commission in the *Global Order*.[2] In that Order, the Commission approved with modification the USF/Access Charge Reform Plan ("PA-USF") submitted by the RTCC and Verizon Pennsylvania, Inc. ("Verizon-PA, then Bell Atlantic-Pennsylvania, Inc., or "Bell"). Further background on the *Global Order*, including the development of the PA USF and the Commission's direction to pursue further access reform under Phase II, is contained in the preface accompanying the Joint Access Proposal.

2. Prior to the *Global Order*, the rates of the RTCC member companies had been structured in a manner that provided a system of implicit subsidies designed to maintain universal service. The Commission described this historical rate structure as follows:

> In reality, local exchange rates throughout the United States have been subsidized by access charges which are well in excess of their costs. The other elements that contribute to the subsidization of local exchange rates are toll and local vertical services. The combined subsidies from these services is what have kept basic local exchange service rates in Pennsylvania at an affordable level over the years. It could be said that the sum of the subsidies from access, local (sic) and optional local exchange services has performed the duty of an implicit "universal service fund" in Pennsylvania.
>
> * * *

---

[2] *Joint Petition of Nextlink Pennsylvania, Inc. et al.*, and *Joint Petition of Bell Atlantic-Pennsylvania, Inc., et al.*, Docket Nos. P-00991648 and P-00991649, Order entered September 30, 1999 ("*Global Order*").

> Residual pricing is a tariff pricing mechanism used by utility regulators in the monopoly environment in which access and toll rates, as well as vertical local services, are priced at rates well above their costs, but at prices that the market will bear, in order to keep basic local exchange telephone service rates affordable.

Global Order at 13,15, notes 9, 10.

3. With the passage first of Chapter 30, and the subsequent enactment of the Telecommunications Act of 1996, the Commission decided that this historical system of implicit subsidies to support universal service through subsidized local exchange rates should not continue. The Commission summarized the conditions that addressed access reform, including the provision of explicit universal service support and the rebalancing of non-cost based rates, in the *Global Order* as follows:

> [S]ubsequent to our ruling on [Bell's] access charges during their Chapter 30 Proceeding, there have been various significant regulatory developments in both the federal and state arenas that require elimination of implicit subsidies. Most notably are the Telecommunications Act of 1996 (TA-96) and our Generic Access Charge Investigation. Subsequent to approval of Bell's Chapter 30 we have also required all ILECs to implement intraLATA presubscription throughout their service territories. Recognizing the vulnerability of implicit subsidies to competition, TA-96 requires that the FCC and the states take the necessary steps to strive to replace the system of implicit subsidies with "explicit and sufficient" support mechanisms to attain the goal of universal service in a competitive environment.

Global Order at 26-27.

4. Accordingly, with the *Global Order*, the Commission undertook its first steps to being the rebalancing of intrastate access, toll and local rates for the RTCC member companies on a revenue-neutral basis. Pursuant to the *Global Order*, the

RTCC members were permitted to restructure, modify and reduce their access, toll and local rates, as follows:

1) Intrastate traffic sensitive switched access rates and structure (including local transport restructure) were converted to interstate switched access rates and structure in effect on July 1, 1998.

2) The Common Carrier Line Charge ("CCLC") was restructured as a flat-rate Carrier Charge ("CC") and reduced to an intrastate rate not exceeding $7.00 per line and allocated to intrastate toll providers based on their relative minutes of use.

3) The RTCC members were given the opportunity to reduce their intrastate toll rates to an average rate not lower than $0.09 per minute.

4) The RTCC members with low local exchange rates were permitted to increase their residential one-party basic, local rates to an average monthly charge of at least $10.83, to the extent necessary to offset the reduced toll rates.

5) Those RTCC members with an average monthly R-1 rate above $16.00 (inclusive of touch-tone) were directed to provide their customers with a Universal Service credit to effectively reduce the rate to $16.00 with the difference coming out of the Pennsylvania Universal Service Fund ("PA-USF").

Revenue losses from the access and toll rate reductions that were not recovered by the limited local rate increase were recovered from the newly created PA-USF, as were rates that exceeded $16.00, a level then recognized by the Commission as an affordable local service rate. However, the Commission's *Global Order* also indicated a desire to address further access reform and universal service funding and provided for further investigation thereof under Phase II.

5. The RTCC firmly believes that the further access charge reform provided in the Joint Access Proposal not only fulfills the Commission's mandate in the *Global Order* to revisit access reform, but also does so in a manner that builds upon the model adopted by the Commission in that Order. In recognition thereof, all public interest

parties and all incumbent local exchange carriers in the Commonwealth except Verizon (being the joint reference herein for Verizon Pennsylvania Inc. and Verizon North Inc.) have agreed upon the terms of the Joint Access Proposal.

6. The Joint Access Proposal provides for significant further access rate reductions to the benefit of all interexchange carriers. The Joint Access Proposal establishes a first round of access charge reductions beginning in the year 2003 that will provide reductions of approximately $25 million. Through a redistribution of Sprint's current receipts from the PA-USF, which can be accomplished on an administrative level without modification to the existing PA-USF, a second round of access reductions of approximately $2.2 million for the Smaller ILECs, some of whose access rates currently account for 60% to 90% of their revenues, will be accomplished in the year 2004. A further opportunity to lower access charges is also provided for all RTCC members and Sprint in the year 2004.

7. The Joint Access Proposal builds on the rate restructuring first determined and commenced by the Commission in the *Global Order* by providing RTCC members and Sprint opportunities to recover on a revenue-neutral basis the revenue losses triggered by the access rate reductions through increases to their local rates on a pre-determined schedule and in increments that fall within the parameters established in each of these companies' Chapter 30 Plans.

8. The Joint Access Proposal maintains without modification the explicit support mechanism adopted by the Commission in the *Global Order*, i.e. the existing PA-USF, which will not increase as a result of the Joint Access Proposal. By slightly increasing the rate cap from the present $16.00 to the $18.00 level proposed, RTCC members and Sprint will be able to recover more of the revenue offset occasioned by

the access reforms through rebalanced local rates than by greater receipts from the PA-USF. Further, because the existing PA-USF is not affected, the Joint Access Proposal does not require the Commission to address at this time the issue of whether wireless carriers should be required to share responsibility for the maintenance of ubiquitous, affordable local service rates by contributing to an explicit universal service fund. However, the RTCC members respectfully submit that the issue of wireless carriers contributions should be addressed at the time a permanent USF is established.

9. The Joint Access Proposal allows the Commission to accomplish, on an expedited basis, the Commission-mandated Phase II access reform for the RTCC member companies and Sprint. This proposal, if adopted, will build upon the access rate reform procedure initiated by the Commission in the *Global Order*.[3]

10. For all of these reasons, the RTCC respectfully requests the Commission to recognize the immediate benefits that will flow to all segments of Pennsylvania through the access reforms provided by the Joint Access Proposal, with the ultimate result of further fostering an environment in Pennsylvania that will sustain healthy

---

[3] In the *Global Order*, the Commission ultimately addressed access reform for Sprint and the RTCC members in a similar manner, but recognized at the outset the clear need to address separately the varying circumstances of the Commonwealth's largest ILECs - Bell and GTE - now Verizon. As the Commission noted, "[s]ince the process of access charge reform will affect different ILECs to varying degrees, we will separately address the access charges issues for each of the following entities: (1) BA-PA, (2) GTE, (3) Sprint/United (4) the rural LECs and (5) the CLECs." *Global Order* at 18. This manner of grouping and addressing companies based upon their circumstances was approved by the Commonwealth Court as a "reasonable classification." *Bell Atlantic-Pennsylvania, Inc. et al. v. Pa. PUC*, 763 A.2d 440, 492 (Pa. Commw. 2000).

competition, and approve the RTCC/SPRINT/OCA/OTS/OSBA JOINT ACCESS PROPOSAL IN RESPONSE TO THE COMMISSION'S ACCESS CHARGE INVESTIGATION - PHASE II.

Respectfully submitted,

Patricia Armstrong

D. Mark Thomas
Patricia Armstrong
Regina L. Matz

Counsel for the
Rural Telephone Company Coalition

THOMAS, THOMAS, ARMSTRONG & NIESEN
212 Locust Street
P.O. Box 9500
Harrisburg, PA 17108-9500
(717) 255-7600

Dated: December 16, 2002

F:\CLIENTS\UTILITY\Rural Company Coalition\USF Access II\documents\Joint Access Proposal.statement in support.wpd

EXHIBIT B

EXHIBIT B

RTCC/SPRINT/OCA/OTS/OSBA JOINT ACCESS PROPOSAL IN RESPONSE TO THE COMMISSION'S ACCESS CHARGE INVESTIGATION - PHASE II

Defined Terms

As employed herein, the following terms shall have these specified meanings:

- "ILEC" means an RTCC member or The United Telephone Company of Pennsylvania d/b/a Sprint ("Sprint").
- "RTCC" means Rural Telephone Company Coalition. The RTCC members are ALLTEL Pennsylvania, Inc. ("ALLTEL"), Armstrong Telephone Company PA, Armstrong Telephone Company North, Bentleyville Communications Corporation, d/b/a The Bentleyville Telephone Company, Buffalo Valley Telephone Company ("Buffalo Valley"), Citizens Telephone Company of Kecksburg, Citizens Telecommunications Company of New York,[1] Commonwealth Telephone Company ("Commonwealth"), Conestoga Telephone and Telegraph Company ("Conestoga"), Denver and Ephrata Telephone and Telegraph Company ("D&E"), Deposit Telephone Company, Frontier Communications of Breezewood, Inc., Frontier Communications of Canton, Inc., Frontier Communications of Lakewood, Inc., Frontier Communications of Oswayo River, Inc., Frontier Communications of Pennsylvania, Inc. ("Frontier PA"), The Hancock Telephone Company, Hickory Telephone Company, Ironton Telephone Company, Lackawaxen Telecommunications Services, Inc., Laurel Highland Telephone Company, Mahanoy & Mahantango Telephone Co., Marianna & Scenery Hill Telephone Company, The North-Eastern PA Telephone Company, North Penn Telephone Company, North Pittsburgh Telephone Company ("NPTC"), Palmerton Telephone Company, Pennsylvania Telephone Company, Pymatuning Independent Telephone Company, South Canaan Telephone Company, Sugar Valley Telephone Company, Venus Telephone Corporation, and Yukon-Waltz Telephone Company.
- "Larger ILEC," for purposes of this Proposal only,[2] means ALLTEL, Buffalo Valley, Commonwealth, Conestoga, D&E, Frontier PA, NPTC, and Sprint.

---

[1] Because Citizens Telecommunications Company of New York has and continues to operate under New York access tariffs, it is not to be deemed a party to this proposal. Likewise, West Side Telephone Company was not included in the Global proceeding and is excluded here.

[2] The designation of larger and smaller ILEC was based upon the factor of 20,000 access lines and was for purposes of this Proposal only, for the purpose of redirecting monies out of the existing USF that were previously allocated to Sprint.

- "Smaller ILEC," for purposes of this Proposal only, means any RTCC member that is not a Larger ILEC.

Elements of Proposal

1) If an ILEC's intrastate traffic sensitive (TS) rates exceed its interstate TS rates, the ILEC may, at its sole discretion, lower its intrastate TS rates to match or move closer to its interstate TS rates, and simultaneously increase its Carrier Charge (CC) by a corresponding revenue neutral amount using the 12 months ended August 31, 2002, or the most current 12 month period, thereby creating a revised CC. An ILEC may, at its sole discretion, lower its intrastate TS rates to match or move closer to its interstate TS rates, and simultaneously increase its Carrier Charge (CC) by a corresponding revenue-neutral amount, again in 2004, using a recent 12 month period, thereby creating a further revised CC. All references to CC herein shall be to the then current revised CC if the ILEC has chosen to implement this element of the proposal.

2) Pursuant to an Order entered adopting this access proposal without modification, and after notice through bill insert, bill message or separately mailed notice to all customers at least 30 days prior to the date of any rate change, each ILEC will increase local rates, based upon one-day tariff compliance filing, to be effective on a date between January 1, 2003 and December 31, 2003 (as to be determined at the sole discretion of the individual ILEC) as follows:

   (a) Each ILEC with a weighted average R-1 rate below $10.83 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of $11. If the increase results in R- 1 rates greater than 150% of the current rate, then the increase shall be implemented in two steps, the second of which shall become effective no later than December 31, 2003. This increase shall be subject to the Company's Chapter 30 Plan rate rebalancing limitation with respect to the limitation on calendar year per line increases, i.e. not more than $3.50 per line per month in rate increases in any one year, but shall not be subject to any other Chapter 30 process or requirements. To the extent that any ILEC shall not be able to complete the required rate increase within any year, such rate increase may be deferred to the following year subject to the Company's Chapter 30 Plan rate rebalancing limitations. Any rate rebalancing in excess of that specifically referenced in Paragraph 2 shall be subject to the Chapter 30 Plan rate rebalancing process and requirements.

   (b) Each ILEC with a weighted average R-1 rate between $10.83 - $12 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of $13.50.

   (c) Each ILEC with a weighted average R-1 rate between $12.01 - $14 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of $15.

(d) Each ILEC with a weighted average R-l rate between $14.0l-$16 as of December 31, 2002, will increase its R-l rates in a manner to achieve a weighted average R-l rate of $16.

(e) Each ILEC may, at its sole option, increase its weighted average Business line rate by up to the same amount on a dollar basis that its weighted average R-1 rate is increased, but in no event may the B-1 rate be less than the R-1 rate.

3) Pursuant to an Order entered adopting this access proposal without modification, and after notice through bill insert, bill message or separately mailed notice to all customers at least 30 days prior to the date of any rate change, each ILEC may increase local rates, based upon a one-day tariff compliance filing, to be effective on a date between January 1, 2004 and December 31, 2004 (as to be determined at the sole discretion of the individual ILEC) as follows:

(a) Each ILEC with a weighted average R-1 rate of $11 (or less) as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a weighted average R-l rate of $13.50.

(b) Each ILEC with a weighted average R-l rate of $13.50 as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-l rates in a manner to achieve a weighted average R 1 rate of $15.

(c) Each ILEC with a weighted average R-l rate of $15 as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a weighted average R-l rate of $17.

(d) Each ILEC with a weighted average R-1 rate of $16 as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a maximum weighted average R- 1 rate of $18.

(e) Each ILEC may, at its sole option, increase its weighted average Business line rate by up to the same amount on a dollar basis that its weighted average R-1 rate is increased, but in no event may the B-1 rate be less than the R-1 rate.

Any rate rebalancing in excess of that specifically referenced in Paragraphs 2 and 3 shall be subject to the Chapter 30 Plan rate rebalancing process and requirements.

4) The monthly $16.00 cap on R-l average rates established in the Global Order and any ILEC-specific weighted average rate cap which may have been established in any individual ILEC's Chapter 30 Plan will be increased for all ILECs to the weighted average $18.00 cap for a minimum three (3) year period January 1, 2004 through December 31, 2006. As to any ILEC which as of July 1, 2002 has hit the $16.00 cap and takes a credit from the USF, the ILEC shall continue to receive and apply the credit but would be limited to recovering from its customers future R-1 increases of $2.00 under the foregoing $18.00 cap reflecting the USF credit in effect as of July 1, 2002. Any approved

future increases in rates above the $18.00 rate cap for any ILEC shall also be recoverable from the USF under the exact same terms and conditions as approved in the Global Order. For example, if ILEC A's R-1 rates are currently $17.25, then their customer is billed $17.25 but receives a credit of $1.25 from USF, receiving a net bill of $16.00. ILEC A could, as of December 31, 2004, implement the provisions of Paragraph 3 hereof, increase its rates, if justified, by $2.00 to $19.25, charge its customers $19.25, reflect a credit of $1.25 to its customers, receive $1.25 from the USF, and then send a net bill to its customers of $18.00. If ILEC A justified an R-l rate of $20.25, then it would be entitled to $2.25 from the USF and will send a net bill to its customers of $18.00.

5) Pursuant to an Order entered adopting this access proposal without modification, each ILEC shall have the right, in whole or in part, in lieu of raising local service rates as provided in Paragraphs 2 and 3 hereof to raise rates on other services by an equivalent amount, based on a one-day tariff compliance filing.

6) To offset the increase to local rates described above in Paragraphs 2 and 3, each ILEC (except Sprint) will file a compliance tariff(s) to reduce its CC or TS rates, or any combination thereof, by a revenue-neutral amount (depending upon changes undertaken in Paragraph 1, above), effective on dates consistent with the increases in Paragraphs 2 and 3.

7) In addition to any rate modifications undertaken pursuant to Paragraphs 2 and 3, each Smaller ILEC that increases its rates consistent with Paragraph 2, above, or is at the $16.00 capped rates on December 31, 2003, will additionally reduce its CC or TS rates, or any combination thereof, by the equivalent of $2 per line per month effective January 1, 2004 and shall receive an equal (a revenue-neutral) amount of support from the PA USF (annual total for all Smaller ILECs ranging from an estimated $1.8 million to $2.2 million), as provided in Paragraph 8.b. For ease of administration, the amount of additional USF received by the Smaller ILECs under this proposal will be determined as of December 31, 2003, and will be applied effective January 1, 2004 and each year thereafter for the duration of the Pa. USF (as addressed in Paragraph 1 of the Conditions of Proposal.) Beginning in 2005, any growth in access lines shall be accounted for in accordance with the annual USF calculation in 52 Pa. Code §63.165 and the Smaller ILECs' total receipt from the Pa. USF, including the amount provided for herein, shall be included in the Smaller ILECs' prior year funding.

8) (a) To offset the increase to Sprint's local rates described above in Paragraph 2, above, Sprint will file compliance tariff(s) to reduce its CC or TS rates, or any combination thereof, by a revenue-neutral amount (depending upon changes undertaken in Paragraph 1, above) effective on dates consistent with the increases in Paragraph 2.

(b) Beginning on or after January 1, 2004, Sprint will reduce its receipt from the current PA USF equal to the $2 per line per month reduction to the CC or TS, from Smaller ILECs as expressed in Paragraph 7. These dollars (annual total ranging from an estimated $1.8 million to $2.2 million) will be directly paid to the

Smaller ILECs, as described in Paragraph 7, from the PA USF to offset the Smaller ILECs' reduction in access charges on a revenue neutral basis.

9) On/or after January 1 of each year beginning in 2005 each ILEC may request such rate changes or rate rebalancing as are permitted by any Chapter 30 Plans and/or applicable statutory and regulatory provisions.

Conditions of Proposal

1) The only change to the existing universal service fund in PA is that Sprint will be shifting a portion (estimated to be \$1.8 m - \$2.2m) of its current fund receipt (\$9 million) to Smaller ILECs as noted in Paragraphs 7 and 8 above. This Proposal is dependent upon all other aspects of the PA universal service program and the USF regulations remaining intact, including the recovery of rates above the rate cap into the future, specifically beyond December 31, 2003. The existing universal service fund, including the recovery of monies under Paragraph 4 of Elements of Proposal above, and regulations promulgated thereunder shall, as provided in the regulations, continue in place until modified by further Commission rulemaking.

2) Each ILEC reserves the right, subject to Chapter 30 Plan requirements, to change its access rates to ensure that each access rate element at least recovers its cost and the ILEC's service price index continues to be equal to or less than the ILEC's price stability index, in the event the ILEC's access rates are determined to be below cost based upon the development of a cost study.

3) This proposal is made in its entirety and no part hereof is valid or binding unless all components are accepted by all parties. Should any part be specifically modified or otherwise adversely impacted at any later date as to any ILEC or party, the ILEC or party shall have full unilateral rights to withdraw from the plan or revisit the plan in its sole discretion. This potential agreement is proposed by the parties to settle the instant controversy and is made without any admission against or use that is intended to prejudice any positions which any party might adopt during subsequent litigation, including further litigation in related proceedings. This agreement is conditioned upon the Commission's approval of all terms and conditions contained herein, except for the terms of this paragraph. If the Commission should fail to grant such approval or should modify the terms and conditions herein, this agreement may be withdrawn upon written notice to the Commission and all parties within five business days by any of the parties and, in such event, shall be of no force and effect. In the event that the Commission does not approve the Settlement or any party elects to withdraw as provided above and any proceeding continues, the parties reserve their respective rights to submit testimony or other pleadings and briefs in this or a related proceeding.

4) Elements of this Proposal shall constitute rate rebalancings or rate filings as defined and allowed under each ILEC's Chapter 30 Plan only to the extent of determining the maximum amount of an increase allowed per year, but shall not preclude the filing of one additional rate restructuring/rebalancing filing in the calendar year so long as the total

rate rebalancing rate increases do not exceed the maximum annual increase allowed and comply with other Chapter 30 Plan limitations and requirements. That is, implementation of proposed Paragraphs 2, 3 and 5 under Elements of Proposal are not considered rate rebalancings under the Chapter 30 Plans except in determining the maximum limitation on per year line rate increases to monthly dial tone rates. All parties retain all other rights under the approved Chapter 30 Plan to implement or oppose all rate rebalancings and other rate filings permitted under its Chapter 30 Plan. All parties reserve all rights in any proceedings relative to Chapter 30.

5) Increases to weighted average business rates on a dollar basis will be less than or equal to the increases to weighted average residential rates on a dollar basis.

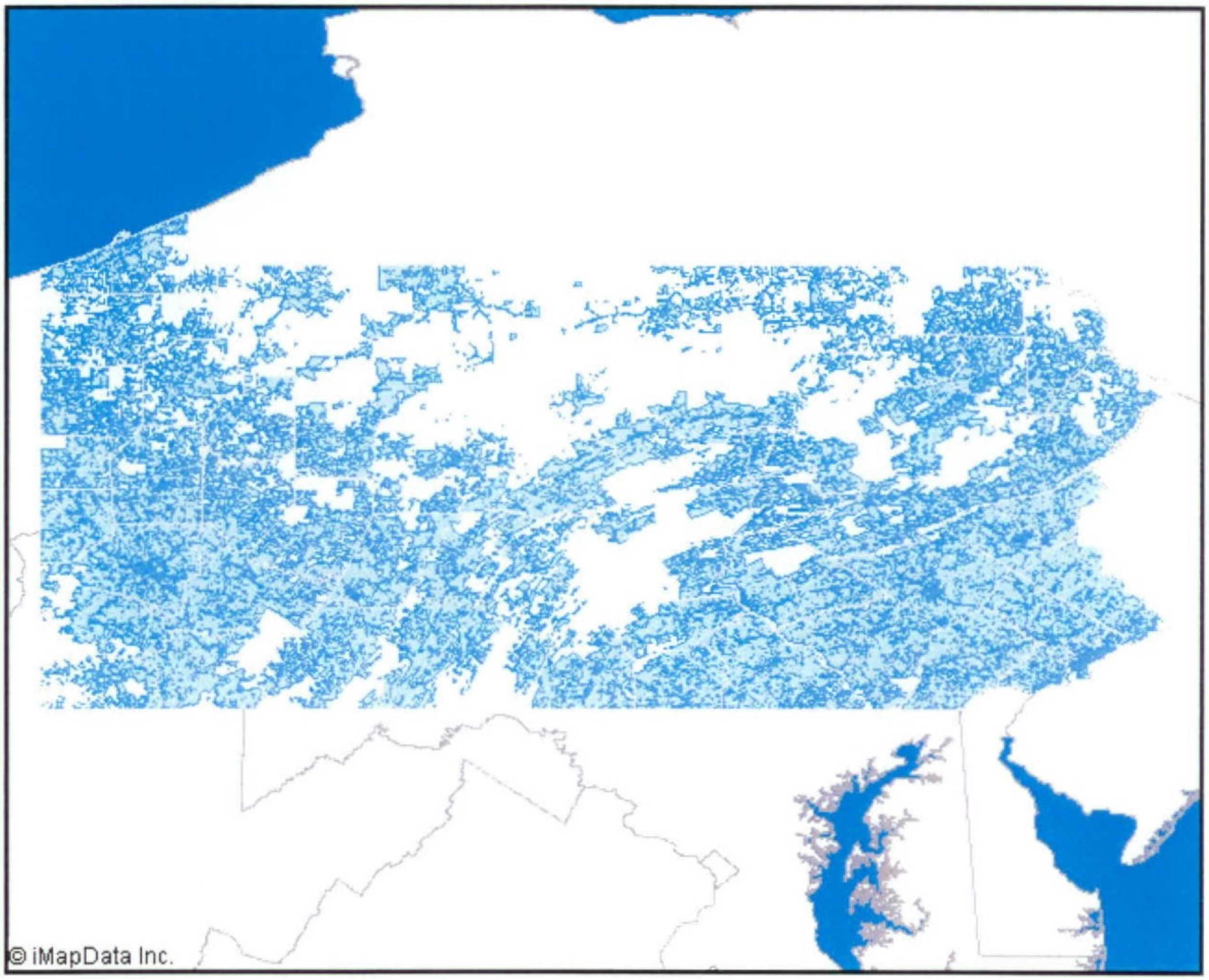
6) This access proposal will be revenue neutral relative to each ILEC implementing a rate change. Absolutely no changes shall be required which are not revenue-neutral. Other access reductions that are not revenue neutral are permissible at the ILEC's sole option, but not required.

7) When notice is sent to each company's customers as provided in Paragraphs 2 and 3 under elements of Proposal, it will also be served upon all parties to this Proposal.

F:\CLIENTS\UTILITY\Rural Company Coalition\USF Access II\documents\Joint Access Proposal.doc

PTA Exhibit JJL-9

Reported Broadband Coverage for Pennsylvania



Cable Modem

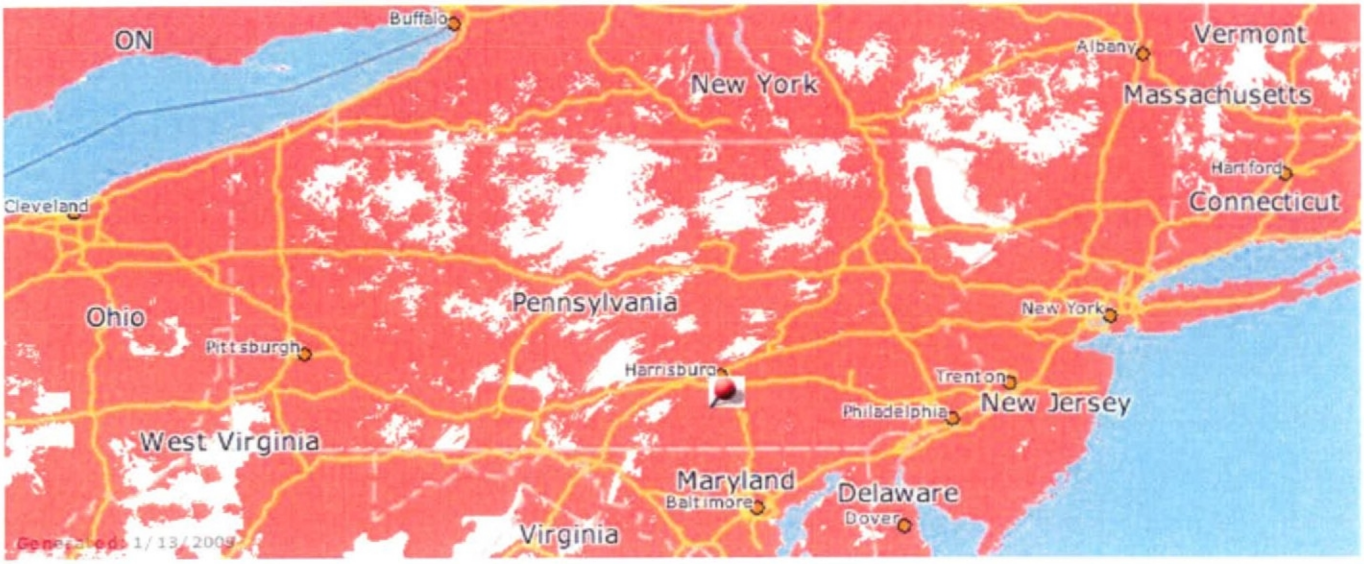
List all Available Providers

Close Window

PTA Exhibit JJL-10

verizonwireless

Verizon Wireless Printer Friendly Coverage Map



N

Mapped Coverage
Voice and Messaging

Mapped Location
17101

Digital Coverage

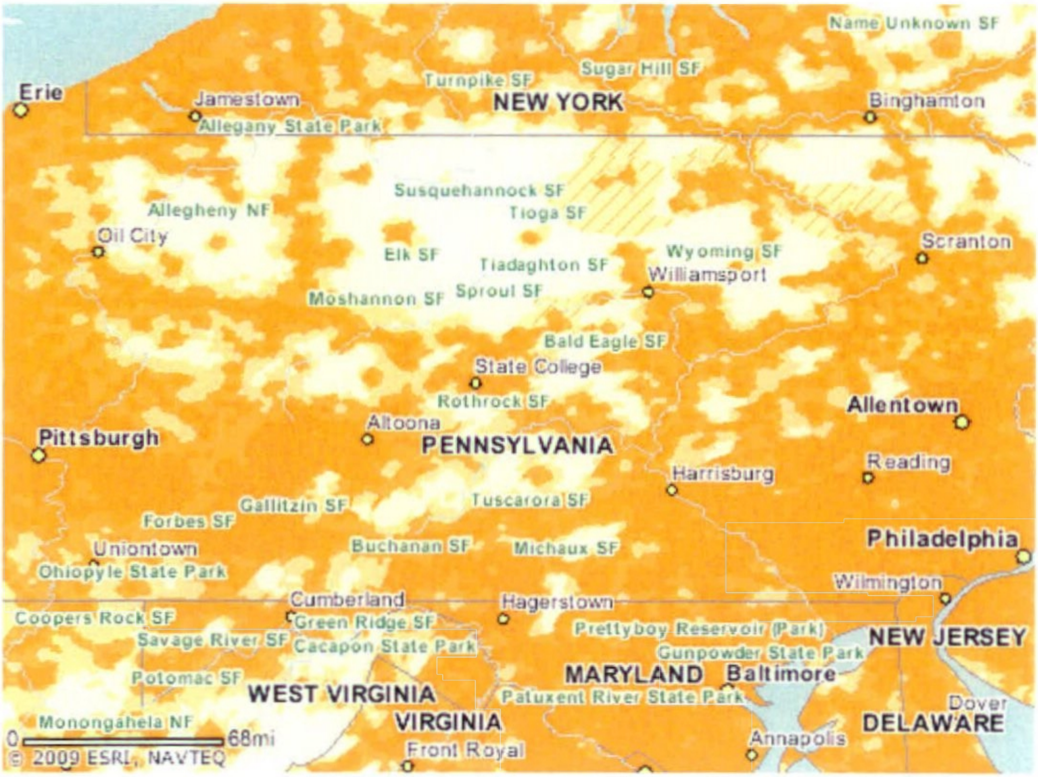
Analog Coverage

No Coverage

These Coverage Locator depictions apply to the following calling plans:
Nationwide Calling Plans, America's Choice initiated (activated) on or after 2/21/2005, BroadbandAccess and INpulse.

Roaming charges will apply in the Canada Coverage area unless you subscribe to the Nationwide Plus Canada Plan.

These Coverage Locator maps are not a guarantee of coverage and may contain areas with no service. These maps reflect a depiction of predicted and approximate wireless coverage of the Verizon Wireless Network and the network of other carriers. The coverage areas shown do not guarantee service availability, and may include locations with limited or no coverage. Even within a coverage area, there are many factors, including a customer's equipment, terrain, and proximity to buildings, foliage, and weather that may impact service. An all-digital device will not operate or be able to make 911 calls when digital service is not available. Some of the coverage area includes networks run by other carriers; some of the coverage depicted is based on their information and public sources and we cannot ensure its accuracy.



- Move Northwest
- N Move North
- Move Northeast
- W Move West

Check if T-Mobile coverage is right for you with Personal Coverage Check

Street

Intersection ex: Broadway and W 148th Street

City State Zip

search

clear

Voice Coverage | Data Coverage

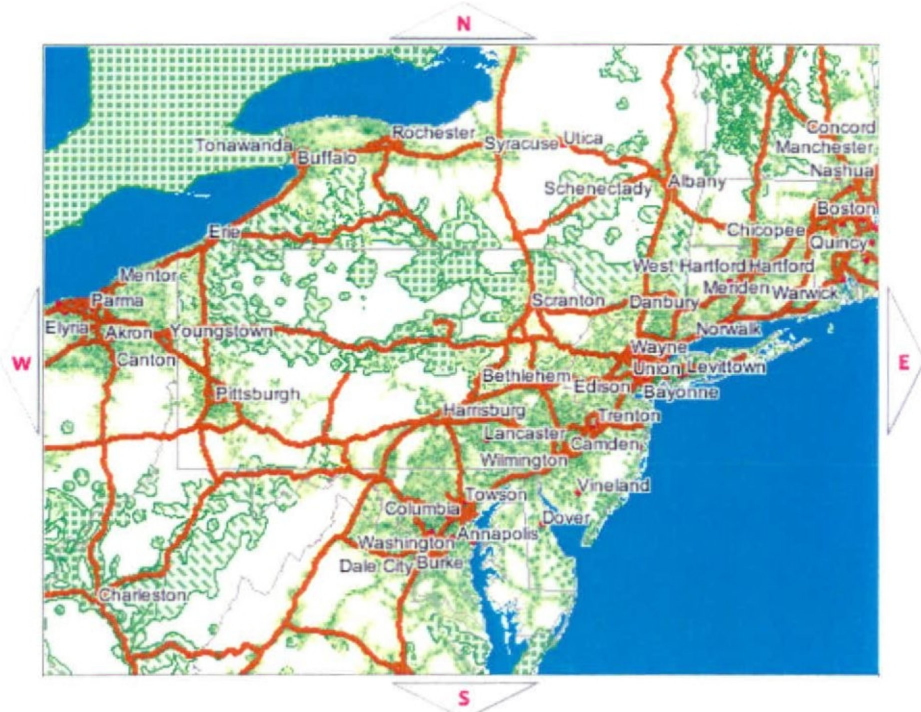
Prepaid and FlexPay coverage map >

Learn more about T-Mobile's expanded coverage >

Signal Strength

Zoom In

Zoom Out



Mobile-to-mobile minutes and data services are not available in certain roaming areas included on T-Mobile's coverage maps.

Print

Map Legend

- X Address Location
- 850 MHz Roaming Coverage
- T-Mobile Roaming Coverage
- T-Mobile HotSpot Display
- Roaming HotSpot (Additional charges apply)

Find a T-Mobile HotSpot ›

MAP INFORMATION: Maps predict and approximate our anticipated wireless coverage area outdoors, which varies from location to location. Maps may include locations with limited or no coverage, and do not guarantee service availability. Even within coverage areas, factors — including network changes, traffic volume, service outages, technical limitations, signal strength, your equipment, terrain, structures, foliage, weather and other conditions — may interfere with service quality and availability, including the ability to make, receive and maintain calls and to send and receive data & messages. Portions of the mapped areas include networks operated by our roaming partners, and we are not responsible for the performance of those networks. **3G Coverage** requires a 3G-capable device. Devices that are not purchased from T-Mobile or an authorized dealer may not work on our network. **T-Mobile to T-Mobile** calls are directly dialed between T-Mobile customer devices while on the T-Mobile USA network (and not roaming on any domestic or international network); calls to voicemail and other T-Mobile service numbers not included. **Roaming:** Nationwide roaming refers to usage while on a roaming partner's network within the domestic coverage area. International roaming incurs additional charges and refers to usage while you are outside of the United States. 850 Roaming Coverage requires a multi-band (850/1900 MHz) GSM/GPRS device. Certain devices and features (e.g., picture and video messaging) will not work if you are roaming. Ask a sales representative or visit www.t-mobile.com/morecoverage for more information regarding device requirements

PTA Exhibit JJL-11

	Small LECs			Mid-Tier LECs		
Company	Square Miles	2007 Lines	2007 Density	Square Miles	2007 Lines	2007 Density
Armstrong Tel Co-Pa	140	1,496	10.7			
Armstrong Tel North	21	493	23.5			
Bentleyville Tel Co				40	2,735	68.4
Buffalo Valley Tel	275	18,042	65.6			
Citizens - Kecksburg	40	4,566	114.2			
Commonwealth Tel Co				4,528	243,503	53.8
Conestoga Tel	300	45,201	150.7			
Denver & Ephrata	227	46,586	205.2			
Frontier - Breezewood				314	3,670	11.7
Frontier - Canton				257	3,564	13.9
Frontier - Lakewood				30	1,265	42.2
Frontier - PA				165	19,573	118.6
Frontier - Oswayo River				182	2,009	11.0
Hickory Tel Co	32	1,409	44.0			
Ironton Tel Co	16	4,903	306.4			
Lackawaxen Telecom	66	3,637	55.1			
Laurel Highland Tel	400	5,496	13.7			
Marianna - Scenery				90	2,277	25.3
North Eastern Pa Tel	466	11,381	24.4			
North Penn Tel Co	300	5,105	17.0			
North Pitt (Consolidated)				280	44,246	158.0
Palmerton Tel Co	99	10,466	105.7			
Pennsylvania Tel Co	24	1,345	56.0			
Pymatuning Ind Tel	28	1,745	62.3			
South Canaan Tel Co	71	2,375	33.5			
TDS - Mahanoy & Mahantango	139	3,727	26.8			
TDS - Sugar Valley Tel Co	72	1,044	14.5			
Venus Tel Corp	86	1,257	14.6			
Windstream Pa				5,618	175,859	31.3
Yukon - Waltz Tel Co	8	861	107.6			
Total	2,810	171,135	60.9	11,504	498,701	43.4

	Square Miles	2007 Lines	2007 Density
Small LECs	2,810	171,135	60.9
Mid-Tier LECs	11,504	498,701	43.4
Embarq	5,847	326,110	55.8
Verizon	25,894	5,002,953	193.2
All PA Incumbent LECs	46,055	5,998,899	130.3

PTA STATEMENT NO. 1SR

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

Prepared Surrebuttal Testimony
of
Joseph J. Laffey

On Behalf of
The Pennsylvania Telephone Association

Served: February 10, 2009

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. My name is Joseph J. Laffey. I am currently employed as a Senior Consultant for ICORE, Inc., 326 South Second Street, Emmaus, PA 18049.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes. I previously submitted direct testimony, which has been marked as PTA Statement No. 1 and rebuttal testimony, which has been marked as PTA Statement No. 1R.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of this testimony is to respond to the rebuttal testimony presented by other parties in this proceeding, notably Verizon, AT&T, OSBA and the OCA.

II. RATE CAPS

A. The Proper Verizon Rates For Comparison

Q. MR. PRICE DISAGREES WITH THE VERIZON LOCAL RATES THAT YOU USED AS THE POINT OF COMPARISON TO DETERMINE REASONABLY COMPARABLE RURAL RATES.[1] WHAT RESPONSE DO YOU HAVE?

A. I agree with Mr. Price that I and Dr. Loube have used different (present) Verizon PA local rates in developing a reasonably comparable rural rate cap. It is not surprising that there are different calculations of Verizon's average rates for several reasons. First, Verizon's rate structure is not as straight-forward as those tariffed by most of the PTA companies. Verizon's tariff uses a combination of a dial tone line rate plus a choice of

[1] Verizon Statement 1.1 at 33.

several available local usage packages. The combination of the dial tone rate and a usage package provides the customer with their select local service and toll-free calling area. Unless all parties assumed the same local usage package, a calculation of average rates can differ.

For the rates used in my Direct Testimony, I relied upon rates included in tariffs posted on Verizon's website at the time I prepared that testimony. Upon further review, it is apparent to me now that those rates changed effective October 1, 2008. However, it is also apparent to me, upon review of Verizon witness Price's Exhibit 4, that the schedule of rates that Mr. Price has compiled is incorrect as well.

I have prepared PTA Exhibit JJL-12, which is appended to this surrebuttal testimony. In this exhibit I developed a summary of Verizon PA's various dial tone and local area unlimited usage rates. I used these two rate elements to be consistent with the two rate elements Mr. Price used on his Exhibit 4. I don't necessarily agree that selection of the local area unlimited usage rate presents an apples-to-apples comparison of the scope of local calling available to RLEC customers. Urban calling scopes have a greater number of access lines within the calling area. Without any mandatory extended area service plans or optional calling plans, rural local calling areas access fewer customer lines on a local basis than does Verizon's urban local area unlimited usage plan simply due to the RLECs' much smaller and/or less dense local exchanges. However, for purposes of this testimony, I agree to use those two rate elements as a starting point.

I have also included in my PTA Exhibit JJL-12 the Verizon tariff pages that support my exhibit. Upon review of Mr. Price's Exhibit 4 it appears to me that his rate for what he identifies as Cell 2, Suburban, is incorrect. As seen in Verizon's tariff pages included in my Exhibit, Verizon PA has two urban rates, Density Cell 1, which is for all Philadelphia and Pittsburgh City Exchange Areas with working pairs per square mile greater than 9,000, and Density Cell 2, which is all remaining Philadelphia and Pittsburgh City Exchange Areas or Zones. Therefore, Verizon has two city (urban) cells, Cells 1 and 2. Density Cell 3 is all Philadelphia and Pittsburgh Suburban Exchange Areas or Zones and all other Central Office districts with more than 500 working pairs per square mile. Density Cell 4 is all remaining Exchange Areas.

Mr. Price's Exhibit 4 shows only Density Cell 1 as City. Density Cell 2, which he labels "Suburban," should really be labeled City Cell 2. Moreover, the rates he shows under his mislabeled Density Cell 2 are incorrect as well. The existing Cell 2 dial tone rate is $7.02 and the existing Cell 2 local area unlimited usage rate is $8.85. Exhibit 4 shows the correct dial tone rate, but also shows a usage rate of $6.85, which is actually the local area unlimited usage rate for Density Cell 3, subcategory A. As seen in the attached tariff pages, the Cell 2 local unlimited usage rate is as I stated, $8.85.

Thus for purposes of establishing the appropriate rural benchmark rate, my Exhibit JJL-12 presents the correct present Verizon rates that form the starting point for determining a comparable rural benchmark rate.

B. The Appropriate Benchmark Rate

Q. DR. LOUBE CRITICIZED THE PTA FOR SUPPORTING A STATIC BENCHMARK RATE THAT DOES NOT CHANGE OVER TIME.[2] CAN YOU COMMENT?

A. Yes. After reviewing Dr. Loube's testimony I agree that it would be appropriate for the Commission to periodically review and adjust the benchmark rate.

[2] OCA Statement 1-R at 10.

In determining comparability, however, Verizon's urban rates should be utilized. As noted above, Verizon's rates have two components, a dial tone charge and a usage charge. The current Verizon Cell 1 and Cell 2 rates for these two components are $15.57 and $15.87, respectively. A simple average of these rates is $15.72.

Several parties in this case have offered a wide range of multipliers to use in developing a comparable rate. While I think a direct comparison to Verizon's average urban rate validates the comparability of the current benchmark without any further multiplier, if the Commission chooses to endorse some factor, I believe the Commission should consider the FCC's approach to developing High Cost Fund support, which is based on 115% of nationwide average unseparated loop costs. Following this tried and tested approach, a factor of 115% when applied to the Verizon average urban rate of $15.72 would produce a benchmark rate of $18.08.

Based on this result the existing benchmark rate of $18.00 remains reasonably comparable to Verizon's urban rates and need not be changed at this time. The business one-party cap formula would continue to be calculated, as it was in the *Global Order*, using the previously-approved residential/business rate ratio. Also while this methodology addresses comparability, the appropriate benchmark rate must also consider affordability.

C. Comparing Bundled Rates And Stand-Alone Dial Tone Rates

Q. THE AT&T WITNESSES ARGUE THAT THE PENETRATION OF BUNDLED PACKAGES IN THE MARKETPLACE SHOWS THAT CUSTOMERS ARE "WILLING TO SPEND MUCH MORE THAN $18 ON THOSE BUNDLED

OFFERINGS."[3] IS THIS A REASONABLE COMPARISON TO THE PRICE OF LOCAL SERVICE?

A. No. The fact is correct, but the interpretation is not. AT&T's factual observation that bundles are marketed by all industry participants and have had a fair degree of success is accurate. The marketing concept is obvious – become the sole source provider for all of the customer's needs and the customer will be more likely to remain with and be loyal to the service provider.

As cable companies enter the telephony business and telephone companies enter into the cable market, bundling has found acceptance in certain customer segments. It is not at all surprising, therefore, that 86% of cable-based voice customers also subscribe to data services from the same provider.[4]

The real point, however, is that stand-alone voice service is not available from cable companies. The customer must purchase both local dial tone and long distance in a package. This is the cable company's marketing decision and the rate is not regulated by any Commission or other agency.

Further, comparing bundles that include local, vertical features, long distance, internet access, and/or cable television service to a single, unbundled offering of local exchange service is comparing a watermelon to an orange. The universal offering of basic, stand-alone local service is a regulatory obligation, as has been previously pointed out on several occasions, which is unique to the incumbent local exchange provider. Having higher priced bundles does not provide a customer with an affordable option for just voice communication service. Cable and wireless companies are not required to offer

[3] AT&T Rebuttal Testimony at 8.

[4] The references in the AT&T testimony to "North Pitt" (AT&T Rebuttal Testimony at 10 (fn. 20) actually refers to Penn Telecom, the CLEC operating in Verizon's territory, and not to the ILEC.

either ubiquitous service or stand-alone service. The incumbent LEC's regulated basic local service is maintained to ensure universal local service.

I agree with the position taken by Dr. Loube on this matter that the benchmark rate maintains the availability of basic dial tone service at an affordable rate.[5]

D. Low-Income Lifeline Versus Geographic Comparability And Affordability

Q. AT&T WITNESSES NURSE AND OYEFUSI,[6] OSBA WITNESS BUCKALEW,[7] AND VERIZON WITNESS PRICE[8] EACH SET FORTH THE PROPOSITION THAT THE FEDERAL LIFELINE PROGRAM IS SUFFICIENT TO RETAIN AFFORDABLE RATES IN PENNSYLVANIA. DO YOU HAVE A RESPONSE?

A. Yes, I disagree with these witnesses that the existing federal Lifeline program is sufficient to fulfill existing statutory mandates applicable to telecommunications providers. Simply stated, it does not meet what I read to be the requirement of the statutes. TCA-96 requires that rural customers continue to have comparable rights and choices with respect to services and prices that their urban counterparts have. Chapter 30 requires that telecommunications service remain affordable and ubiquitous. Lifeline simply does not address those mandates.

Q. WHAT IS LIFELINE?

A. Lifeline is a federal assistance program that provides income-eligible customers (households with income at or below 135% of the federal poverty level) a waiver of certain federal universal service support charges, such as the Subscriber Line Charge

[5] OCA Statement No. 1-R at 23.
[6] AT&T Rebuttal Testimony at 5.
[7] OSBA Statement 2 at 3, 10-13.
[8] Verizon Statement 1.1 at 31.

(SLC), along with a reduction of local service charges. Lifeline is very targeted to provide poverty assistance only.

Q. WHY IS THE AVAILABILITY OF A REDUCED RATE TO THE POOREST FAMILIES NOT SUFFICIENT?

A. Lifeline does not address affordability in general, nor does it address comparability at all. Yet, ensuring affordable and comparable telecommunications services across the Commonwealth are the twin goals of the state and federal acts. Providing a poverty rate to the poorest households is not synonymous with those mandates. Consequently, having the latter does not satisfy the former. Affordability is not limited to low income customers and affordability does not ensure geographic comparability.

Q. WOULD YOU PLEASE ELABORATE ON THE DIFFERENCES?

A. Yes. As I stated in my direct testimony, the statutory standards are very explicit. Section 254(b)(3) of TCA-96 sets forth a rural/urban comparability standard. Consumers across the nation, including not just low-income consumers but also "rural, insular, and high cost area" customers, are required to have access to telecommunications and information services that are reasonably comparable to the rates and services in urban areas. Therefore, in addition to the broader state and federal affordability standard, there is also a federal geographic standard. Lifeline has no geographic aspect to it. Those witnesses that advocate Lifeline as an adequate substitution for other explicit forms of universal service support ignore not only that Congress included in its universal service provisions protection for consumers in all regions of the nation, including both low-income and rural customers, but also that Congress specifically established an urban/rural comparability standard.

Q. THE OSBA WITNESS APPEARS TO CONCLUDE, ON ADVICE OF COUNSEL, THAT THE OCA PROPOSAL FOR ESTABLISHING AFFORDABLE AND COMPARABLE RATES IS INCONSISTENT WITH COMMISSION POLICY REGARDING ELECTRIC, GAS, WATER, AND WASTEWATER SERVICE. DO YOU AGREE?

A. No. I do not wish to offer legal conclusions about the Commission's various customer assistance programs. However, I am also without the benefit of the OSBA witness having identified his perceived inconsistencies. This notwithstanding, I believe there are significant differences between the telecommunications industry and other regulated industries that would make the OSBA witness' observation, even if true, totally irrelevant.

First, I am not aware of any other regulated utility industry that has a geographic comparability standard applicable to it. It is primarily for this reason that the OSBA witness fails in his efforts to draw parallels between the telecommunications industry and income-based programs he claims exist in other regulated utilities. For example, there is no statutory requirement that the electric rates and services of PECO in southeastern Pennsylvania be reasonably comparable to the electric rates and services of West Penn Power Company in western Pennsylvania.

This statutory distinction is understandable. For example, I don't believe there is any one electric, gas, water or wastewater regulated utility that is similar in size, scope, or sheer pervasiveness throughout Pennsylvania as is Verizon. Thus, the imposition of a rural/urban geographic comparability standard into TCA-96 distinguishes that standard from the income-based customer assistance programs available in other utility industries where geographic differences are not a recognized factor.

It is no accident of history that (1) Verizon is the only Pennsylvania urban incumbent carrier; and that (2) Verizon serves more counties with median household incomes substantially higher than the state median income than all the RLECs combined, most of which counties are clustered around the Philadelphia/Pittsburg/Harrisburg urban hubs,[9] and most of which also happen to be the most densely populated counties in Pennsylvania.[10] And by continued design Verizon is becoming more urban every day, as most recently witnessed by its spin-off of all its New England lines (considered rural) to rural carrier FairPoint Communications.

Moreover, unlike the other regulated utilities that were deregulated on the supply side, telecommunications LECs received no guaranteed recovery of the costs of facilities stranded as a result of deregulation. Universal service programs continue to support affordable ubiquitous networks even as the RLECs continue to lose revenues due to competition.

9 www.ruralpa2.org/county_profiles.cfm?FDCategory2_Estimated+Median+Household+Income%2C&Submit=Submit+Query

10 www.ruralpa.org/rural_urban.html

III. UNIVERSAL SERVICE FUND

A. Price Cap/Earnings

Q. VARIOUS OF THE WITNESSES HAVE ASSERTED THAT THE PTA MEMBER COMPANIES SHOULD PROVIDE EARNINGS SUPPORT TO JUSTIFY ADDITIONAL RATE INCREASES WHEN TAKEN FROM THE FUND AND EVEN TO JUSTIFY CONTINUING EXISTING DRAWS FROM THE FUND.[11] ARE THESE OBSERVATIONS APPROPRIATE?

A. No. Attempting to fit an earnings test into a price cap formula is both inappropriate and opportunistic. As I noted previously in testimony, some of the PTA Member Companies operate under a price cap, inflation driven formula, and others under a streamlined ratemaking plan which sets rates on the basis of costs, a modified rate base/rate of return formula. Most of the discussion in this docket has centered around price cap regulation, since the majority of the RLECs operate under this form of regulation.

It would never be appropriate for any of the RLECs to be required to justify their current draw from the PAUSF based upon demonstrating a financial need. Current receipts from the fund are based upon 2000 and 2003 reductions in access rates which were offset by increases to local service subscribers and draws from the PAUSF. All of the parties participating in the design of the PAUSF in the *Global Order* docket supported the fund and endorsed its design. This includes the recognition that access rate reductions recovered from the PAUSF are RLEC revenues to which companies are entitled and which they have a right to recover from the original rate source (i.e., access) in the event that the PAUSF is discontinued. The criticisms now leveled by IXCs and Verizon are simply backtracking of their original support and Commission approvals.

[11] Verizon Statement 1.1 at 14; OSBA Statement 2 at 4, 6.

Now that the revenue stream has been shifted from implicit access charge support to an explicit PAUSF, they want to simply cut it off. I would also point out that current funding levels of the PAUSF are outside the scope of this investigation.

With respect to rate increases from the fund, the Chapter 30 Plans recognize that rate increases above the benchmark may be recovered from the fund, the history of which I have reviewed in prior testimony. For those companies that are regulated under a streamlined form of regulation, cost of service, as defined in the plan, is the methodology by which they increase rates and, for them, earnings do enter into whether or not the company's revenues should be increased in the first place.

Earnings has no place, however, in determining rate increases for price cap companies. The Plans clearly define price cap regulation as being the exclusive form of regulation, prohibiting cost-based ratemaking. Several of the adverse parties in this docket are now unwilling to allow recovery of revenues to which the price cap companies are entitled and, in essence, rejecting price cap regulation as an appropriate rate setting formula.

This disagreement has only now surfaced that rate increases were becoming more common. Certainly when the price cap formula calculations have been negative and rate reductions were required, there was no hue and cry demanding that the decreases should not be flowed through. Every RLEC complied by reducing rates. Notably, almost all of these revenue reductions were applied to lower access rates.

Nor is it certain that rate decreases will not occur again. The world economy is in a recessionary mode, if not a depression, and "deflation" is a major economic concern. Should this occur, we will return to an era of rate reductions. I am sure that there would be no support for employing rate-base/rate of return regulation to determine whether or not these future rate reductions should occur. Simply stated, price cap regulation generates both increases and decreases, and carriers, such as Verizon and AT&T, should not be allowed to pick and choose which direction they believe is appropriate depending on the economic climate at the time.

Nor will a rate increase automatically flow to the Fund. Under the *Global Order* and the Chapter 30 Plans, no funding from the PAUSF will occur for rate increases, unless and until the PTA member companies' local service rates reach the established benchmark rate. In other words, retail customers would have already absorbed substantial increases <u>and</u> then, at that point (if access rates cannot be increased), the contributors to the PAUSF would be asked to pay a portion. Having stood at the front of the line for access rate decreases, these same beneficiaries are asked to pay USF support as the back up source for rate increases (in lieu of access increases).

This does not seem unfair or unreasonable. Again, companies participating in the *Global Order* understood this to be the purpose. Indeed, in that case, AT&T advocated payments from the Fund after the benchmark rate was reached as I noted in my rebuttal testimony. These rules should not be manipulated when they become inconvenient.

B. Federal USF Funding

Q. THE VERIZON AND OSBA WITNESSES HAVE CLAIMED THAT, SINCE FEDERAL USF DOLLARS ARE RECEIVED, THERE IS NO CONTINUING NEED FOR A PENNSYLVANIA FUND.[12] IS THIS A VALID OBSERVATION?

---

[12] Verizon Statement 1.1 at 14; OSBA Statement 2 at 2.

A. No, the receipt of federal funds has nothing to do with the operation of a state level fund. The FCC's Universal Service programs provide support for a number of areas including Lifeline, Schools and Libraries, and High Cost Support. A significant portion of High Cost Support is a result of the FCC's decision to rebalance interstate access rates. Interstate access charge reductions that are **not** shifted to the end user through higher subscriber line charges are recovered by rural carriers via the FCC's Interstate Common Line Support Fund ("ICLS"). This mechanism is very similar to our PAUSF and these revenues remain for recovery of interstate only costs.

Another portion of High Cost Support, the High Cost Loop Fund ("HCLF") was also intended to promote universal service. This fund does not contain a local rate benchmark nor does it reflect any analysis to insure that local rates are affordable. The HCLF reflects a contribution towards intrastate costs that would otherwise have to be borne by intrastate rates. Intrastate rates are lower as a result of HCF support, but the goal of insuring affordable local rates ultimately falls to the state commissions.

HCLF support is provided to RLECs to cover a portion of their regulated total company cost per loop that exceeds 115% of the national average. Not all Pennsylvania RLECs receive HCLF support. In 2008, approximately $1.8M of HCLF support was received by some Pennsylvania RLECs. There are only eleven PTA Member Companies receiving these funds and the amounts are not substantial. http://www.universalservice.org/about/governance/fcc-filings/2008-quarter-4.aspx.

Further, the FCC's HCLF is not a new program. Its existence pre-dates the *Global Order*, as well as Chapter 30 and Act 183. RLEC rates that have been deemed just and reasonable by this Commission, as recently as with the Act 183-modified Chapter 30

Plans, already reflect the benefit of HCLF support. In other words, without the HCLF support, certain RLEC intrastate rates would be higher. It is incorrect, therefore, to assert that either existing rates or PAUSF support should be reduced due to the receipt of FCC HCLF support since current rates and PAUSF support already reflect these receipts.

C. Negative Attacks On The Existing PAUSF

Q. IN YOUR REBUTTAL TESTIMONY YOU OFFERED SEVERAL CORRECTIONS TO HOW OTHER PARTIES HAVE DESCRIBED THE EXISTING PAUSF. DO YOU HAVE ANY CONTINUING REASON TO ADDRESS THE EXISTING PAUSF?

A. Yes. The existing PAUSF is not really at issue at all in this proceeding, since further investigation was stayed in the same Order that commenced this case. However, several parties continue to take opportunities to disparage the existing Fund. I believe that such statements are improper, and should not be a part of this proceeding, since the Commission has stayed that issue. However, I also believe that the comments have a decidedly inflammatory, prejudicial, and pejorative tone to them, and therefore it is imprudent to leave them unrefuted. Therefore, I address below the continuing negative rhetoric some parties have chosen to employ with respect to the current PAUSF.

Q. OSBA WITNESS BUCKALEW ACCUSES THE PTA OF VIEWING THE EXISTING PAUSF AS AN ENTITLEMENT FOR WHICH THE PTA HAS PROVIDED NO DATA ON WHAT IT HAS ACCOMPLISHED OR WHY IT NEEDS TO BE CONTINUED,[13]

[13] OSBA Statement 2 at 4.

AND THAT THE PRESENT PAUSF SHOULD NOT CONTINUE WITHOUT AN EXAMINATION OF EACH RLECS' COSTS.[14] WHAT IS YOUR RESPONSE?

A. As I have said, the existing PAUSF is a discrete fund which, as presently sized, provides the RLECs revenue neutrality for the access and toll reductions these companies made in 2000 and 2003, to the benefit of access customers, such as Verizon and AT&T. Its specific provisions regarding its continuation and termination are as the Commission adopted in the *Global Order*. It does not require cost data to be continued and will have ramifications if is it discontinued. Whether it is characterized as an "entitlement" or not is semantics, not substance.

Q. VERIZON WITNESS PRICE ACCUSES THE RLECS OF "PROFITING" FROM THE EXISTING PAUSF, BECAUSE IN "ABSOLUTE TERMS" THEY ARE GUARANTEED A CONSTANT ANNUAL REVENUE STREAM WHICH THEY WOULD NOT HAVE RECEIVED HAD THEY NOT REDUCED ACCESS AND TOLL RATES, AND THAT THE CURRENT PAUSF SHOULD BE REDUCED BY NEARLY 30%.[15] WHAT IS YOUR RESPONSE?

A. My reaction is similar to that of the Commonwealth Court when, upon review of Verizon's appeal of the *Global Order* on the basis that the Commission lacked authority to establish a PAUSF, the Court stated that Verizon could not now be heard to complain about the establishment of a fund when Verizon itself had offered the PAUSF as a proposed resolution to pending issues, including universal service.[16]

[14] OSBA Statement 2 at 7.
[15] Verizon Statement 1.1 at 17-18.
[16] *Bell Atlantic-Pennsylvania v. Pa. P.U.C.*, 763 A.2d 440, 496 (Pa. Cmwlth. 2000), *vacated in part on other grounds*, *MCI v. Pa. P.U.C.*, 844 A.2d 1239 (Pa. 2004).

Verizon received the benefit of the RLECs' support of the 1649 Petition, a settlement petition which Verizon offered to counter the 1648 Petition. This settlement addressed several issues of significant import to Verizon, including its Section 271 approval to enter the toll market, its handling of UNEs with non-facilities based competitors, and its potential structural separation into separate wholesale and retail divisions. In exchange, the RLECs received support from Verizon on several issues of import to them, namely affordability, universal service, and access charges. That bargain worked in Verizon's immediate favor, as it did when Verizon welcomed the immediate access charge relief Verizon was "guaranteed" as a result of the PAUSF.

The fact is, the RLECs have reduced access charges and have done so numerous times both generically and on their own. Verizon, and every other carrier that accesses the RLECs' networks have benefitted from those access reductions. The value of the immediate access charge reductions Verizon has enjoyed for several years had, as the *quid pro quo*, the existing PAUSF in the Global settlement. Verizon should not be heard to complain about that today after agreeing to it and reaping its benefits over the past several years. While complaining about the USF payments the RLECs receive, Verizon consistently fails to acknowledge the equally sized access savings that Verizon and other access carriers realized and continue to realize as a direct and immediate result of the RLECs' access reductions.

Q. VERIZON WITNESS PRICE ALSO CONTINUES TO REFER TO THE RLECS' "EXCESSIVE ACCESS CHARGES," THE NEED "TO REDUCE AND ULTIMATELY ELIMINATE THE CURRENT USF," AND THAT THE RLECS "HAVE NEVER

DEMONSTRATED A 'NEED' FOR THE $30 MILLION THEY ARE OBTAINING EACH YEAR UNDER THE CURRENT FUND.[17] DO YOU HAVE A RESPONSE?

A. Yes. As I said in response to OSBA witness Buckalew's similarly inflammatory descriptions, the current PAUSF was sized to accommodate revenue-neutral access and toll rate reductions, partially offset with local rate increases. The funds not recovered through local rate increases, or local increases that exceeded the then-$16 cap were recovered from the PAUSF. The "need" then was the replacement of revenue from the purely arbitrary access reductions done to save access carriers like Verizon money. As I explained in my rebuttal, the Commission has already found the RLECs' access charges to be just and reasonable. Contrary to Verizon's repeated disparagements, there is no existing finding that any RLEC rates are excessive. Simply because they exceed Verizon's access rates does not mean they are excessive. Verizon's local rates are also lower than many RLECs' local rates. Verizon demands RLEC access rates that are identical to its own, but when it comes to local rates, Verizon throws comparability out the window.

Q. AT&T WITNESSES NURSE AND OYEFUSI CLAIM THE PTA TESTIMONY IS MISLEADING AND SHOULD BE DISREGARDED, THAT THE PTA'S INTERPRETATION OF THE *GLOBAL ORDER* "MISSES THE MARK BY A WIDE MARGIN," THAT NOT ONE DOCUMENT ALLOWS THE PAUSF TO BE USED FOR ANY OTHER PURPOSE OTHER THAN TO FUND TOLL AND ACCESS

[17] Verizon Statement 1.1 at 5, 13.

REDUCTIONS, AND THAT THE REGULATORY AND LEGISLATIVE GOAL IS TO ELIMINATE SUBSIDIES, NOT INCREASE THEM.[18] WHAT IS YOUR RESPONSE?

A. Starting with the last point first, I think I have, to a very large extent, in my rebuttal testimony corrected some parties' continued confusion over the Fund's operation. The regulatory and statutory goal is not to eliminate universal service support, but rather to make it explicit.

In addition to the obvious and multiple statements by the Commission in various contexts addressed in my rebuttal testimony that allow the existing PAUSF to be used for PSI increases, I have discovered additional documentation in support. I have found at least two examples of an annual PSI filing made by an RLEC in which the approved tariff pages implementing the PSI increases clearly address recovery of the PSI overage above the cap from the PAUSF. Please see my PTA Exhibit JJL-14 attached to my testimony.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, thank you, although I reserve the right to revise my testimony as necessary.

---

[18] AT&T Rebuttal Testimony at 22-27.

PTA Exhibit JJL-12

Verizon PA's Tariffed Residential Rates

As of 1/15/09

	Cell 1	Cell 2	Cell 3	Cell 3			Cell 4		
	City	City	Phila/Pgh Suburban	A	D	F	A	D	F
Dial Tone	$6.72[1]	$7.02[1]	$7.40[2]	$7.40[3]	$7.40[3]	$7.40[3]	$7.80[3]	$7.80[3]	$7.80[3]
Local Area Unlimited	$8.85[1]	$8.85[1]	$6.85[2]	$3.80[4]	$5.20[4]	$6.85[4]	$3.80[4]	$5.20[4]	$6.85[4]
Sum	$15.57	$15.87	$14.25	$11.20	$12.60	$14.25	$11.60	$13.00	$14.65

1 Pa. P.U.C. No. 182 – Philadelphia, Section 1, 10th Revised Sheet 7
Pa. P.U.C. No. 185B – Pittsburgh, Section 1, 8th Revised Sheet 6A

2 Pa. P.U.C. No. 182A – Philadelphia Suburban, Section 1, 8th Revised Sheet 8A
Pa. P.U.C. No. 185C – Pittsburgh Suburban, Section 1, 10th Revised Sheet 10

3 Pa. P.U.C. No. 180A – Pennsylvania, Section 1, 9th Revised Sheet 16

4 Pa. P.U.C. No. 180A – Pennsylvania, Section 1, 4th Revised Sheet 16A

LOCAL GENERAL TARIFF
RESIDENCE EXCHANGE SERVICE

D. RATES (Cont'd)

1. EXCHANGE SERVICE RATE COMPONENTS (Cont'd)

a. Dial Tone Line Rates (Cont'd)

The Dial Tone Line rate for customers with Foreign Exchange Service or Foreign Central Office Service is the same as for the central office designation associated with the customer's local serving office.

b. Local Usage Option Rates

Residence customers choose one of the following usage options:

Local Area Unlimited Usage Option
Local Area Standard Usage Option
Budget Usage Option

A customer's Local Usage Option rate is based upon the option chosen.

2. EXCHANGE SERVICE DIAL TONE LINE AND LOCAL USAGE OPTION RATE SCHEDULE

RESIDENCE

	Monthly Rate By Cell 1	Monthly Rate By Cell 2
Dial Tone Line[1]		
Individual	$6.72 (I)	$7.02 (I)

Usage Packages	Monthly Rate	Monthly Allowance
Metropolitan Area Unlimited Option	$21.00	-
Local Area Unlimited Option	8.85	-
Local Area Standard Usage Option	2.60	$4.00
Budget Usage Option	-	0.25

NOTE:
(1) The Residence Dial Tone Line (DTL) monthly rate includes the Touch Tone Service feature. For each residence DTL(s) not equipped with Touch Tone service (rotary service) as of the effective date of this tariff (May 1, 1997), a DTL monthly rate reduction of $.93 will apply per DTL. This reduction will apply as long as such DTL(s) remain equipped as rotary service or until the DTL(s) is disconnected or moved to another location. Any DTL(s) added to an existing customers service or new DTL service as of the effective date of this tariff (May 1, 1997) will not receive the DTL monthly rate reduction of $.93. The DTL Customer of Record is responsible for the installation, maintenance and compatibility of any and all customer provided equipment (CPE) associated with the residence DTL(s).

LOCAL GENERAL TARIFF
RESIDENCE EXCHANGE SERVICE

D. RATES (Cont'd)

3. EXCHANGE SERVICE DIAL TONE LINE AND LOCAL USAGE OPTION RATE SCHEDULE

RESIDENCE

	Monthly Rate By Cell	
	1	2
Dial Tone Line[1]		
Individual	$6.72 (I)	$7.02 (I)

Usage Packages	Monthly Rate	Monthly Allowance
Metropolitan Area Unlimited Option	$21.00	-
Local Area Unlimited Option	8.85	-
Local Area Standard Usage Option	2.60	$4.00
Budget Usage Option	-	0.25

[1] The Residence Dial Tone Line (DTL) monthly rate includes the Touch Tone Service feature. For each residence DTL(s) not equipped with Touch Tone service (rotary service) as of the effective date of this tariff (May 1, 1997), a DTL monthly rate reduction of $.93 will apply per DTL. This reduction will apply as long as such DTL(s) remain equipped as rotary service or until the DTL(s) is disconnected or moved to another location. Any DTL(s) added to an existing customers service or new DTL service as of the effective date of this tariff (May 1, 1997) will not receive the DTL monthly rate reduction of $.93. The DTL Customer of Record is responsible for the installation, maintenance and compatibility of any and all customer provided equipment (CPE) associated with the residence DTL(s).

LOCAL GENERAL TARIFF
RESIDENCE EXCHANGE SERVICE

D. RATES (Cont'd)

3. EXCHANGE SERVICE DIAL TONE LINE AND LOCAL USAGE OPTION RATE SCHEDULE

RESIDENCE

	Monthly Rate By Cell 3
Dial Tone Line[1]	
Individual	$7.40 (I)

Usage Packages	Monthly Rate	Monthly Allowance
Metropolitan Area Unlimited Option	$26.00	-
Local Area Unlimited Option	6.85	-
Local Area Standard Usage Option	2.60	$4.00
Budget Usage Option	-	0.25

[1] The Residence Dial Tone Line (DTL) monthly rate includes the Touch Tone Service feature. For each residence DTL(s) not equipped with Touch Tone service (rotary service) as of the effective date of this tariff (May 1, 1997), a DTL monthly rate reduction of $.93 will apply per DTL. This reduction will apply as long as such DTL(s) remain equipped as rotary service or until the DTL(s) is disconnected or moved to another location. Any DTL(s) added to an existing customers service or new DTL service as of the effective date of this tariff (May 1, 1997) will not receive the DTL monthly rate reduction of $.93. The DTL Customer of Record is responsible for the installation, maintenance and compatibility of any and all customer provided equipment (CPE) associated with the residence DTL(s).

LOCAL GENERAL TARIFF
RESIDENCE EXCHANGE SERVICE

D. RATES (Cont'd)

3. EXCHANGE SERVICE DIAL TONE LINE AND USAGE RATE SCHEDULE

RESIDENCE

	Monthly Rate By Cell 3
Dial Tone Line[1]	
Individual	$7.40 (I)

Usage Packages	Monthly Rate	Monthly Allowance
Metropolitan Area Unlimited Option	$26.00	-
Local Area Unlimited Option	6.85	-
Local Area Standard Usage Option	2.60	$4.00
Budget Usage Option	-	0.25

Hometown-Plus Usage Option	Monthly Rate
- Home Exchange plus one Toll Exchange	$5.50
- Home Exchange plus two Toll Exchanges	7.65
- Home Exchange plus one Local and one Toll Exchange	7.65

[1] The Residence Dial Tone Line (DTL) monthly rate includes the Touch Tone Service feature. For each residence DTL(s) not equipped with Touch Tone service (rotary service) as of the effective date of this tariff (May 1, 1997), a DTL monthly rate reduction of $.93 will apply per DTL. This reduction will apply as long as such DTL(s) remain equipped as rotary service or until the DTL(s) is disconnected or moved to another location. Any DTL(s) added to an existing customers service or new DTL service as of the effective date of this tariff (May 1, 1997) will not receive the DTL monthly rate reduction of $.93. The DTL Customer of Record is responsible for the installation, maintenance and compatibility of any and all customer provided equipment (CPE) associated with the residence DTL(s).

LOCAL GENERAL TARIFF
RESIDENCE EXCHANGE SERVICE

C. RATES (Cont'd)

1. EXCHANGE SERVICE RATE COMPONENTS (Cont'd)

c. Exchange Service Dial Tone Line and Local Usage Option Rate Schedule

RESIDENCE	Monthly Rate By Cell	
	3	4
Dial Tone Line[1]		
Individual	$7.40 (I)	$7.80 (I)

[1] The Residence Dial Tone Line (DTL) monthly rate includes the Touch Tone Service feature. For each residence DTL(s) not equipped with Touch Tone service (rotary service) as of the effective date of this tariff (May 1, 1997), a DTL monthly rate reduction of $.93 will apply per DTL. This reduction will apply as long as such DTL(s) remain equipped as rotary service or until the DTL(s) is disconnected or moved to another location. Any DTL(s) added to an existing customers service or new DTL service as of the effective date of this tariff (May 1, 1997) will not receive the DTL monthly rate reduction of $.93. The DTL Customer of Record is responsible for the installation, maintenance and compatibility of any and all customer provided equipment (CPE) associated with the residence DTL(s).

LOCAL GENERAL TARIFF
RESIDENCE EXCHANGE SERVICE

C. RATES (Cont'd)

1. EXCHANGE SERVICE RATE COMPONENTS (Cont'd)

c. Exchange Service Dial Tone Line and Local Usage Option Rate Schedule

By Weighted Line Rate Group / Usage Packages (1)	Monthly Rate A	D	F	
				(C)
Extended Area Unlimited Option	$6.00	$7.45	$9.20	
Local Area Unlimited Option	3.80	5.20	6.85	
Local Area Standard Usage Option	2.60	2.60	2.60	
Budget Usage Option	-	-	-	

Hometown-Plus Usage Option	Monthly Rate
- Home Exchange plus one Toll Exchange	$5.50
- Home Exchange plus two Toll Exchanges	7.65
- Home Exchange plus one Local and one Toll Exchange	7.65

	Monthly Allowance
Budget Usage Option	$ .25
Local Area Standard Usage Option	4.00

	Monthly Rate
Metropolitan Area Unlimited	$36.50
Metropolitan Area Unlimited Plus	$40.00

NOTE:

(1) Available as specified in B.2. preceding.

DIAL TONE LINE CELL INFORMATION

Dial Tone Line Cell Classification:

For the purposes of determining an Exchange Area Dial Tone Line monthly rate, the Exchange Areas are classified into one of four (4) Dial Tone Line Cells. The Cell classifications are determined by the following criteria.

Dial Tone Line Cell	Classification Criteria	
1	All Philadelphia and Pittsburgh City Exchange Areas or Zones with working pairs per square mile greater than 9,000.	
2	All remaining Philadelphia and Pittsburgh City Exchange Areas or Zones.	
3	All Philadelphia and Pittsburgh Suburban Exchange Areas or Zones and all other Central Office districts with more than 500 working pairs per square mile.	(C) (C)
4	All remaining Exchange Areas.	

Dial Tone Line Reclassification

When an annual review indicates that the number of working pairs per square mile of an Exchange Area or Zone has exceeded or fallen below the above Dial Tone Line Cell
criteria for two (2) consecutive study periods, the Exchange Area will be reclassified. Notice of the reclassification of the Exchange Area Dial Tone Line Cell shall be given by filing revised tariffs with the Commission.

PTA Exhibit JJL-13

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
High Cost Support Projected by State by Study Area
Fourth Quarter 2003

State	SAC	Study Area Name	High Cost Loop Monthly Support
PA	170145	The Bentleyville Telephone Company	$0
PA	170149	FC of Breezewood, Inc.	$0
PA	170151	Buffalo Valley Tel. Co.	$0
PA	170152	FC of Canton, Inc.	$0
PA	170156	Citizens Tel. Co. of Kecksburg	$0
PA	170161	Commonwealth Tel	$0
PA	170162	Conestoga Tel. & Tel. Co.	$0
PA	170165	D&E Telephone Company	$0
PA	170168	FC of Pennsylvania, Inc.	$0
PA	170171	Hickory Telphone Company	$2,056
PA	170175	Ironton Telephone Company	$0
PA	170176	Windstream PA	$0
PA	170177	Lackawaxen Telecommunication Services, Inc.	$0
PA	170178	FC - Lakewood, Inc.	$0
PA	170179	Laurel Highland Tel. Co.	$0
PA	170183	Mahanoy & Mahantongo Tel. Co.dba TDS Telecom	$0
PA	170185	Marianna & Scenery Hill Tel. Co.	$14,663
PA	170189	Armstrong Tel. Co. - PA	$40,962
PA	170191	North Eastern Pennsylvania Tel. Co.	$15,393
PA	170192	North Penn Tel. Co.	$53,365
PA	170193	North Pittsburgh Telephone dba Consolidated	$0
PA	170194	FC - Oswayo River, Inc.	$0
PA	170195	Armstrong Tel. Co. North	$4,593
PA	170196	Palmerton Telephone Company	$0
PA	170197	Pennsylvania Tel. Co.	$2,030
PA	170200	Pymatuning Independent Tel. Co.	$0
PA	170204	South Canaan Tel. Co.	$3,978
PA	170206	Sugar Valley Tel. Co. dba TDS Telecom	$5,900
PA	170210	Venus Tel. Corp.	$2,075
PA	170215	Yukon-Waltz Tel. Co.	$2,185

PTA Exhibit JJL-14

S15. LOCAL EXCHANGE RATES

S15.1 LOCAL EXCHANGE SCHEDULE

B. Schedule of Banded Rates

The rates below are restricted to existing customers who do not subscribe to Tel-Touch Service at existing locations as of July 1, 2002.

	Band 1	Band 2	Band 3 *	Band 4	Band 5 *	Band 6 *	Band 7 ***	Band 8 ***	Band 9 ***	
(a)Residence										
Base Rate Area										
One Party	$15.00	$15.00	$15.00	$15.00	$15.00	$15.00	$15.49	$16.45	$17.40	
Two Party	12.50	13.75	14.50	14.75	15.00	15.00	15.25	15.50	15.50	(I)
Comm. Trunk	18.25	18.25	19.25	21.25	21.25	21.25	22.00	24.00	24.00	(I)

	Band 1	Band 2	Band 3*	Band 4	Band 5*	Band 6*	Band 7 ****	Band 8 ****	Band 9 ****	
(b)Business										
Base Rate Area										
One Party	$19.00	$20.00	$22.00	$23.00	$25.00	$26.00	$29.00	$31.00	$32.00	
Two Party **	19.00	19.75	21.00	22.00	24.00	24.00	24.00	26.00	27.00	(I)
PBX Trunk	36.95	36.95	36.95	37.95	39.95	41.98	42.00	45.00	47.00	(I)
Key System	29.45	30.95	32.95	34.95	38.95	40.95	42.00	43.00	44.00	(I)

* The following are exceptions to the rates shown above:

	One Party Residence	One Party Business
Greensboro	$14.10	$21.10
Coalport	$13.00	$23.00
Enon Valley	$13.60	$24.60

** Restricted to existing customers at their present locations as of April 20, 1995.

*** Residential one-party Customers in Rate Groups 7, 8, and 9 will receive credits of $.49, $1.45, and $2.40 respectively.

****Business one-party Customers in Rate Groups 7,8, and 9 will receive credits of $1.11, $1.19, and $1.26 respectfully

In concurrence with the Pennsylvania Public Utility Commission Order entered September 30, 1999, under Docket Nos. P-00991648, P-00991648, hereafter referred to as the September 1999 Global Order, and the establishment of the Pennsylvania USF, the PA Universal Service Credit (the "USF Credit") is an offset to specific local exchange service rates. The USF Credit is a separate line item on the customer bill which, when combined with the single-party residence rate, an exchange average of touch-tone (push button), local usage, and exchange/zone mileage rates, effectively creates a maximum monthly residential rate of $16.00. As directed by the September 1999 Global Order, a proportionate USF Credit is also calculated and applied against the monthly single-party business rate to maintain the existing parity between business and residence rates. The USF Credit mechanism expires December 31, 2003, or as otherwise ordered by the Commission or appellate courts.

(I) Indicates Rate Increase

LOCAL EXCHANGE SERVICE (cont.)

A.4.b (continued)

Table of Monthly Rates by Rate Group

	BUSINESS:						RESIDENCE:			
Rate Group	One Party		PBX Trunk		Pay Telephone		One Party*		* *	(C)
I	$15.90	(I)	$15.90	(I)	$12.23	(I)	$13.20	(I)	*	
II	$17.65		$17.65		$13.98		$14.13		*	
III	$19.50		$19.50		$15.83		$15.11		*	
IV	$21.50		$21.50		$17.83		$16.14		*	
V	$23.50		$23.50		$19.83		$17.22		*	
VI	$25.55		$25.55		$21.88		$18.30		*	
VII	$27.65		$27.65		$23.98		$19.38		*	

c. When the Company proposes to reclassify service in an exchange from one Rate Group to another because of an increase or decrease in the number of access lines, notice of the reclassification to the proper Rate Group shall be given by filing revised Tariffs with the Commission. Such revised Tariffs will be filed only (1) when the number of access lines has exceeded or fallen below its Rate Group access line limits as determined on two consecutive semi-annual reviews, provided that the two most recent consecutive reviews exceed the lower limit or fall below the upper limit of the new Rate Group by at least two percent, or (2) when an additional exchange is added to the local calling area of the exchange and the new number of access lines exceeds the upper limit of the Rate Group.

*At such time when the Company's residential weighted average one-party rate exceeds the residential one-party local service cap as established by the PA PUC, this tariff provision will be supplemented to reflect the necessary USF credit for the amount in excess of the maximum residential one-party local service cap as well as a proportionate credit for the one-party business rate, pursuant to relevant Commission Order. (C)

(I) Indicates Increase

(C) Indicates Change