BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

CORRECTED MAIN TESTIMONY

OF

JAMES A. APPLEBY

On Behalf of

Sprint Communications Company, L.P., Sprint Spectrum, L.P., Nextel Communications of the Mid-Atlantic, Inc., and NPCR, Inc.

SPRINT STATEMENT 1.0

July 2, 2009

Q. Please state your name and business address.

A. My name is James A. Appleby. My business address is 6450 Sprint Parkway, Overland Park, Kansas 66251.

Q. What is your position and who are you representing in this proceeding?

A. I am employed as a Regulatory Policy Manager for Sprint Nextel Corporation. I am testifying on behalf of Sprint Communications Company, L.P., Sprint Spectrum, L.P., Nextel Communications of the Mid-Atlantic, Inc., and NPCR, Inc. (collectively, "Sprint Nextel"). Sprint Nextel is a provider of wireline long distance service and wireless communications services in Pennsylvania.

Q. Please summarize your educational background and business experience.

A. I hold a Bachelor of Science degree in accounting from Shippensburg University in the state of Pennsylvania. I became a Certified Public Accountant in Pennsylvania in 1989. I have been employed by Sprint since 1989. I began working with Sprint's Regulatory Policy Group in 1996. In my current position as Regulatory Policy Manager, I am responsible for the development of state and federal regulatory and legislative policy for all divisions of Sprint Nextel Corporation. I am also responsible for the coordination of policy across business units. The specific policy issues that I address include, among other things, intercarrier compensation, universal service, pricing, access reform, reciprocal compensation, interconnection, and local competition.

Q. Have you previously testified before this or other state Commissions?

A. Yes. I testified before the Pennsylvania Public Utility Commission in Docket No. I-00030099. In my position I have also testified before the Public Service Commission of South Carolina, the Missouri Public Service Commission, the Indiana Utility Regulatory Commission, the Michigan Public Service Commission, the New Jersey Board of Public Utilities, the Virginia State Corporation Commission, the Nebraska Public Service Commission, the Kansas Corporation Commission, and the Iowa Utilities Board. Additionally, I have testified before state legislative committees, and I have also worked with the various state Commissions' staff and the Federal Communication Communication's ("FCC") staff.

Purpose, Scope and Summary of Testimony

Q. What is the purpose and scope of your testimony?

A. My testimony will explain why the subsidies embedded in rural local exchange carriers ("RLEC") access rates are unjust, unreasonable, discriminatory, and harm competition and consumers. My testimony explains why it is essential to the development of a fully competitive Pennsylvania telecommunications market that the prices of intrastate switched access[1] be reduced for all RLECs. I will further demonstrate that high wholesale switched access rates inflate the price for all retail voice telecommunications services that require those access services

[1] To the extent that I use the term intrastate access, or simply access, I mean intrastate switched access.

as an essential input. My testimony also explains how the consumers of Pennsylvania will benefit from reductions RLEC switched access charges. Finally, my testimony will provide Sprint Nextel's specific recommendation for LEC intrastate access reductions and why RLECs no longer require access subsidies.

Q. Please summarize your testimony.

A. Switched access is a monopoly service. All carriers that compete against RLECs in the retail market must use switched access to terminate non-local calls to the RLECs' customers. This includes traffic originated by wireless providers who must pay terminating access on wireless calls to landline customers when such calls cross Metropolitan Trading Area ("MTA") boundaries. Wireless carriers, however, do not collect access charges on toll calls received from other carriers, including the RLECs. Carriers cannot compete on an equal footing with RLECs if the RLECs are permitted to impose on their competitors input costs that are far above the actual cost of providing those functions. To the extent that the Commission must, under Pennsylvania law, promote competition and a level playing field, inflated access charges act to prevent realization of that goal.

Access prices were historically inflated as a mechanism to subsidize the price of basic local service in a regulated monopoly setting. But this interplay between local service rates and intrastate access services rates was established long before LECs developed the ability to collect revenues from numerous other services provisioned over the same network on which they provide local exchange

and exchange access services. The RLECs, within their service territories, now offer wireline long distance, numerous new calling features, broadband and video services. These services are often bundled together to provide the consumer's complete service needs. The average revenue per customer the RLECs collect continues to expand. The historic trend of retail revenue growth and the potential for further growth in the future makes the collection of subsidies from competing carriers in the form of grossly inflated access rates unnecessary and anti-competitive. The RLECs can and should collect the costs of providing retail services from the customers purchasing those retail services instead of collecting a portion of those costs from competitors by charging inflated rates for monopoly switched access. This change is essential to developing a level competitive playing field for all service providers. Doing so will avoid discriminatory rates, prevent unjust, unreasonable rates from pervading the Pennsylvania marketplace, and level the playing field for all competitors.

Sprint recommends that all RLECs operating in Pennsylvania be required to set their intrastate switched access rate and structure for each individual access element equal to the equivalent interstate switched access rate and structure.

Competition and Consumers Are Harmed by High Switched Access Rates

Q. Are telecommunication carriers affected by inflated switched access rates?

A. Yes. All carriers providing voice communication services in Pennsylvania must use switched access to terminate non-local calls to RLEC customers. Because these switched access services are an essential input to the services other carriers are providing, these carriers' input costs are increased by inflated access rates. Further, the subsidy the carriers are forced to provide to the RLECs can then be used by the RLECs to undercut the competing carriers' retail service offerings. Obviously, a market in which competing carriers are forced to pay RLECs a subsidy for use of essential network elements is not one in which a level playing field exists.

Q. How do telecommunication carriers recover these higher input costs?

A. Because the carriers are in business to make a profit, the access costs are recovered in the price of the retail services they are offering in the market just like other input costs.

Q. Are wireless carriers impacted by high access rates? Don't they only pay reciprocal compensation rates to terminate their traffic?

A. Wireless carriers do pay reciprocal compensation rates to terminate calls within a Metropolitan Trading Area ("MTA"). But if the end points of a call cross an MTA boundary, the wireless carrier is responsible for paying access rates to the local exchange carrier terminating that call.

Q. How many MTAs are within the state of Pennsylvania?

A. There are six MTAs that have as least part of their area within Pennsylvania. The MTAs are the Philadelphia, Pittsburgh, New York, Washington-Baltimore, Cleveland and Buffalo-Rochester MTAs. No other state in the country has more MTAs within its boundaries. As a result, wireless carriers are impacted by high access rates they incur for calls that remain within Pennsylvania but cross numerous MTA boundaries within the state.

Q. Are consumers harmed by inflated access rates?

A. Yes. Consumers are harmed by unreasonable access rates. It is true that consumers are now afforded more choices for their voice communications needs than when the ILECs were the only providers. Most consumers have a choice between alternative carriers providing cable telephony, traditional CLEC service, wireless service, and VoIP service. But each of these carriers must pay inflated access rates to RLECs they are attempting to compete against. Because these carriers strive to cover their input costs to earn a profit, inflated intrastate switched access costs are impeding the retail offers competing carriers can make available in the market. Consumers are not receiving the best offers in the market because high switched access rates, originally meant to keep service affordable, are now inflating the rates for all alternative services. If the switched access rates are reduced, consumers will benefit.

Q. Are price reductions the only benefit to consumers from the elimination of access subsidies?

A. No. Reduced retail prices are only one way consumers can benefit from reduced access subsidies. When access bills are lowered, consumers will benefit because service providers will have more resources to expand service coverage, enhance service quality, develop new and innovative service offerings, and provide better pricing in the market. Thus, reducing RLEC intrastate switched access charges to just and reasonable levels will promote competition, and its many benefits, within the market.

Other States Have Addressed Switched Access Reform

Q. Have other states taken action to reduce intrastate switched access rates?

A. Yes. Many states have taken the pro-consumer, pro-competitive action to reduce intrastate access rates. In Exhibit JAA – 1, I show that, so far, 17 states require the largest ILEC to have intrastate rates at approximately the same level as their interstate rates. Many of these states have established a mirroring policy in which intrastate rates must equal interstate rates.[2] Additionally, several states have tied access rate reductions to ILEC retail rate deregulation.[3] Legislation passed three

[2] *See* Order, Investigation by the Department of Telecommunications and Energy on its own Motion into the Appropriate Regulatory Plan to succeed Price Cap Regulation for Verizon New England, Inc. d/b/a Verizon Massachusetts' intrastate retail telecommunications services in the Commonwealth of Massachusetts, Mass. D.T.E. 01-31 Phase I (May 8, 2002) (order requiring that Verizon's intrastate access rates mirror its interstate rates); Report of Alexander F. Skirpan, Jr., Senior Hearing Examiner, Petition of Sprint Nextel For reductions in the intrastate carrier access rates of Central Telephone Company of Virginia and United Telephone-Southeast, Inc., Case No. PUC-2007-00108 (January 28, 2009)(the Hearing Examiner's recommended decision, if adopted will require Embarq to mirror its interstate rates for intrastate switched access in Virginia).

[3] *See e.g.*, K.S.A. 66-2005 (requiring local exchange carriers to reduce intrastate access charges to interstate levels over a three year period and at the same time giving the Kansas Commission authority to grant further price flexibility); Wis. Stat. 196.196 (requiring Wisconsin utilities with more than 150,000 access lines to set intrastate switched access rates at the utility's interstate rates and at the same time giving

years ago in the state of Texas transitions LEC access rates to interstate levels prior to granting retail deregulation.[4] Similarly, the West Virginia Public Service Commission announced that a new deregulatory framework must address and reduce intrastate switched access rates[5]. Other state commissions have opened proceedings to address intrastate switched access rates.[6] The telecommunications industry and state commissions widely recognize the need to take action to reduce intrastate switched access rates to just and reasonable levels to promote competition and a level playing field.

Pennsylvania Has Consistently Recognized the Need to Reform Switched Access Rates

Q. Has the PAPUC previously addressed the level of RLEC intrastate switched access?

A. Yes. In the Global Order[7] the Commission pledged to address and eliminate the subsidies embedded in intrastate switched access charges. Some changes in the intrastate switched access rates of the RLECs in Pennsylvania were implemented as the result of that order. Further changes were authorized via a July 2003

LECs further price flexibility); O.C.G.A. § 46-5-166(f) (permitting Georgia local exchange companies to become subject to alternative regulation provided they set their intrastate access rates no higher than interstate access rates).

[4] PURA 65.202 and 65.203

[5] *See* Commission Order, Petition for approval of Joint Stipulation and Agreement for Settlement and Joint Petition for Expedited Approval of a Joint Stipulation for a Market Transition Plan for Verizon West Virginia, Inc., Case No. 06-1935-T-PC (3/26/07) (approving rate changes pursuant to a joint stipulation between the Consumer Advocate Division, Commission Staff, and Verizon for a "Market Transition Plan")

[6] *See* In the Matter of the Board's Investigation and Review of Local Carrier Intrastate Exchange Access Rates, New Jersey Board of Public Utilities Docket No. TX08090830, Order (October 6, 2008).

[7] 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*, 844 A.2d 1239 (Pa. 2004).

settlement among industry participants.[8] Additionally, the Commission indicated that the access reform achieved in July 2003 was only one step towards achieving full reform of unjust and unreasonable access rates.[9] Because subsidies remained within the RLEC access rates, the Commission opened an investigation to evaluate the RLECs intrastate switched access rates in 2004. This investigation has been stayed numerous times under the assumption that the FCC was poised to uniformly reform intercarrier compensation. Yet, five years later, large amounts of subsidy remains embedded in the RLEC intrastate switched access rates. Market forces have dramatically changed the retail services market. It is time to address the access subsidy system that remains in Pennsylvania.

Q. How has Pennsylvania's retail telecommunications market changed in recent years?

A. It has changed a lot in the recent years. Local exchange carriers throughout the country have been given the opportunity to sell long distance services to their local exchange customer base. Local exchange carriers and cable providers have developed the network capability to deliver broadband services to their customers. Cable providers have developed a voice product to compete with the local exchange carriers. Local exchange carriers have partnered with satellite video providers and/or deployed network capabilities to provide video services to their local exchange customer base. Both local exchange carriers and cable providers now package at least three services (including local voice, long distance, broadband and/or video services) in bundles. In the meantime, wireless carriers

[8] Access Charge Investigation per Global Order of September 30, 1999, *et al.*, Docket Nos. M-0021596 *et .al.*, Order of July 15, 2003.
[9] *Id. at 12.*

have expanded their networks to cover almost all of the population within the country. Wireless carriers have deployed progressively faster mobile broadband networks to facilitate the delivery of many of the same applications customers use at home when they are on the go. Consumers are getting more and more choices for their telecommunications needs. But the Commission's regulation of RLEC's wholesale access rates still reflects the obsolete world of local monopolies and long distance providers operating in separate markets.

RLECs Oppose High Access Rates in Other Jurisdictions

Q. Has Embarq[10] expressed concern with high access rates and their anti-competitive implications?

A. Yes. In Ohio an incumbent LEC named Doylestown wished to edge-out into Embarq Ohio local service territory to provide competing service. Doylestown requested a waiver of a rule that capped the edge-out carriers' intrastate switched access rates at the level of the incumbent, Embarq. In its opposition to this waiver Embarq stated "It is simply unfair to allow Doylestown this unfair competitive advantage, subsidized by its improperly high access rates", and "[a]t this level of subsidy, Doylestown has no incentive to change its basic local service rates. Inflated access rates and USAC payments are subsidizing Doylestown's local

[10] United Telephone of Pennsylvania LLC d/b/a Embarq has this week been involved in a merger and if any name change has been conducted pursuant to that merger, Sprint is unaware whatever new name may be applicable.

service rates. This puts Embarq at an unfair competitive disadvantage in competing for customers."[11]

Q. Do you agree with Embarq that high access rates are inconsistent with the development of robust retail competition?

A. Yes. As stated above, the primary purpose of telecommunications policy in Pennsylvania[12] and nationally is to evolve from a market with one landline provider to a market with multiple wireline and wireless service providers providing services responsive to the needs of consumers. In the above mentioned Ohio waiver case, the edge-out ILEC was charging higher switched access rates than Embarq's rates, providing the ability for the edge-out ILEC to offer lower retail service rates. In Pennsylvania, Embarq charges higher rates for intrastate access service than other competitors, including all wireless carriers that do not collect access charges. Embarq's anti-competitive advantage, provided to it by inflated access rates, inhibits competition and must be eliminated.

Q. Can switched access ever be anything but a monopoly service?

A. No. There can only be one provider of switched access services for calls to and from a local service customer and that is the customer's local service provider. If a customer of Carrier A wishes to talk to the local customer of Carrier B, Carrier A's customer must go through Carrier B's network to reach the called party.

[11] Memorandum Contra and Request for Hearing of United Telephone Company of Ohio d/b/a Embarq to Doylestown's Waiver Application, *In the Matter of the Application of Doylestown Telephone Company for a Waiver of Edge-Out Access Rate Reduction Requirements*, PUCO Case No. 08-0117-TP-WVR, at 3 (filed February 26, 2008).

[12] 66 Pa. C.S.A. §§ 3011 (3)(4)(5)(8) & (9)

When the call is not a local call and is completed within the state of Pennsylvania, Carrier A (whether a wireline, cable telephony, wireless, or other service provider) will incur Carrier B's intrastate switched access charges.[13] The service is a monopoly and always will be a monopoly.[14] The Commission has previously recognized that switched access is a monopoly service.[15]

The Pennsylvania RLECs' Switched Access Rates are Unreasonably High by Many Relevant Comparisons

Q. Is there evidence that RLEC intrastate switched access rates are too high by a wide margin?

A. Yes. Many measures demonstrate that RLECs' intrastate switched access rates are excessive. These measures include a comparison with each carrier's respective interstate rates, comparison with the RLECs rates in other states, and other measures like "teledensity." I will address each of these measures.

Q. Why is a rate comparison to other jurisdictional traffic meaningful?

[13] This assumes the terminating carrier (Carrier B in the above example) is not a wireless carrier since wireless carriers do not bill access charges.

[14] *See* Notice of Proposed Rulemaking, *In the Matter of Developing a Unified Intercarrier Compensation Regime,* CC Docket No. 01-92, 16 FCC Rcd 9610, at 9616-17 (rel. April 27, 2001)(the FCC acknowledged that terminating access is a monopoly).

[15] Re *Nextlink Pennsylvania, Inc.* Docket No. p-00991648; P-00991649, 93 PaPUC 172 (September 30, 1999) ("Global Order")("Switched access is not competitive because both the originating caller and the terminating recipient have just one provider of local service."); 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*, 844 A.2d 1239 (Pa. 2004).

A. No matter if the call is jurisdictionally an interstate call or an intrastate call, the same ILEC network elements are used to complete a call on the RLEC network regardless of where that call originated. Therefore, comparing the intrastate switched access rate to the interstate switched access rate provides a good indication of what a reasonable rate would be for intrastate switched access service. Additionally, disparate rates are anticompetitive as well as unjust and unreasonable.

Q. How do the RLECs intrastate rates compare to their respective interstate rates?

A. As shown in AT&T's Complaint[16], the composite intrastate switched access tariff rate for all but one of the RLECs is higher than its interstate composite rate. The rate differential for the largest three RLECs is the most extreme. Embarq's composite intrastate rate is approximately 10 times higher than its interstate composite rate. Commonwealth Telephone's intrastate rate is approximately three times higher. And Windstream's intrastate rate is approximately seven times higher. As noted above, the same network elements are used to terminate intrastate traffic and interstate traffic.

Q. How does Embarq's intrastate rate in Pennsylvania compare to its intrastate switched access rates in other states?

[16] Pages 9 and 10 graphically depict the intrastate and interstate aggregate switched access for each of the RLECs named in the complaint.

A. Embarq's charges more per minute to terminate an intrastate access call in Pennsylvania than it charges in all but three of its eighteen states and originating access is only higher on one other state.[17]

Q. Is there other data relating to the RLECs' Pennsylvania service territories that would suggest the Pennsylvania RLECs' intrastate access rates are too high?

A. Yes. Teledensity data provides a meaningful comparison of operating territory economics.[18] Teledensity is a measurement that quantifies relative distribution of a customer base within a service territory. Teledensity illustrates the relative customer distribution by dividing the working loops or lines within a service territory by the square miles of the service territory. A higher teledensity number reflects lower unit costs because there are more units over which to recover fixed costs.

Q. What did you find when you compared the teledensity of the Pennsylvania RLECs to the teledensity of RLECs nationally?

A. The teledensity data provided in Exhibit JAA-3 suggested the RLEC territories in Pennsylvania were really not very rural. The average teledensity of all of the ILECs in Pennsylvania excluding Verizon the Bell Operating Company was 55.17. National average teledensity of all of the ILECs excluding the Bell

[17] Exhibit JAA – 2

[18] The FCC used a teledensity analysis to establish the interstate switched access target rate of non-BOC ILECs in the CALLS ORDER. ILECs with teledensity greater than 19 on a holding company basis received a lower benchmark.

Operating Companies was just 9.56. This means the RLECs in PA have at least five times more access lines over which to recover fixed costs than the average RLEC in the country.

Q. Is the teledensity of each of the Pennsylvania RLECs as low as the national average RLEC teledensity?

A. No. Not one of the RLECs in this case has a teledensity lower than the 9.56 RLEC national average teledensity.[19]

Q. So the RLEC intrastate access rates are high by many measures. Why is it important that switched access rates be reduced?

A. If rates for switched access services are too high, all carriers with customers that wish to communicate with RLEC customers will provide the RLECs a source of excess profit. This excess profit on the monopoly access services can be used by the RLEC to decrease or maintain lower prices for its retail services. In other words, the uneconomic, anticompetitive profit extracted by the RLECs from their direct competitors directly enables the ILECs to offer lower retail prices while simultaneously hindering the competitors' ability to compete. This harm to competition ultimately inflates the price of retail services to consumers and contradicts statutorily prescribed policies the Commission is obligated to foster. Additionally, these artificially high rates are unjust and unreasonable, and the differences between the rates for use of the same network elements for the same purpose is discriminatory.

[19] See Exhibit JAA-3

Pennsylvania RLECs Should Reduce Their Intrastate Switched Access Rates to Interstate Levels

Q. What is your recommendation to the Commission?

A. Sprint recommends the Commission require all RLECs operating in the state of Pennsylvania to set their intrastate switched access rate and structure for each individual access service equal to the equivalent interstate switched access service rate and structure.

Q. Why is it appropriate for the Commission to reduce ILEC intrastate switched access rates to interstate rate levels in this proceeding?

A. Reducing each Pennsylvania RLECs' intrastate switched access rates to its interstate rate levels is appropriate for several reasons. First, the ILECs are providing interstate switched access service at these FCC approved levels, and providing services at these rates avoids discriminatory treatment by matching rates that are presumptively just and reasonable.[20] One of the RLECs in this case was an advocate of the interstate switched access rate reduction proposals that underlie the CALLS Order and their current interstate switched access rates are based on the rate reform required under the CALLS Order. Having supported the CALLS Order rate reductions, and as they currently charge rates based on the

[20] The FCC has recently discussed the possibility of moving interstate rates closer to cost and Sprint supports those efforts. Nevertheless, Sprint recognizes that to reduce intrastate rates to cost in advance of interstate rates is a problematic solution. Accordingly, the best interim solution is to have carriers match their interstate rates until such time as a global reform solution is announced by the FCC.

CALLS Order rate reform requirements, the ILECs cannot deny that the interstate rates imposed by the CALLS Order provide a reasonable level of compensation for interstate switched access service. Second, by using each RLEC's existing interstate switched access rates the Commission will avoid the need to determine the cost standard to be used to set the rates at which RLECs should exchange intrastate switched access traffic in this proceeding. Finally, and likely most important, the services and infrastructure used to provide intrastate switched access services are the same as the services and infrastructure used to provide interstate switched access services, so an order requiring ILECs to mirror their interstate rate levels in this proceeding is a reasonable next step in the reform of intrastate switched access service.

Q. Can you estimate the amount of access reductions to ILEC intrastate switched access rates?

A. No I can not at this time. Sprint has requested the information necessary for the Commission to understand the amount of the access revenue reduction for each RLEC.

RLECs Continue to Expand Average Revenue per User

Q. Have the ILECs greatly expanded the number of the services they now have to offer to their local telephone customers?

A. Yes. Today, RLECs offer much more than just local exchange and exchange access services to their customer base. The RLECs now offer in-territory long distance, broadband, video services and an expansive list of customer calling features. These services are packaged and bundled together with local exchange service. These service bundles are the lead product offerings for the RLECs in today's market. The discounts offered on these bundles provide significant incentive for customers to purchase all of their services from one provider. With the development of these new retail services and the corresponding bundling of the new services with local service, the RLECs are not limited to their basic local service as the only means to recover the cost of the local network connection from their end-user customers. The RLECs can now cover that basic network connection cost over a combination of services, offered in most cases over the same local network connection. The RLECs are now capable of recovering their full basic network connection costs from their own end user customers. There is no policy reason to continue to require the competitors of the RLEC to fund RLEC operations through access rates that are far above the actual cost of the access functions. In fact, just the opposite is true. In this environment of expanding revenue opportunities for RLECs, allowing them to charge inflated access rates in order to extract an anti-competitive subsidy is unjust, unreasonable and discriminatory.

Q. Is there any public information that would demonstrate the expanding revenue opportunities for the RLECs?

A. Yes. The financial reporting of the publicly traded RLECs provides meaningful information about the financial strength of the RLEC corporations. The data in the financial reporting is provided for the RLECs total operating territories not Pennsylvania specific information. On Exhibit JAA – 4, I have provided information I have gathered about several of the RLEC operations. Sprint is requesting data from each RLEC to show PA specific information.

Q. Do the RLECs report average revenue information in their financials?

A. Yes. Some of the RLECs do report average revenue information but the characteristics of data reported by each RLEC is slightly different. Embarq reports average retail revenue per household. Frontier reports average revenue per access line and Windstream reports average revenue per line on all services. But the characteristics of the reported information are not as important as the magnitude of the average revenues and the growth the RLECs have reported.

Q. Do the Embarq financial reports reveal significant revenue growth on a household basis driven by the value of the new services?

A. Yes. Embarq has been able to increase the average consumer revenue per household from $49.60 in the 1st quarter of 2005 to $55.88 in the 4th quarter of 2008.[21] That is an increase in the average bill of 12.7% over that period. Adoption of new services is helping to propel this average revenue growth.

[21] ARPU trend for Embarq compiled from publicly available financial reports or news releases.

Q. Do the Windstream financial reports provide similar average revenue trends?

A. Yes. Windstream reports average service revenue per customer per month growing from $75.01 in the 1st quarter of 2007 to $79.68 in the 1st quarter of 2009 for an increase of 6.2%.

Q. Is there financial information about the some of the other services the RLECs are offering in Pennsylvania?

A. Yes. The RLECs have developed the capability to delivery broadband services to their customer set.

Q. Do the RLECs provide high-speed internet service over the same network connection to the customer premise as traditional voice services?

A. Yes. RLECs provision their high-speed internet service, Digital Subscriber Line ("DSL"), over the same customer network connection, or local loop, as traditional voice services.

Q. Do Embarq's financial reports provide any instructive data on Embarq's broadband service?

A. Yes. Embarq's system total quarterly revenue from Embarq's high-speed Internet services has grown from $69 million to $143 million from the 1st quarter of 2005 to 1st quarter of 2009. That means the Embarq LECs nationally are generating approximately $572 million on an annualized basis on broadband services. Access

line penetration for high-speed Internet has grown from 7.2% to 26.2% during that same interval.[22] With only 26.2% of local service subscribers purchasing high-speed Internet services from Embarq, it clearly has further opportunity to expand the revenues generated from this new service.[23] Based on the Embarq national broadband market share, and using Embarq's reported average yield per broadband service and Embarq access lines in Pennsylvania of 316,684, Sprint estimates that Embarq is generating more than $33 million annually[24] in revenues in Pennsylvania via broadband service. Greater customer penetration with broadband represents a huge revenue opportunity with average revenue of $33.29 per high speed Internet subscriber as of 1st quarter 2009.[25]

Q. Do the other RLECs report similar success in selling broadband service to their customers?

A. Yes. As shown on Exhibit JAA–4, each of the other RLECs is selling broadband service to at least 25% of their total access lines and as high as 36.4%. If the RLECs are able to equal their system-wide penetration rate in Pennsylvania and sell broadband at the same average price as Embarq reports, Frontier is generating approximately $31.9 million annually in Pennsylvania on broadband services. Using those same assumptions, Windstream is collecting $26.7M in new revenues in Pennsylvania , North Pittsburgh's Holding Company Consolidated is collecting $8.6M in broadband revenues within Pennsylvania and Denver & Ephrata is

[22] Embarq broadband subscriber trend compiled from publicly available financial reports or news releases.
[23] Broadband penetration derived from publicly available financial reports or news releases.
[24] Exhibit JAA-4
[25] 1st quarter 2009 Embarq News Release on Financials, pages 8 and 9 of 10.

receiving $17.6M in broadband revenues also in Pennsylvania alone. These broadband revenues are incremental revenues that were not collected when the access rates are originally set. Further, most of these new revenues have been derived since the Commission set the RLECs access rates in 2004. Yes these services have associated expenses but they certainly provide additional financial margins for the RLECs.

Q. Are the RLECs also providing long distance service to the majority of their local service customers?

A. Yes. Although all of the RLECs researched did not provide publicly their long distance customer counts, Windstream and Consolidated reported long distance penetrations of 66% and 64%, respectively. I have every reason to believe each of the RLECs in this case have similar long distance customer penetration levels.[26]

Q. Why is long distance market share also important?

A. Again, the more products you are able to sell to your customers, the more revenues you have to recover your fixed costs like the cost of the basic local network connection.

Q. Are video services also becoming an important service product for the RLECs?

[26] Frontier reported a long distance penetration level of 64.5% in 4Q07. Cincinnati Bell has reported 67% and TDS reported 60% long distance customer penetration levels within the last year.

A. Yes. RLECs are offering satellite video services as well as IPTV services to their customers. The IPTV services are provisioned over the same basic local network connection as the customer's local voice service while satellite video services are simply offered to the RLECs local customers via the RLECs sales channels. These services provide yet another revenue stream over which to recover fixed costs.

Q. Do the RLECs have opportunities to expand the revenue they collect from other services such as broadband and video?

A. Yes. As documented above, the ILECs are selling broadband and video service to a small subset of their customer base with broadband penetration ranging from 25-36% for the RLECs research. A substantial portion of the RLEC local customer base can still purchase broadband services from the RLECs. Video services also provide more opportunity since the RLECs market share is 10% or less.

Q. Do you have any indication as to the effect of these offerings on Embarq's return on common equity?

A. Yes. The VA Commission noted that "... when the rate of return on common equity for Centel and United is reviewed, it is clear that Embarq is earning returns well above traditional cost of service levels, apparently based largely upon newer service offerings other than basic local service." [27]

[27] Commonwealth of Virginia State Corporation Commission, Case No. PUC-2007-00108 Order on Intrastate Access Charges released May 29, 2009

Q. Do you believe the Pennsylvania Commission should utilize similar information in this case when deciding what to do about the switched access subsidies embedded in RLEC rates?

A. Yes. Sprint believes that if the Commission is provided complete financial information about operations of the RLECs, it will be clear that subsidies that exist today are not necessary in today's market and into the future. Even if one assumes – which Sprint does not – that extracting subsidy payments from competitors to maintain low-cost local service is a valid policy justification supporting inflated access charges, in the environment described above it is unjust and unreasonable to allow rates to be charged which rates do not consider the existence of these ample new revenue sources. As new revenue is available, rates must be rebalanced in order to avoid unjust and unreasonable results. Additionally, a rate structure that does not rebalance to take into account such new revenue sources also discriminates against certain classes of customers to the benefit of others.

There is no Legitimate Reason for ILECs to Maintain Artificially High Intrastate Switched Access Rates

Q. Will the RLECs argue that if switched access rates are reduced, all revenue reductions must be replaced with basic local rate increases or additional Pennsylvania Universal Service Funds?

A. Yes. I fully expect that the RLECs will make this argument. That is why I have included information about the services the RLECs are now offering to their local

customer base. I believe if the Commission is provided with all of the important information about the RLECs operations, it will be clear that it is unjust, unreasonable and discriminatory for the RLECs to be subsidized by intrastate switched access services.

Q. Is it necessary to keep intrastate switched access rates at their current level in order to keep local service rates low?

A. No. Intrastate switched access levels were originally set decades ago when the ILECs were monopoly providers of local exchange service and had limited services from which to recover their network costs. Both before and following the breakup of the old Bell system, the monopoly access rates were set far above cost as a regulatory mechanism to keep local exchange service rates low and thereby ensure the universal availability of low cost basic telephone service. The telecommunications market has dramatically changed such that ILECs now offer a full slate of services over their exchange access network from which to recover their network costs (i.e. local, toll, long distance, high speed internet, and other services). There remains no justification whatsoever for charging inflated access rates as a means of subsidizing retail local service.

RLEC Switched Access Rates are Discriminatory

Q. Are Pennsylvania RLEC switched access rates discriminatory?

A. I believe so. While I am not an attorney, based upon my experience, RLEC rates can be discriminatory in a number of circumstances. For instance, while it is well settled that an RLEC can establish different rate classifications, it is considered discriminatory for the rate classifications to be unrelated to the cost of providing services to the class of customers identified. Thus, if an RLEC charges $0.005/minute for interstate switched access and $0.05/minute for providing intrastate switched access, there must be a cost justification to support the different rates. Because the same network elements are used to connect both types of calls (intra- and interstate), there is no rational basis for claiming that the cost of intrastate calls exceeds interstate calls. By charging more for intrastate switched access, under these circumstances, RLECs favor interstate switched access customers and discriminate unreasonably against its intrastate switched access customers.

Q. Is that rate difference justified by the need to generate a subsidy to support services in high cost areas?

A. No. Any claim that the rate difference is based on the need to generate a subsidy to support service in high-cost areas is unavailing; and it is unavailing because such rates are not then based on the cost of providing services to the class of customers paying the rate. Instead, the customers paying the inflated rate are being discriminated against to the advantage of another class of customers. Lacking a cost justification to support the rates charged for intrastate switched access, such rates are discriminatory.

Q. Is the above described circumstance the only way these rates may be considered discriminatory?

A. No, there are other ways these rates may be considered discriminatory. It may be discriminatory to charge premium rates for standard services. A rate charged must be rationally related to level of service provided. Thus, if one group of customers receives a service (interstate switched access) that is functionally identical to another class of service (intrastate switched access), the rates charged for intrastate access should not exceed the rate for its functional equivalent – interstate switched access – unless the higher priced service is a premium service. In other words, to avoid discrimination when charging different rates for two similar services, the higher priced service must offer something of greater value or quality than the lower priced service in order for the higher rate to be justified. Because there is no greater value or quality associated with intrastate switched access services, when compared to interstate switched access services, it is logical to conclude that customers charged higher rates charged for intrastate switched access services are being discriminated against.

Q. What is the common thread in identifying discriminatory carrier rates?

A. Rates are discriminatory if a carrier charges dissimilar amounts for like services. It is discriminatory to charge different rates for traffic that uses the same facilities, involves the same parties, and costs the same to deliver. For Pennsylvania ILECs to charge more to terminate traffic that originates in Pennsylvania than they do for

traffic that originates in another state, despite the lack of any permissible cost justification to support the different prices, is discriminatory.

Q. **Can you point to anything in this proceeding that illustrates the discriminatory differences in ILEC rates in Pennsylvania?**

A. Yes. In AT&T's Formal Complaint, at pages 9 and 10 there is a chart graphically illustrating the dramatic, unjustifiable differences between the rates charged for the use of the same facilities in providing switched access services for intrastate and interstate calls. Each of these carriers' interstate rates were set above cost, so the greater amounts charged for intrastate switched access is no more than excess profit that harms competition in Pennsylvania.

Q. **Do the ILECs discriminatory intrastate switched access rates have an adverse effect of the market?**

A. Yes. As I have discussed extensively within my testimony, inflated charges for use of monopoly controlled, essential network facilities retards the operation of competitive market forces, misdirects funds within the market, sends inaccurate cost signals to consumers, and thwarts investment.

Summary of Testimony

Q. Please summarize your testimony.

A. To ensure and promote full competition and avoid unjust, unreasonable and discriminatory rates, carriers cannot be expected to subsidize RLEC retail services through inflated intrastate switched access rates. Pennsylvania RLECs have ample opportunity to recover reductions in access revenue through their existing and ever expanding set of services they are offering to consumers and businesses in their service territory. By causing cost recovery to be drawn from services over which consumers have a competitive choice as opposed to monopoly switched access services, the consumer is provided complete pricing information about the cost of the RLECs' services. The current cost recovery model forces the RLECs' competitors, and the competitors' customers, to subsidize the RLECs – an unjust, unreasonable and discriminatory paradigm, to be sure. When competing companies are not burdened by unjust, unreasonable and discriminatory RLEC access charges, Pennsylvania consumers will receive better pricing choices and competitors will have greater resources to create innovative new product offerings that consumers' desire.

Q. Does this conclude your initial written testimony?

A. Yes, it does.

Exhibit JAA – 1 – Mirroring States

Exhibit JAA - 1 to the
Main Testimony of James A. Appleby
In Docket 2009--2098390, ET AL., C-2009-2099805, ET AL., C-2009-2098735, ET AL.

States Where Largest ILECs Intrastate Switched Access Rates Approximate Their Interstate Rates

Rank	Largest ILEC	State		Intrastate Rate
1	QWEST	NM	$	0.0039
2	AT&T	GA	$	0.0040
3	AT&T	KS	$	0.0040
4	AT&T	KY	$	0.0041
5	AT&T	IL	$	0.0041
6	VERIZON	MA	$	0.0043
7	FAIRPOINT	ME	$	0.0043
8	FAIRPOINT	RI	$	0.0043
9	AT&T	NC	$	0.0045
10	AT&T	MS	$	0.0045
11	AT&T	TN	$	0.0046
12	AT&T	OH	$	0.0049
13	AT&T	IN	$	0.0049
14	AT&T	CA	$	0.0050
15	AT&T	MI	$	0.0056
16	QWEST	OR	$	0.0056
17	AT&T	WI	$	0.0063
18	AT&T	AL	$	0.0072
19	QWEST	NE	$	0.0077
20	QWEST	WY	$	0.0086
21	AT&T	SC	$	0.0090
22	AT&T	TX	$	0.0092
23	AT&T	LA	$	0.0084
24	EMBARQ	NV	$	0.0099
25	VERIZON	VA	$	0.0124
26	VERIZON	DE	$	0.0125
27	VERIZON	WV	$	0.0131
28	QWEST	IA	$	0.0136
29	AT&T	FL	$	0.0137
30	VERIZON	CT	$	0.0146
31	VERIZON	VT	$	0.0146
32	VERIZON	MD	$	0.0163
33	QWEST	MN	$	0.0167
34	VERIZON	PA	$	0.0169
35	QWEST	UT	$	0.0169
37	QWEST	AZ	$	0.0194
38	QWEST	WA	$	0.0196
36	QWEST	MT	$	0.0225
39	VERIZON	NY	$	0.0233
40	QWEST	CO	$	0.0247
41	AT&T	OK	$	0.0265
42	VERIZON	NH	$	0.0293
43	VERIZON	NJ	$	0.0296
44	AT&T	MO	$	0.0302
45	AT&T	AR	$	0.0319
46	QWEST	ND	$	0.0345
47	QWEST	ID	$	0.0374
48	QWEST	SD	$	0.0541

NOTE: Rates are a composite calculation of all applicable minute of use rates for ILEC tariffs

Exhibit JAA – 2 – EQ Rate Comparer

Exhibit JAA - 2 to the
Main Testimony of James A. Appleby
In Docket 2009--2098390, ET AL., C-2009-2099805, ET AL., C-2009-2098735, ET AL.

Comparison of Embarq Intrastate Switched Access Rates by State

	EMBARQ FL	EMBARQ IN	EMBARQ KS	EMBARQ MN	EMBARQ MO	EMBARQ NE	EMBARQ NV	EMBARQ NJ	CENTEL EMBARQ NC	UNITED EMBARQ NC	EMBARQ OH	EMBARQ OR	EMBARQ PA	EMBARQ SC	EMBARQ TN	CENTEL EMBARQ TX	UNITED EMBARQ TX	CENTEL EMBARQ VA	UNITED EMBARQ VA	EMBARQ WA	EMBARQ WY
Carrier Charge													$ 7.1900								
CCLC - Orig	$ 0.0033	$ -	$ -	$ 0.0112	$ 0.0328	$ -		$ 0.0116				$ 0.0001	$ 0.0422	$ -	$ 0.0071		$ 0.0278	$ 0.0328	$ 0.0335	$ 0.0100	
CCLC - Term	$ 0.0033	$ -	$ -	$ 0.0280	$ 0.0496	$ -		$ 0.0118	$ 0.0248	$ 0.0295		$ 0.0003	$ 0.0422	$ -	$ 0.0079		$ 0.0144	$ 0.0328	$ 0.0335	$ -	
Interim USF - Term																				$ 0.0706	
LTT	$ 0.0002	$ 0.0003	$ 0.0006	$ 0.0155	$ 0.0150	$ 0.0007	$ 0.0003	$ 0.0052	$ 0.0002	$ 0.0002	$ 0.0004	$ 0.0009	$ 0.0004	$ 0.0010	$ 0.0002	$ 0.0005	$ 0.0059	$ 0.0004	$ 0.0004	$ 0.0002	
LTF	$ 0.0000	$ 0.0000	$ 0.0001			$ 0.0001	$ 0.0000		$ 0.0000	$ 0.0000	$ 0.0000	$ 0.0001	$ 0.0000	$ 0.0001	$ 0.0001	$ 0.0001		$ 0.0001	$ 0.0001	$ 0.0001	$ 0.0001
TS	$ 0.0009	$ 0.0002	$ 0.0051			$ 0.0013	$ 0.0014		$ 0.0009	$ 0.0009	$ 0.0001	$ 0.0050	$ 0.0014	$ 0.0012	$ 0.0008	$ 0.0012		$ 0.0017	$ 0.0017	$ 0.0020	
Mux		$ 0.0003				$ 0.0011					$ 0.0004		$ 0.0005					$ 0.0004	$ 0.0004	$ 0.0011	
TIC	$ -		$ -			$ -	$ 0.0023		$ -	$ -											
LS	$ 0.0177	$ 0.0037	$ 0.0149	$ 0.0174	$ 0.0236	$ 0.0236	$ 0.0068	$ 0.0157	$ 0.0133	$ 0.0152	$ 0.0036	$ 0.0148	$ 0.0039	$ 0.0042	$ 0.0074	$ 0.0070	$ 0.0123	$ 0.0100	$ 0.0100		$ 0.0044
LS-Orig																				$ 0.0207	
LS-Term																				$ 0.0047	
Port	$ -	$ 0.0004				$ 0.0005					$ 0.0004		$ 0.0005					$ 0.0005	$ 0.0005	$ 0.0004	
IS	$ -					$ 0.0001	$ 0.0000	$ 0.0005	$ -	$ -						$ 0.0002					
Total - Orig	$ 0.0218	$ 0.0051	$ 0.0178	$ 0.0442	$ 0.0715	$ 0.0277	$ 0.0099	$ 0.0331	$ 0.0142	$ 0.0161	$ 0.0052	$ 0.0185	$ 0.0481	$ 0.0060	$ 0.0156	$ 0.0087	$ 0.0460	$ 0.0452	$ 0.0459	$ 0.0335	$ 0.0059
Total - Term	$ 0.0218	$ 0.0051	$ 0.0178	$ 0.0620	$ 0.0882	$ 0.0277	$ 0.0099	$ 0.0331	$ 0.0380	$ 0.0456	$ 0.0052	$ 0.0186	$ 0.0481	$ 0.0060	$ 0.0164	$ 0.0087	$ 0.0326	$ 0.0452	$ 0.0459	$ 0.0780	$ 0.0059

Exhibit JAA – 3 – PA Teledensity

JAA - 3 to the
Main Testimony of James A. Appleby
in Docket 2009--2098390, ET AL., C-2009-2099805, ET AL., C-2009-2098735, ET AL.

Pennsylvania RLEC Teledensity

	SAC	LECNAME	SQ. MILES OF AREA	ACCESS LINES	ACCESS LINES PER SQ. MILE
PA	170209	**UNITED TEL. CO. OF PA**	5,717	316,684	**55.39**
		EMBARQ TOTAL	5,717	316,684	**55.39**
PA	170161	COMMONWEALTH TELEPHONE ENTERPRISES, INC.	4,701	277,232	58.97
PA	170168	FRONTIER COMM. OF PA, INC.	167	23,517	140.70
PA	170156	CITIZENS TEL. CO. OF KECKSBURG	52	4,299	82.01
PA	170149	FRONTIER COMM. OF BREEZEWOOD, INC.	379	4,057	10.70
PA	170152	FRONTIER COMM. OF CANTON, INC.	239	3,886	16.29
PA	170194	FRONTIER COMM.-OSWAYO RIVER, INC.	140	2,145	15.28
PA	170178	FRONTIER COMM.-LAKEWOOD, INC.	25	1,447	58.37
		FRONTIER TOTAL	5,704	316,583	**55.50**
PA	170176	WINDSTREAM PENNSYLVANIA,INC.	5,278	198,087	37.53
PA	170165	DENVER AND EPHRATA TEL. & TEL. CO.	214	52,317	244.85
PA	170151	BUFFALO VALLEY TEL. CO.	272	19,183	70.64
PA	170162	THE CONESTOGA TEL. AND TEL. CO.	331	50,501	152.60
		WINDSTREAM TOTAL	6,094	320,088	**52.52**
PA	170193	NORTH PITTSBURGH TEL. CO.	277	59,332	**214.51**
		CONSOLIDATED TOTAL	277	59,332	**214.51**
PA	170145	THE BENTLEYVILLE TEL. CO.	30	2,738	92.19
PA	170185	MARIANNA-SCENERY HILL TEL. CO.	72	2,314	32.24
		FAIRPORT TOTAL	101	5,052	**49.79**
PA	170183	MAHANOY & MAHANTONGO TEL. CO.	130	3,773	29.13
PA	170206	SUGAR VALLEY TEL. CO.	86	1,057	12.29
		TDS TELECOM TOTAL	216	4,830	**22.41**
PA	170191	THE NORTH EASTERN PA. TEL. CO.	464	11,435	24.66
PA	170196	PALMERTON TEL. CO.	94	10,590	113.26
PA	170179	LAUREL HIGHLAND TEL. CO.	186	5,538	29.70
PA	170192	NORTH PENN TEL. CO.	249	5,165	20.75
PA	170175	IRONTON TEL. CO.	17	4,938	294.81
PA	170177	LACKAWAXEN TEL. CO.	64	3,678	57.25
PA	170204	SOUTH CANAAN TEL. CO.	53	2,708	51.28
PA	170200	PYMATUNING IND. TEL. CO.	28	2,228	80.70
PA	170189	ARMSTRONG TEL. CO.-PA	49	1,528	31.34
PA	170197	PENNSYLVANIA TEL. CO.	68	1,350	19.79
PA	170171	HICKORY TEL. CO.	37	1,332	36.30
PA	170210	VENUS TEL. CORP.	54	1,316	24.47
PA	170215	YUKON-WALTZ TEL. CO.	8	833	106.66
PA	170195	ARMSTRONG TEL. CO. NORTH	20	477	23.29
PA	170277	WEST SIDE TEL. CO.-PA	-	39	-
		UNAFFILIATED TOTAL	1,390	53,155	**38.25**
		TOTAL PA RLEC	19,498	1,075,724	**55.17**
		NON-BOC NATIONAL AVERAGE TELEDENSITY			**9.56**

CALLS Plan - Switched Access Target Rates Based on Teledensity

Teledensity Greater Than 19 lines per Sq. Mile	$	0.0065
Teledensity Less Than 19 lines per Sq. Mile	$	0.0095

Exhibit JAA – 4 – ARPU Research

Exhibit JAA - 4 to the
Main Testimony of James A. Appleby
in Docket 2009--2098390, ET AL., C-2009-2099805, ET AL., C-2009-2098735, ET AL.

Publicly Reported Information on the Other Retail Services Offered by the RLECs

	Embarq	Frontier	Windstream	Consolidated	Denver & Epharta
	3/31/2009	3/31/2009	3/31/2009	3/31/2009	12/31/2008
AVERAGE REVENUE					
Average Revenue	$ 56.71	$ 66.78	$ 79.68		
System Access Lines	5,552,000	2,377,000	2,993,400	259,787	119,102
Pennsylvania Access Lines	316,684	316,582	198,087	59,332	122,001
BROADBAND					
Revenues- Quarterly	$ 143,000,000				
Connections	1,452,000	600,047	1,009,700	94,554	43,058
Penetration - All Access Lines	26.2%	25.2%	33.7%	36.4%	36.2%
Penetration of Residential Access Lines	34%				
Penetration Residential Primary Access Lines			52%		
Capable Access Lines				95%	
Revenue per Subscriber	$ 33.29				
Estimated Annual PA Broadband Revenues	$ 33,085,547	$ 31,925,473	$ 26,691,846	$ 8,626,736	$ 17,619,486
LONG DISTANCE					
Customers			1,972,000	165,892	
Penetration			66%	64%	
VIDEO					
IPTV				18,207	
Digital Satellite TV	310,000	146,010	295,400		8,487
TV Penetration	6%	6%	10%	7%	7%

NOTES:
Embarq Average Revenue - retail revenues per household
Frontier Average Revenue - customer reveue per access line
Windstream Average Revenue - includes all service revenues including all wholesale services and USF

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

AT&T COMMUNICATIONS OF PENNSYLVANIA, LLC	: Docket No.	C-2009-2098390
	:	C-2009-2098380
	:	C-2009-2099805
v.	:	C-2009-2098735
	:	
ARMSTRONG TELEPHONE COMPANY PENNSYLVANIA, ET AL	:	
	:	

CERTIFICATION OF SERVICE

I hereby certify that I have served a copy of the foregoing Corrected Testimony of James A. Appleby upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 and 1.55, via Electronic and First Class mail.

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Renardo L. Hicks

Dated: July 6, 2009

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

SUPPLEMENTAL DIRECT TESTIMONY

OF

JAMES A. APPLEBY

On Behalf of

Sprint Communications Company, L.P., Sprint Spectrum, L.P., Nextel Communications of the Mid-Atlantic, Inc., and NPCR, Inc.

SPRINT STATEMENT 1.1

PUBLIC VERSION

November 30, 2009

Q. Please state your name and business address.

A. My name is James A. Appleby. My business address is 6450 Sprint Parkway, Overland Park, Kansas 66251.

Q. Are you the James A. Appleby that submitted Main Testimony in Docket No. C-2009-2098380, et al. dated July 2, 2009?

A. Yes I am.

Q. Do you adopt and incorporate that Main Testimony into this Supplemental Testimony?

A. Yes, I do.

Q. What is the purpose of your Supplemental Testimony?

A. The purpose of this testimony is twofold. First, I will address each of the issues included in the Order Addressing Scope of Consolidated Proceedings that were not included in the AT&T Complaint. I will also point to sections of my Main Testimony submitted in the AT&T Complaint proceeding that addressed the issues designated within the scope of this consolidated proceeding.

Q. How have you organized your testimony?

A. I have grouped the issues in the same manner as the Order Addressing Scope of Consolidated Proceedings. I will address each issue providing additional information

not contained in my Main Testimony as well as relevant references to Main Testimony provided in the AT&T Complaint proceeding.

Issues From the December 2004 Order

Whether intrastate access charges [redacted] should be further reduced or rate structures modified in the rural ILECs' territories?

Q. Should intrastate switched access rates be further reduced in this consolidated proceeding?

A. Absolutely. As explained in detail in my Main Testimony, switched access is a monopoly service. All carriers that compete against RLECs in the retail market must pay switched access charges to terminate non-local calls to the RLECs' local customers. Because these competing carriers strive to cover their input costs to earn a profit, inflated intrastate switched access costs in turn inflate the rates for retail service offerings. Thus, the RLECs' high access rates impede the retail offers competing carriers can make available in the market. Consumers are not receiving the best offers in the market because high switched access rates, originally meant to keep basic local service rates affordable, are now inflating the rates for all alternative services. If switched access rates are reduced, consumers will benefit. Carriers cannot compete on an equal footing with RLECs if the RLECs are permitted to impose on their competitors input costs for bottleneck

facilities that are far above the actual cost of providing service over those facilities.

The following section of this Testimony was withdrawn (See letter of 1/7/10 to ALJ)

[redacted]

What rates are influenced by contributors to and/or disbursements from the PA USF?

Q. Are retail rates influenced by PA USF funding obligations?

A. Yes. The overt subsidies contributors must pay into the PA USF, like implicit subsidies embedded in the RLEC switched access rates, inflate the prices of services alternative providers can offer in the market. Because contributing carriers strive to earn a profit, PA USF funding obligations are impeding the retail offers competing

carriers can make available in the market. If PA USF subsidies are reduced or eliminated, the retail offering from the contributing carriers would improve from a quality standpoint because those carriers could invest in expanded service coverage or new enhanced services and from a price standpoint. The overt subsidy payments mandated by the PA USF, like the implicit subsidies in switched access rates, drain resources a carrier could have used to improve its products and services instead of funding the operations of another group of carriers.

Q. Are the service rates for the PA USF recipient RLECs influenced by the PA USF receipts?

A. The RLECs have not proven that the total revenues received from services provided over their local networks do not cover their cost to provide those services. Therefore, there is no proof that RLECs need PA USF funding to help make-up any alleged gap between revenues and cost. Absent a financial showing, there is every reason to believe the PA USF receipts are simply expanding RLECs' profits at the expense of their competitors and their competitors' customers. Just like the subsidies embedded in intrastate switched access rates, the explicit subsidies in the PA USF should not be continued until a financial basis for these subsidies is proven.

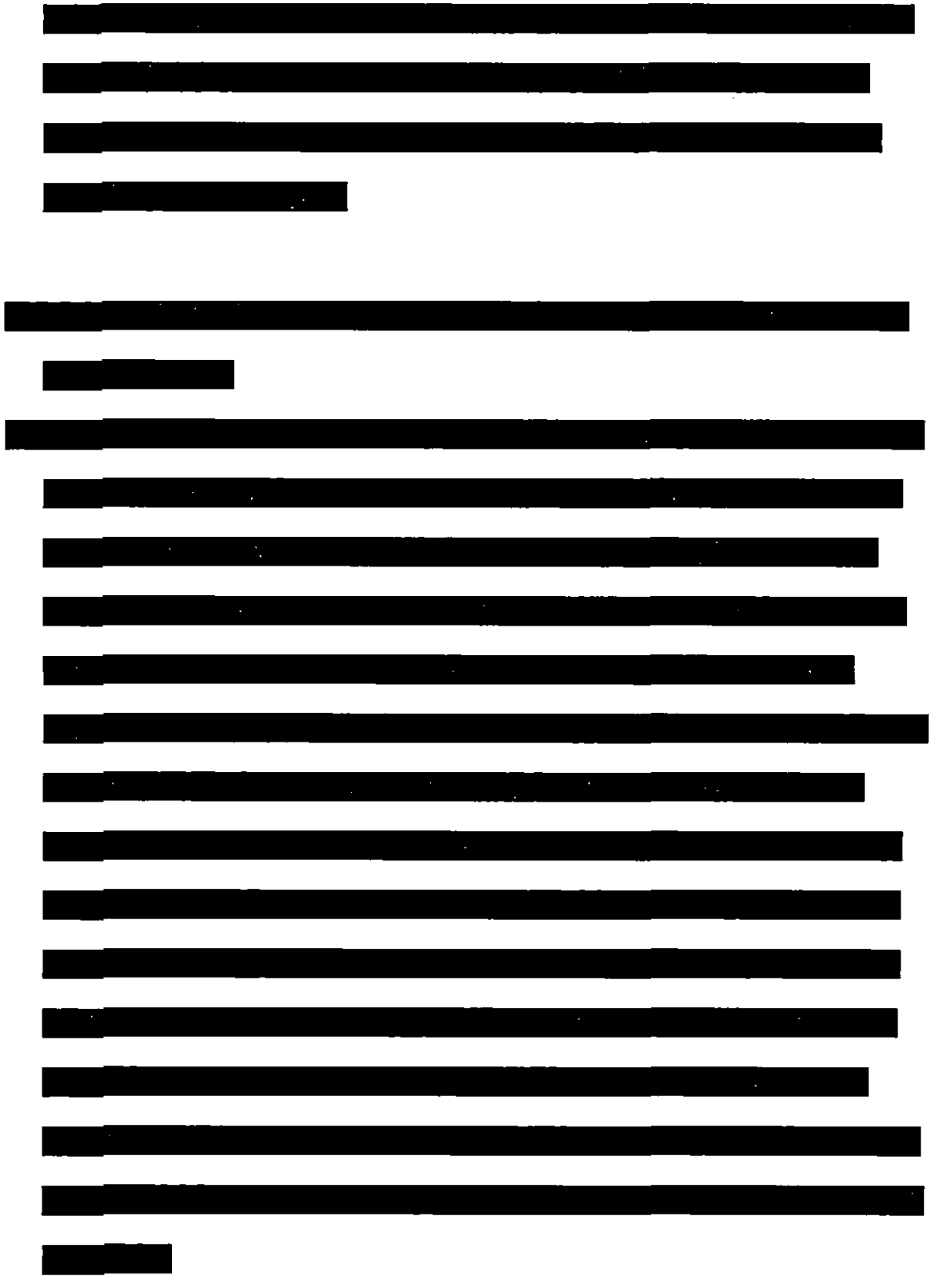
The following section of this Testimony was withdrawn (See letter of 1/7/10 to ALJ)

[redacted]

[1] Commission throughout this testimony is referring to the Pennsylvania Public Utility Commission

[redacted]

[2] US Department of Health and Human Services, Centers for Disease Control and Prevention - Wireless Substitution: Early Released of Estimates from the National Health Interview Survey, July-December 2008 released May 6, 2009



[redacted]

Other PTA Issues Derived from the December 2004 Order

The revenue neutrality requirement of Chapter 30 as well as the linkage between access charge reductions and the PA USF or retail rate increases to recover access reductions are proper issues for this case.

Q. Is there an historical link between the price of basic local service, intrastate switched access and the PA USF?

A. Yes. Historically, access rates were set high to permit the price of basic local service to be priced lower to encourage universal adoption of telephone service. Over time many changes have occurred. RLECs in PA are no longer regulated as rate of return carriers. Competitive alternatives have developed for the customers' communications needs. The RLECs have developed the ability to offer many additional services over their local networks generating considerable additional revenues compared to when RLECs' grossly inflated access rates were set. RLECs have also been permitted to increase basic local service rates without offsetting switched access rate reductions. And some of the access subsidies originally built into switched access rates have been shifted from access rates to the PA USF. The one thing that has not changed is the heavy burden access purchasers are expected to pay despite this changing environment.

Q. Do you believe the Commission must consider these changes when interpreting the revenue neutral requirement of Chapter 30?

A. Yes. Sprint believes the Commission must consider the overall financial strength of the ILECs when determining if the Commission will continue to mandate other carrier's subsidization of the RLECs through inflated switched access rates and continuation of the PA USF. The Commission's analysis must include both the additional revenues the RLECs have generated since the last review of switched

access rates, as well as the potential revenue opportunities the RLECs will generate from all of the other services the RLECs provide to their customers provisioned on the same local network over which the RLECs provide basic local exchange service. These new revenue streams have already provided substantial revenues to offset switched access rate reductions and future growth will provide the RLECs even more revenue to offset reductions in access rates to rational rate levels. More information on the magnitude of these revenue streams is provided below.

Q. As used in Section 3017, do you understand the term "revenue neutrality" to mean that an access reduction by the Commission must be offset by a guaranteed dollar-for-dollar return from another source?

A. No, I do not understand that to be the appropriate interpretation of the term "revenue neutral." It is particularly relevant that none of the RLECs are rate of return carriers. Each RLEC is subject to an alternative regulation plan. Unlike rate or return regulation, under which companies are essentially given the opportunity to receive a particular return from a captive customer base, RLECs today cannot be guaranteed a return – they can simply increase rates to approximate an equal offset for access reductions. For instance, if the Commission took a snap-shot of RLECs' revenues from access charges, and matched its rate reductions with a corresponding, off-setting retail rate increases, that would not guarantee dollar-for-dollar revenue neutrality because the number of customers a carrier has is variable. A carrier would not necessarily realize a neutral revenue impact if, for instance, it lost half of its customers. Since revenues realized vary in relation to the number of customers,

revenue neutrality cannot be interpreted to require a dollar-for-dollar impact on revenues received. The only reasonable interpretation of the term "revenue neutral" is that the Commission is assured that a carrier is capable of replacing the lost revenue from some other source, not that the carrier is guaranteed a dollar-for-dollar replacement of revenues. If a literal dollar-for-dollar replacement were required, no access reductions could ever be implemented. The relevant inquiry for the Commission, therefore, is whether RLECs can replace reduced access revenues from other sources. As discussed below, the answer is that Pennsylvania RLECs certainly can.

Q. Do the ILECs have far more services to sell to the customer base today than when inflated access rates were set?

A. Yes. As I documented in the section titled "RLECs Continue to Expand Average Revenues per User" (ARPU) of my Main Testimony starting on page 17, ILECs are expanding ARPU. All of these new services are non-rate regulated and many more services are offered over the same network on which basic local exchange service is offered than were available on that network when inflated access rates were set.

Q. Can you illustrate the services the ILECs would hope the Commission would ignore when determining if access rate reductions are necessary?

A. As depicted in the diagram attached as Exhibit JAA-5, when the ILECs' intrastate switched access rates were set back in 1984, the ILEC network provided the following regulated services: local service, some calling features, intra-LATA toll

service, switched access and a limited amount of special access services. As shown in the diagram attached as Exhibit JAA-6, the ILECs still offer all those services, including local services and intrastate access, but the ILECs have developed the ability to offer broadband, video and interLATA long distance all of which are not rate regulated. RLECs have received pricing flexibility for calling features and the service bundles that combine these non-rate regulated services with rate-regulated basic local service. Each time RLECs sell a service bundle or upgrade an existing basic local service customer to a service bundle, the RLECs revenues "attributable" to regulated services decrease even though the RLECs' customer continues to receive basic local service and the RLEC continues to receive revenues from that customer attributable to basic local service.

Q. Have you become aware of more information about the magnitude of the other revenues RLECs are able to generate on the local networks since the filing of Main Testimony?

A. Yes. I have learned the RLECs provided the total revenues generated on the local network from its customers for services other than local exchange service.[3] This data was provided for the calendar years of 2005, 2006 and 2007.

Q. After analyzing this data, how does the magnitude of the RLEC's other revenues compare to the revenues the RLECs generate from basic local service?

[3] RLEC responses to Comcast Discovery Requests 1-5, as mandated by Order Disposing of the Motions to Compel Filed By the Office of Consumer Advocate and Verizon Against the Pennsylvania Telephone Association and Embarq in Docket No. I-00040105

A. The revenue generated over the RLEC local networks from services other than local exchange service is very significant. The monthly average revenue per line excluding local exchange service for all RLECs in 2007 was **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]**.[4] When you compare to a weighted average basic local service rate for primary residential lines of **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]**[5] to average revenue from other services, you see the other services generate **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** revenue per month as the revenue from basic local service. In combination the RLECs are generating more than **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** per month from their customers.

Q. Has the monthly average revenue per line excluding local exchange service increased or decreased between 2005 and 2007?

A. RLECs continue to expand the revenues they generate from their customers on services other than basic local service. In 2007 the average per line, for all of the RLECs, from services other than basic local service was **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** in 2005. That is a revenue growth of **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** in two years.

[4] *id*

[5] Primary residential average rate calculated from date provided in PTA responses to OCA 1-4 as well as lines provided by Embarq in responses to AT&T- EQ 1-2.

Q. How does the revenues from services other than local exchange service compare to the subsidies the RLECs receive today from the PA USF and revenue generated above interstate rate levels from intrastate switched access?

A. The amount of revenue the RLECs receive from intrastate charges for switched access services above their interstate rate levels is **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]**.[6] The current PA USF subsidy is about **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]**[7] in support payments to the operations of the RLECs. By contrast, the RLECs generated approximately **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** in revenue from non-local exchange services in 2007. Clearly, the revenue from those services are significant and must be considered in determining if access reductions will be revenue neutral and whether PA USF support payments are needed at all.

Q. Do the RLECs also have substantial revenue opportunities from additional services to their customer base generating significant new revenues?

A. Yes. Generally, customers continue to purchase more and more of their communications needs from one provider. Carriers are leveraging their relationships with existing customers to sell more services. Customers recognize the simplicity of dealing with one provider, receiving one bill and often the discounts carriers offer for service bundles. As more customers recognize the value of internet connections,

[6] Mirroring Amounts from PTA's response to AT&T 1-24 and Embarq's response to Sprint 1-9 divided by access lines provided in PTA's response to AT&T 1-2 and Embarq's response to Sprint 1-2

[7] PA USF receipts from PTA's response to AT&T 1-7 and Embarq's response to AT&T 1-7 divided by access lines provided in PTA's response to AT&T 1-2 and Embarq's response to Sprint 1-2

calling features and RLEC's alternative video service offerings, the RLECs will realize greater profit margins from their existing customer bases as they provide their customer bases with more services per customer. Existing data demonstrates this trend and nothing suggests this trend with not continue.

Q. What percentage of RLEC customers could obtain broadband services?

A. As of December 31, 2006, **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]**[8] of customers could obtain broadband service from their RLEC.

Q. What percentage of RLEC customers in Pennsylvania that are offered broadband service by the RLECs have purchased broadband services from the RLEC?

A. As of December 31, 2006, **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]**[9] of customers that could obtain broadband service from their RLEC had actually purchased broadband service. The means the RLECs can generate significantly more revenue from their customer base by selling broadband service to their customers. Since this data is more than two years old, I'm sure updated data would reveal a much higher broadband penetration percentage. As shown in my Main Testimony Exhibit JAA-4, nationally Embarq reported sales of broadband service to 26.2% of all lines and 34% of residential lines as of March 31, 2009. Similarly, Frontier, Windstream, Consolidated and Denver & Ephrata reported

[8] PTA's response to Verizon 1-33 (USF) and Embarq's response to Verizon 1-33 (USF)
[9] PTA's response to Verizon 1-33 (USF) and Embarq's response to Verizon 1-33 (USF)

sales of broadband services across their systems of 25.2%, 33.7% 36.4% and 36.2%, respectively.

Q. What do we know about the additional revenues RLECs generate when they sell broadband to a customer?

A. As shown on Exhibit JAA-4 to my Main Testimony, I am aware of only one RLEC, Embarq that reports the average revenue per broadband connection publicly. In the last quarter as a separate company[10] Embarq reported $33.57 in the 1Q 2009. To determine if other RLECs generate similar revenue per connection, I visited the websites of several of the RLECs.[11] North Penn offers it's Unlimited Talk Bundle for $38.95 and one can add High Speed Internet for and additional $34 per month. Laurel Highland sells broadband as well. Its High-Speed DSL prices are $50 for 256Kb/s and $80 for 512 Kb/s. In combination with Digital Fiber Cable, Laurel Highlands customer can purchase 256Kb/s DSL service for $25 more and 512 Kb/s for $35. Palmerton Telephone offers DSL for as low as $19.95 for 384 Kb/s and as much as $39.95 for 3Mb/s. North-Eastern Pennsylvania Telephone (NEP) offers 1Mb DSL for $42.45 with the purchase of its DataVision video services and $52.45 without DataVision. Hickory Telephone Company (HTC) offers 512 Kb/s service for $45.90 without HTC TV and $35.95 with HTC TV, and offers 3 Mbps service for $65.90 without HTC TV and $55.95 with HTC TV. Consolidated offers a series of broadband speed options starting with a 1Mbps broadband service for as little as $19.95 up to a 10 Mbps service for $64.95.

[10] Embarq has recently merged with Century Tel to create Centurylink.
[11] Exhibit JAA-7 provides printouts of RLEC service offerings found on company websites.

Q. Do you believe the RLECs likely generate approximately the same amount of incremental revenue per customer per month as Embarq reports?

A. From the price points in the research of broadband offers, it is reasonable to expect the RLECs to generate approximately the same revenue per month per customer as Embarq. Some of the offers for lower speed DSL are below $33 but most of the offers are above $33.

Q. How does the average revenue for broadband service compare to average rate for residential basic local service?

A. The average rate for primary residential basic local service is **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** as much revenue per customer as the RLECs likely make on broadband service. In essence, the RLECs have added a retail service to the existing local network that generates **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** revenue per customer as the original services the network was built to provide. Clearly, the incremental services, those additional services that can now be offered over the existing local network, must be considered when determining if the ILECs switched access rates must remain at the levels that were established before the RLECs began generating most of these new revenues.

Q. How does the average revenue for broadband service compare to the average intrastate access revenue decrease that the RLECs would incur if intrastate switched access rates are set at interstate rate levels?

A. The estimated incremental broadband revenue per customer of approximately $33 is**[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** average per line reduction in intrastate switched access revenues that the RLECs would incur if the RLECs' intrastate rates would mirror their interstate rate levels. Again, the incremental revenues are so substantial that Sprint believes that they simply can not be ignored.

Q. Do the RLECs provision their broadband services over the same local network on which they provide local voice service?

A. Yes. Most of the broadband services are provisioned via DSL technology that is provisioned on the same copper network that local voice service has been provisioned on for decades.

Q. Do many of the RLECs also offer video services to their customers?

A. Yes. Most RLECs are providing video services to their local services customer base. Some are provisioning the video services over the same local network as local voice service is delivered. For example, on the HTC website, they show how 6-pair copper dropwire delivers a customer's video services, broadband services and telephone services all on one network connection.[12] Other RLECs are reselling satellite

[12] Exhibit JAA-8 provides a copy of the network diagram shown on the HTC website.

television services to their customer base. Examples of RLECs choosing this business option at this time are Embarq and Frontier.

Q. Have you attempted to estimate the value of video services?

A. No. The lack of commonality amongst the various video service offerings and the variety of channel offerings make this analysis difficult. But the RLEC video offerings are often priced higher than the RLEC broadband offers. These services are therefore also significant and can not be ignored when evaluating a RLECs need for continuing switched access subsidies.

Q. Do you believe the RLECs have already generated significant new revenues and have the opportunity to generate even more revenue that more than covers the revenue neutral provisions of Chapter 30?

A. Yes I do.

Q. Has the RLECs' cost of building broadband networks been subsidized by their competitors?

A. Yes. My understanding is that RLECs are allowed to take a favorable inflationary off-set in exchange for their commitment to build-out broadband facilities by certain benchmark dates. The favorable inflationary offset in turn ostensibly allows the RLECs to increase local rates in order to raise the additional revenue required to meet the broadband build-out benchmarks. In essence, the system set up by the legislature allowed RLECs to raise the revenues necessary for their broadband build-out from the

customer base that would ultimately purchase broadband services. Unfortunately, when the PUC imposed an arbitrary rate-cap on the RLECs, the system contemplated by the statute was broken since the RLECs lacked the ability to raise additional revenues from retail rates as envisioned by the legislature. Instead, RLECs were forced to look to the same revenue sources they had available to them before they committed to build-out broadband networks in their various alternative regulation plans. The net result is that revenues from access charges, which remain a major source of RLEC income as they are set far, far above cost, have been applied to broadband network build-out.

Q. Is the source of the funds used to construct the RLECs' broadband networks relevant to the consideration of revenues from broadband and video sources in considering revenue neutrality of revenue reductions?

A. I believe that the source of the funds is certainly relevant. The fact that broadband and video services are not only offered over the same network and use the same facilities used to provision switched access services, but that the network enhancements needed to enable such services were funded by switched access revenues calls into question how such revenues can reasonably be segregated and excluded from consideration in the context of revenue neutrality. To conclude that despite the fact that broadband and video services ride the local network for provisioning and they were enabled through funds generated on the local network, but that they should be overlooked relative to contributions to the cost of the local network or the ability to ensure revenue neutrality, is illogical.

The appropriateness of eliminating current PA USF credits on local service customers' bills and increasing access charges on access customer bills to the extent the current PA USF is reduced without replacement funding implemented.

Q. Do you agree with the premise that if subsidy funding from the PA USF is reduced, it should be replaced directly with increases in access charges?

A. No. As stated above we have absolutely no financial proof that either the subsidies currently in PA USF or the intrastate switched access rates are necessary today. Furthermore, Sprint is unaware of any reason that the Commission cannot eliminate the PA USF in its entirety without any attendant increase to funding from some other source. The PA USF was implemented as a policy decision by the Commission, and should it accurately conclude that there is no reason to have a PA USF, the Commission would be within its rights to eliminate the PA USF with no other off-subsidy increases.

Q. If some amount of subsidy is financially justified, is it better to have that subsidy collected via an explicit subsidy system or through implicit subsidies in intrastate switched access rates?

A. Explicit subsidies systems are preferred to implicit subsidies. With an explicit system such as the Federal USF programs, the customer is separately charged for the explicit subsidy in the form of a surcharge on the customer's bill. With this separate charge, the customer has more information about the charges and the actual costs of the

services they are purchasing from their provider. With a separate surcharge, the costs of subsidies are not hidden from the customer. Because current PA regulations[13] prohibit carriers from assessing a separate surcharge on the customer's bill, the PA USF is not an explicit subsidy system. If the need for a subsidy is proven, that subsidy should be collected via an explicit subsidy system in which the customer has full visibility to the subsidy transaction. PA regulations would need to be changed to permit end user surcharges.

The pool of service providers that should be assessed to contribute to universal service support in Pennsylvania

Q. Is now the time to change which carriers must contribute to the universal service support?

A. No. First of all, we have not received any information from the RLECs in Pennsylvania that would prove that the subsidies embedded in intrastate switched access rates or the PA USF are necessary to support effectuation of the public policy favoring of universal service. Until a continuing financial need is established any discussion of the pool of PA USF contributors is inappropriate.

[13] **52 Pa. Code § 63.170. End-user surcharge prohibited.**

A telecommunications service provider may not implement a customer or end-user surcharge or any other direct or indirect charge to recover any contributions to the Fund.

Issues Related to Ordering Paragraph #5 of the August 2009 Order

The impact on rural intrastate access rates and/or rate structures from any further federal action on intercarrier compensation, access, and universal service issues

Q. Can you explain the interaction between the reform the Commission has undertaken in this proceeding and any potential reform the Federal Communications Commission ("FCC"), may undertake in the future?

A. Yes. Switched access rates are too high and reform is essential to the development of a fully competitive market. All or almost all parties in the discussion agree with that fact. The question under debate is how to reform the charges. Some regulatory body will eventually decide how reform will occur. Sprint believes it should be the Commission that addresses the subsidies in Pennsylvania intrastate switched access rates. The Commission is in the best position to understand the financial strength of the RLECs operating in Pennsylvania. Sprint believes the Commission, with a full understanding these carriers financial resources, will conclude the RLECs already have sufficient financial strength as a result of all of the new services they now sell to their retail customers to relieve competing carriers of their heavy burdens to subsidize RLECs. If the Commission fails to act and leaves the reform to the FCC, the FCC will impose national, one-size-fits all reform on all states regardless of the specific needs and circumstances of each individual state. For these reasons, the Commission should act with the jurisdictional authority it possesses to reform intrastate switched access in Pennsylvania in the manner that is best for Pennsylvania customers.

Q. Is it likely the FCC will act quickly on national reform?

A. No. Although Sprint, Verizon, AT&T and many others have vigorously pushed the FCC to fix America's broken intercarrier compensation system with a national solution, such a solution has proven elusive. With the FCC's attention squarely on the expansion of broadband availability, it is unlikely that comprehensive intercarrier compensation reform will occur any time soon or resolve the problem with inflated intrastate switched access rates. The Commission is the proper agency to address intrastate access reform and should require each LEC's intrastate access rates and rate structure to mirror its interstate rates and rate structure consistent with my Main Testimony.

Whether further intrastate access charge reform is necessary in light of the elimination in Act 183 of the mandatory access reductions that were contained in the original Chapter 30 law.

Q. Do the intrastate switched access rates still need to be reformed?

A. As stated above, there is nearly universal agreement that the intercarrier compensation system is broken. The charges RLECs assess for traffic exchanges are simply too high. The intrastate switched access rates charged by the RLECs in Pennsylvania are almost always far higher than the rates charged for interstate switched access and charges for termination of local traffic - reciprocal compensation charges. Although interstate and reciprocal compensation rates are also higher than

Sprint believes is necessary,[14] the subsidies embedded in the RLEC intrastate rates are a large portion of the overall subsidies still embedded in the intercarrier compensation system in Pennsylvania.

AT&T Complaint proceeding issues

Q. Do you have anything further to say at this time to the issues identified in the AT&T's Complaint?

A. Because my entire Main Testimony responded to the issues in AT&T's Complaint, I have nothing to add at this time. Each of the issues in AT&T's Complaint was addressed in detail at that time. Please see my Main Testimony for Sprint's response to these issues.

Q. Does this complete you Supplemental Testimony?

A. Yes it does, although I reserve the right to supplement my testimony as necessary.

[14] Ultimately, Sprint believes that either bill and keep or appropriate cost based termination rates set according to the additional cost standard in 47 U.S.C. § 252(d)(2) are the best solutions for fixing intercarrier compensation. But, as Sprint advocates here, moving intrastate access rates to mirror interstate access rates in Pennsylvania is a good first step to comprehensive reform.

Exhibit JAA-5
To the Supplemental Testimony of
James Appleby in
Docket No. I-00040105 and Docket No. C-2009-2098380, et al.

Exhibit JAA-5

Before:
Caller ID , etc. , In-Region InterLATA long distance
Local Service Bundles, Broadband, Video and
Stipulated Basic Local Service Rate Increases

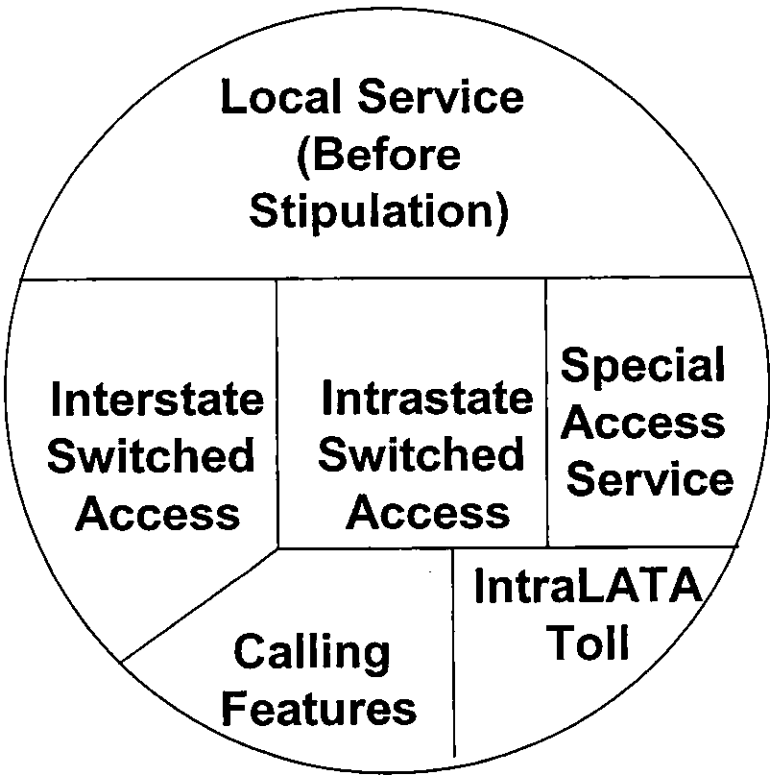


Exhibit JAA-6
To the Supplemental Testimony of
James Appleby in
Docket No. I-00040105 and Docket No. C-2009-2098380, et al.

Exhibit JAA-6

Revenue Opportunities Today Over the ILEC Local Network

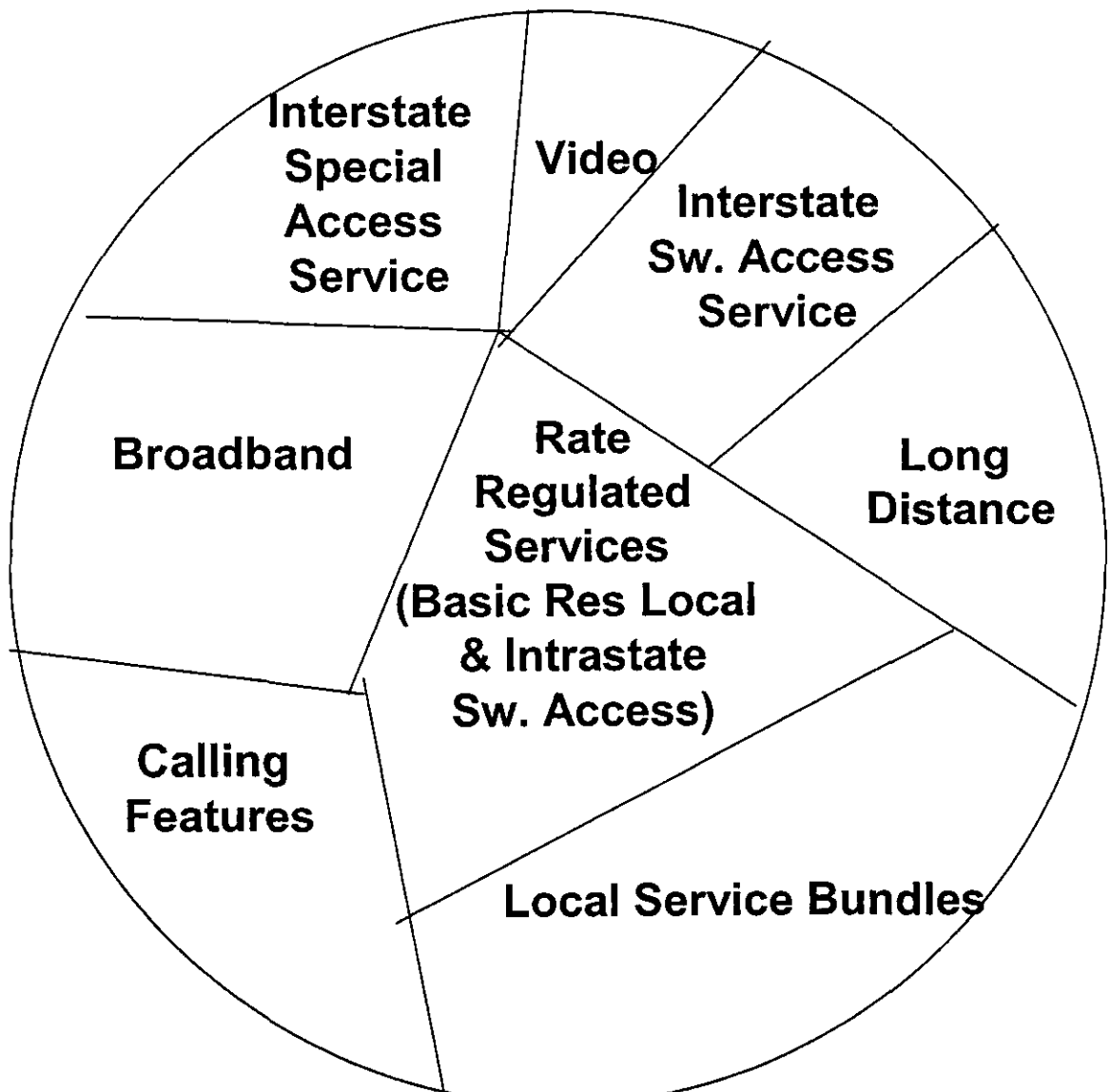


Exhibit JAA-7
To the Supplemental Testimony of
James Appleby in
Docket No. I-00040105 and Docket No. C-2009-2098380, et al.

All Printouts Obtained from RLEC websites
Website links are shown on the bottom of each print

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5 Money Saving Bundle Options Available!

1. Unlimited Talk Bundle-38.95/mo*

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★ $99.95/mo. for the first 3 months *

4. Unlimited Talk w/Digital TV Bundle-79.95/mo.*

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Available Now

- ✔ No Contracts
- ✔ Save 15% on High Speed Internet
- ✔ Actual service rates, not promotional rates
- ✔ Available to existing and new customers
- ✔ Voice Mail is FREE to all customers
- ✔ One bill convenience

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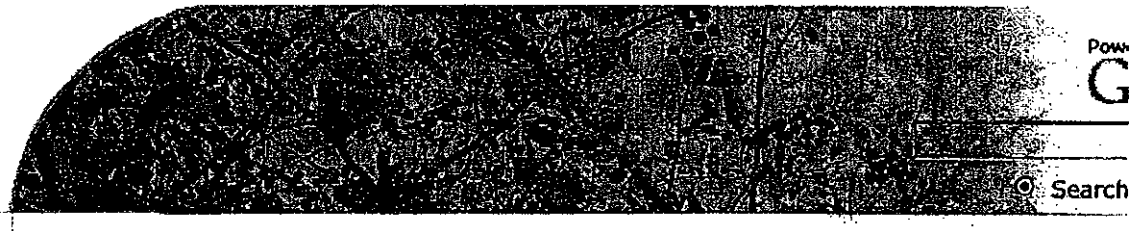
Call **800-691-9129** to Sign Up Today and begin Saving!

* Terms and Conditions
The monthly rates listed for each bundle are actual rates before taxes, fees, and surcharges that are mandated by your federal, state, county, and local governments. Bundles only available within the North Penn Telephone service areas. Bundles are only available to residential customers. Customer must subscribe to North Penn Telephone landline telephone service in order to sign up for any of the bundles. Customer account must be current and not have any outstanding balance with North Penn Telephone or any of its affiliated companies. Customer must agree to comply with the Bundle Guidelines upon signing up for a bundle. The unlimited calling does not include International calls. Some

Laurel Highland Total Communications



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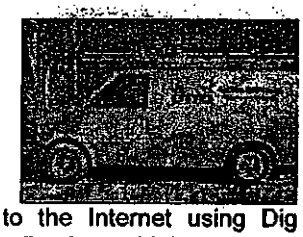
High-Speed DSL



LHTC's high-speed DSL service connects your personal computer to the Internet using Dig Subscriber Line (DSL). DSL is a technology that turns your existing phone line into a high-speed dig line. DSL enables you to transmit information faster than a standard dial-up connection*. DSL is alwa connected to the Internet - that means no more waiting while you dial up. DSL efficiently handles b your voice and data traffic securely. You can talk on the phone and surf the Internet at the same tir Your unlimited Internet service also includes 5 email addresses and a personal web page with megabytes of storage. LHTC offers its subscribers personalized technical support.

*DSL is subject to availability. Contact Customer Service to check for availability of these services in your area.

**Actual access speeds will vary. The actual speed achieved will depend on several factors including, but no limited to, weat distance, and line conditions.

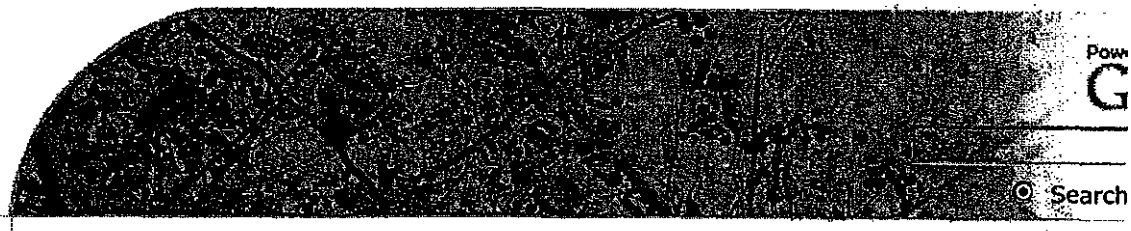
High-Speed DSL Prices

256 Kb/s - Includes 5 e-mail addresses	$50.00
512 Kb/s - Includes 5 e-mail addresses	$80.00

Note: There is a $50.00 Deposit required on the modem which is refunded after one year of on time payments or if service is disconnected and the account is current.

Customer Service
Stahlstown: 724-593-2411
Indian Head: 724-455-2411

Laurel Highland Total Communications



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Customer Service
Promotions
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Payment Options
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Check Movie Times
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High Definition Digital Fiber Cable Prices & Lineup

HD/DVR Digital Fiber Cable

- 149 Channels of Digital Fiber Cable — $71.95
  - Includes One HD/DVR set top box
  - Includes 25 HD Channels

HD Bronze Package

- 149 Channels of Digital Fiber Cable — $96.95
- Includes 25 HD Channels
- 256 Kb/s Fiber Internet

HD Silver Package

- 149 Channels of Digital Fiber Cable — $106.95
- Includes 25 HD Channels
- 512 Kb/s Fiber Internet

HD Gold Package

- 149 Channels of Digital Fiber Cable — $116.95
- Includes 25 HD Channels
- 768 Kb/s Fiber Internet

Additional HD/DVR set top box — $14.95 / mor

Premium Movie Channels

HBO Digital Package — $19.00
HBO, HBO 2, HBO Comedy, HBO Family, HBO Signature, HBO Zone

Showtime & The Movie Channel Digital Package — $17.50
TMC, TMC Xtra, Showtime, Showtime Too, Showtime Showcase, Showtime Family, Showtime Extreme, Showtime Beyond, Showtime Women, Showtime Next

Cinemax Digital Package — $12.00
Cinemax, Cinemax Action Max, Cinemax Thriller Max, Cinemax More Max, Cinemax Outer

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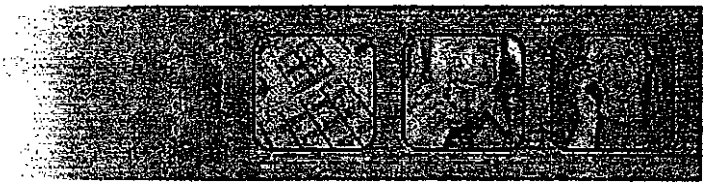

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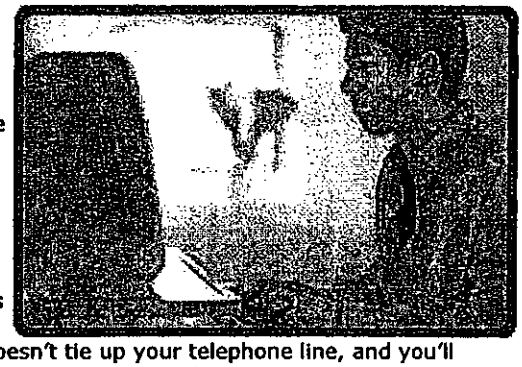
Enhanced Services
Palmerton Telephone High-Speed DSL
Lifeline Service
411 Directory Assistance
Your Rights and Responsibilities
Customer Newsletters
Long Distance Options
Order Services

Your Home

Home > Your Home > Palmerton Telephone High-Speed DSL

Palmerton Telephone High-Speed DSL - Powered by PenTeleData



Tired of tying up your telephone line while accessing the Internet? Want a faster connection? Then Palmerton Telephone High-Speed DSL Internet access from Palmerton Telephone may be right for you!

Palmerton Telephone High-Speed DSL; Powered by PenTeleData, gives you up to 3 Mbps download speeds and up to 320 kbps upload speeds. That's over 50 times faster than dial-up! DSL service offers you a constant, always-on high-speed connection to the Internet that doesn't tie up your telephone line, and you'll never get a busy signal. Just turn on your computer, log in, and you're online!

Features and benefits of Palmerton Telephone High-Speed DSL :

FEATURES:

- Speeds up to 3 Mbps
- Constant connection to the Internet
- No need for an extra phone line
- Experience no busy signals
- Network up to 5 computers on one connection, (router not included)
- 5 emailboxes per customer with 50 MB per mailbox
- Customers receive ProLog Unleashed Wi-Fi Hot Spot Internet access FREE in any Unleashed hot spot location.

With 5 speed packages priced from $19.95 a month to choose from, you're sure to find the one that's right for you.

Package Name	Download speed (Kb/s)	Upload speed (Kb/s)	Monthly Rate
Bronze	384	256	$19.95
Silver	512	256	$22.95
Gold	1,544	256	$29.95
Platinum	2,000	256	$35.95
Platinum Plus	3,000	320	$39.95

Speeds shown are maximum. Your speed may be less depending upon such factors as the length of the circuit connecting your premises to our central office. $10.00 monthly modem rental fee applies. Standard installation charges apply.

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Getting more information faster on the Internet - it is all about speed! A range of NEP DSL Internet access speeds are available to fit almost every need. When combined with NEP DataVision services, you make the power of the phone line work for you and your budget.

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A NEW higher DSL speed at a great new price. Just for you, our valued Business customer!

Faster Access Speeds to Fit Your Needs

The North-Eastern Pennsylvania Telephone Company realizes that times are changing and so is technology. To accommodate the needs of our business customers we now have a new plan designed with your business in mind!

Business Offers & Plans	Features Summary	Monthly Price
DSL - 5MB	Static IP Address 10 Email Address Free Virus Protection and Spam Filtering Our fastest DSL speed ever, you get up to 5Mbps, this speed is just right for a business or offices with multiple computers. Also included is a static IP address --- with the static IP you can access your business PC from anywhere, need to be on the road or to access your work PC from home? The static IP gives you that option. Do you have multiple employees each needing their own e-mail addresses? The new Data Deal includes 10 e-mail addresses.	$99.50
Residential Offers & Plans	Features Summary	Monthly Price
DSL - 896KB	With DataVision * Plus the cost of NEP DataVision Free Virus Protection and Spam Filtering	$22.45
	Without DataVision Free Virus Protection and Spam Filtering	$37.45
DSL - 1MB	With DataVision * Plus the cost of NEP DataVision Free Virus Protection and Spam Filtering	$42.45
	Without DataVision Free Virus Protection and Spam Filtering	$52.45

High Speed DSL

Whether you're surfing the web or connecting with friends and family, DSL makes it simple. Connect multiple computers at once and download pictures, music, and videos with ease. Unlike dial-up, DSL is always connected and it won't tie up your line.

Installation by our professional staff is free with a one-year contract (A $90 value).

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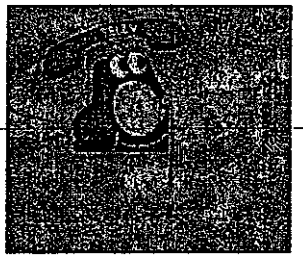
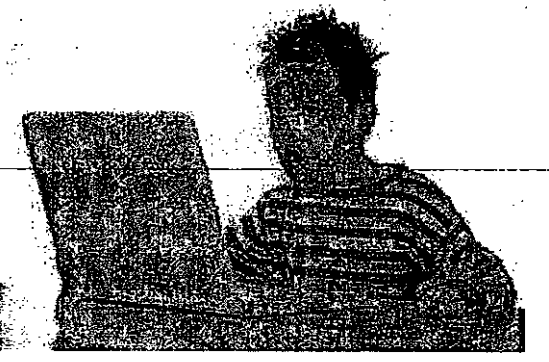
Reward Plan	$19.95	$35.95	$55.95	This rate is available with HTC TV or when you provide your own ADSL modem (you can purchase one from us for $89).
Premium Plan	N/A	$45.90	$65.90	HTC will provide an ADSL modem.

We also offer commercial high-speed services!



All packages include:

- 24-hour high-speed Internet browsing
- Free 24-hour tech support
- 5 email addresses
- Web mail
- Spam filtering
- 25 MB web space
- Access to our Online Site Creator
- Additional web space, static IP's and other options are available.



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Current rates subject to change. Service available where facilities permit. Approved credit required. Speeds are not guaranteed. An ADSL modem may be purchased from any electroni or from HTC for the price of $89.00. An installation charge of $90.00 applies (waived with a one-year contract). In some cases, customer may install the service. In this case, a $3(charge (waived with a one-year contract) will apply in place of the installation charge.
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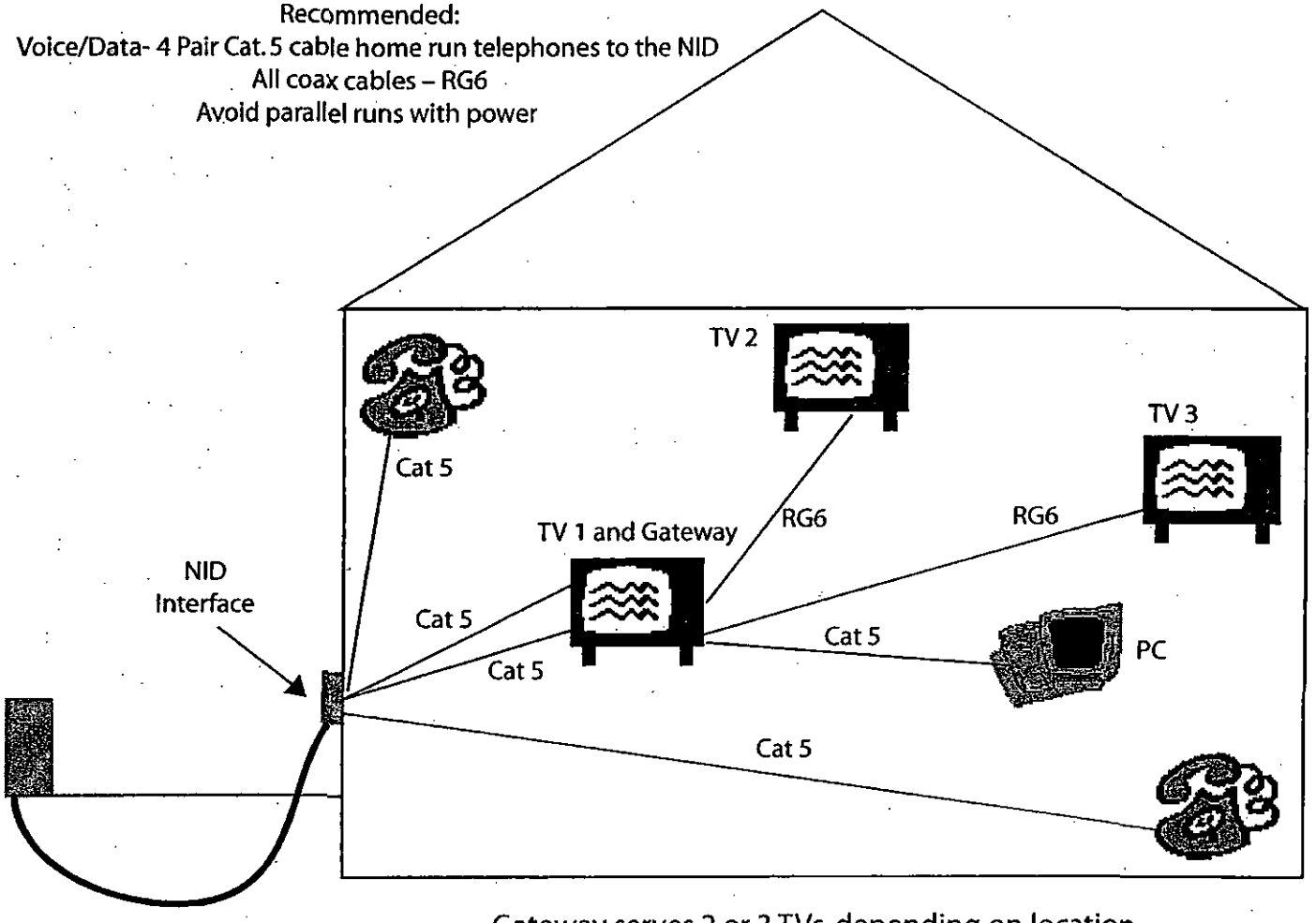
- 250 Mbps personal Web space
- Personalized Web mail at email@consolidated.net
- Access to community Web portal at myconsolidated.net
- Uses your existing phone line so you can talk and surf at the same time

*Price includes Internet access and line feature for your existing telephone. Does not include regular monthly telephone charges. Pricing for service without a landline phone is higher. Actual speeds may vary based on distance, cable condition, network capacity and factors outside of Consolidated

Exhibit JAA-8
To the Supplemental Testimony of
James Appleby in
Docket No. I-00040105 and Docket No. C-2009-2098380, et al.

Diagram was obtained from the Hickory Telephone Company website
http://www.hctv.com/wiring.pdf
Printed 10-16-09

Recommended:
Voice/Data- 4 Pair Cat. 5 cable home run telephones to the NID
All coax cables – RG6
Avoid parallel runs with power



6 Pair Underground
Or Paired
Overhead Dropwire

Gateway serves 2 or 3 TVs, depending on location.
More TVs require additional Gateways.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing Testimony upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 and 1.55, via electronic mail and first class US Mail.

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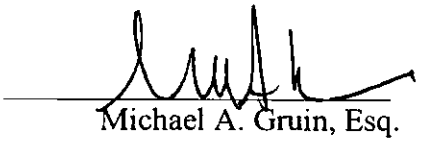
November 30, 2009



Michael A. Gruin, Esq.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REBUTTAL TESTIMONY

OF

JAMES A. APPLEBY

On Behalf of

Sprint Communications Company, L.P., Sprint Spectrum, L.P., Nextel Communications of the Mid-Atlantic, Inc., and NPCR, Inc.

SPRINT STATEMENT 1.2

PUBLIC VERSION

March 10, 2010

Q. Please state your name and business address.

A. My name is James A. Appleby. My business address is 6450 Sprint Parkway, Overland Park, Kansas 66251.

Q. Are you the James A. Appleby that submitted Main Testimony in Docket No. C-2009-2098380, et al. dated July 2, 2009 as well as Supplemental Testimony dated November 30, 2009?

A. Yes I am.

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of my Rebuttal Testimony is to respond to certain statements made by witnesses for the other parties active in the proceeding. Specifically, I will address certain statements in the Direct Testimonies of Mr. Joseph Kubas on behalf of the Office of Trial Staff, Dr. Robert Loube on behalf of the Office of Consumer Advocate, Mr. John W. Wilson on behalf of the Office of Small Business Advocate, Dr. Brian Staihr on behalf of United Telephone of Pennsylvania, LLC d/b/a CenturyLink, Mr. David Bonsick on behalf of United Telephone of Pennsylvania, LLC d/b/a CenturyLink, Joint Panel – Mr. Jeffery L. Lindsey and Mr. Mark D. Harper on behalf of United Telephone of Pennsylvania, LLC d/b/a CenturyLink, Mr. Gary Zingaretti on behalf of the Pennsylvania Telephone Association, Dr. Michael Pelcovits on behalf of Comcast, Panel - Mr. E. Christopher Nurse and Dr. Ola A. Oyefusi, Mr. William R. Eaton on behalf of Qwest Communications Company and Mr. Don Price on behalf of Verizon.

Q. Please summarize your testimony.

A. Almost all parties to the proceeding believe that intrastate access reform is needed. Another step in the Commission's transitioned reform of the intrastate access market is needed to set RLEC intrastate switched access rates and rate structure set equal to their equivalent interstate rates and structure.

Contrary to RLEC statements, consumers in all parts of Pennsylvania will benefit from access reform and the more balanced competitive market such reform will bring. Sprint is committed to being a competitive alternative to RLECs services within their service territories. RLEC's ubiquitous network obligations are not burdensome and actually provide many advantages and opportunities.

The RLECs have not proven a financial need to continue to charge high access rates. Absent financial proof, intrastate switched access rates must be reduced to interstate rate levels. RLECs should be permitted to increase their residential basic local service rates to recover reduced access revenues as limited by a local service affordability standard. RLECs should also be permitted full retail rate flexibility for bundled services if they do not already possess that regulatory freedom. The local service rate increases coupled with retail rate flexibility permit the RLECs the opportunity to replace their access revenues.

RLECs are currently using rate regulated service revenues to fund non-regulated service deployment which is strictly prohibited. This practice must be halted by controlling the source of the overcharges, high intrastate switched access prices.

It is Time to Take another Step in the Reform of Pennsylvania Intrastate Switched Access Rates

Q. Do most of the parties in this proceeding agree intrastate access should be reformed?

A. Yes. Collectors of switched access charges believe reform is needed. The Pennsylvania Telephone Association ("PTA") is supportive of reasonable access reductions.[1] Payers of switched access rates, AT&T,[2] Verizon,[3] Comcast, Qwest[4] and Sprint[5] all believe reform is very much needed. And finally, the Office of Consumer witness, Dr. Loube explains the current system should be reformed because it is inequitable and subject to regulatory arbitrage.[6] Most parties in this proceeding agree we have an issue that must be addressed, but the parties disagree on how that reform should occur.

Q. How long has it been since the Commission last addressed the intrastate switched access rates of the RLECs in PA?

A. By the time the hearing in this proceeding are complete, it will be nearly 7 years since the Commission last required the reduction of the intrastate access rates of the RLECs.

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[1] Direct Testimony of Mr. Gary Zingaretti on behalf of the Pennsylvania Telephone Association – page 3 lines 2-7

[2] Panel Direct Testimony of E. Christopher Nurse and Dr. Ola A. Oyefusi on behalf of AT&T – page 5 line 21-23

[3] Direct Testimony of Don Price on behalf of Verizon – page 3 line 8-13

[4] Direct Testimony of William R. Easton on behalf of Qwest Communications Company – page 1 line 5-7

[5] Corrected Main Testimony of James A. Appleby on behalf of Sprint – page 4 line 15-17

[6] Direct Testimony of Dr. Robert Loube on behalf of the Office of Consumer Advocate – page 7 line 8

Q. What has changed in the telecommunications market in the last 7 years?

A. Nearly everything has changed. The telecommunications market has dramatically changed such that RLECs now offer a full slate of services over their exchange access network from which to recover their network costs (i.e. local, toll, long distance, high speed internet, and other services). Wireless service has gone from a convenience to a necessity for most consumers. Cable television providers have expanded their service portfolio to include all-distance cable telephony service in most parts of their franchise footprints. High-speed internet connections have more than tripled since Pennsylvania's last look at intrastate switched access. And finally, the long distance market has completely changed during that time. I will discuss the changed long distance market in detail later in this testimony.

Are Competitive Carriers Attempting to Receive a Free Ride on RLEC Facilities?

Q. Do you agree with Mr. Kubas's that competitive carriers are attempting to become "intrastate freeloaders" via their proposal to shift the common line expense from carriers to the customer[7]?

A. No. I think Mr. Kubas's conclusion that any competitive carrier is an "intrastate freeloader" is grossly inaccurate. I later herein discuss certain other reasons that this statement is grossly inaccurate, but here I want to set forth the manner in which the local loop expense is incurred as I think it is essential to recognize the extreme illogic underpinning the access rate structure in Pennsylvania. The entire loop expense –

[7] Direct Testimony of Joseph Kubas, Office of Trial Staff, Page 13, Line 8 – Page 14, line 4.

100% - is incurred as soon as a customer orders basic local service.[8] That expense never increases with usage. The entire cost of the local loop is created and should be paid by an RLEC's local customer.

Q. Is this merely your opinion?

A. No. While it is certainly my opinion, it is also the opinion of the FCC (and many state commissions and respected economists) and quite simplistic to illustrate factually. Turning first to the FCC's statements on the matter, the FCC has shifted the local loop expense to the end user and it has done this because the end user is the cost-causer. In an order from 1983, the FCC indicated that

> "[a] subscriber who obtains a line to a local dial switch or a manual switchboard necessarily obtains access to interstate as well as local services. The cost of that access has traditionally been described as non-traffic sensitive because such costs do not vary with usage. A subscriber who does not use the subscriber line to place or receive calls imposes the same NTS costs as a subscriber who does use the line. A subscriber who does not make local calls would normally pay a flat fee for the exchange portion of such costs. Imposing a flat change for the interstate portion of those costs is equally reasonable. Any other procedure violates the general principle that costs should be recovered from the cost-causative ratepayer whenever it is possible to do so"[9]

Thus, as you can see, the FCC's has concluded that (1) end users cause 100% of the local loop expense, and (2) costs should be recovered from the cost-causer (here the end user) whenever possible.

[8] As discussed in detail later, RLECs are now selling DSL service without requiring the customer to also buy basic local exchange service. In those cases, the loop cost is caused when the customer purchases DSL service.

[9] MTS and WATS Market Structure, CC Docket No. 78-72, Third Report and Order, Phase 1, 93 FCC 2d 241, 278 (1983); recon., 97 FCC 2d 682 (1983), second recon., 97 FCC 2d 834 (1984)("1983 Access Charge Reform Order").

Q. Can you provide some examples illustrating the inequity of the Pennsylvania carrier charge and how it violates the principles of cost-causation?

A. Certainly. Take for example an RLEC customer who orders basic local service, but never uses the landline phone. This customer has a wireless phone and uses that wireless phone exclusively for inbound and outbound calls. The entire cost of the local loop was generated by the customer when local service was ordered, even though the local loop is unused by the customer. Due to the structure of access rates in Pennsylvania, those carriers that Mr. Kubas alleges are getting a free ride, pay for a portion of the local loop via the Carrier Charge even though their customers never use this local loop. In this example it is the RLEC customer and the RLECs that are getting the free ride.

If we next adjust this example to say that this customer orders both basic local service and DSL service. The customer continues to make all inbound and outbound calls via the customer's wireless phone, but does use the DSL regularly. In this example, the illogic of the Pennsylvania access structure becomes even more obvious. As with the example above, due to the structure of access rates in Pennsylvania, competing carriers are forced to pay for a portion of the local loop via the Carrier Charge even though their customers never use this local loop. In this example the situation is even more untenable because the customer is also receiving direct subsidization for his DSL service by virtue of that fact that the DSL service is delivered over a line that is partially paid for through the Carrier Charge assessed on competing carriers that never make use of that local loop, while, the DSL makes use of the line for free.

One likely criticism of the examples above is that they indicate zero usage of the local loop for telephony, which some might argue is too extreme an example. Thus, I will now offer an example that portrays a common real-world use of the local loop. Let us suppose that the customer in this example order both basic local service and a DSL from his RLEC. This customer also has a cell phone and uses the cell phone as his or her primary line. This customer does not subscribe to a long-distance carrier over his local loop because he places all of his own non-local calls using his or her cell phone as such calling is not billed separately by his cellular carrier and is free during certain hours. While some small percentage of the traffic on this line may be comprised of inbound, non-local calling, the majority of the traffic on this line is in fact local because the customer does not have a long-distance carrier for outbound calling and receives most calls on his or her cell phone. Despite the calling pattern, the RLEC and the customer bear none of the expense of the local loop due to the access rate structure in Pennsylvania. As with the examples above, competing carriers are forced to pay for a portion of the local loop via the Carrier Charge even though their customers rarely or never use this local loop. In this example the untenable direct subsidization for the DSL service remains because the DSL is delivered over the local loop and never pays for the usage of the local loop, and the local loop is being paid for, in part, through the Carrier Charge assessed on competing carriers that rarely or never make use of that local loop.

In light of the above discussion, it is apparent that not only is Mr. Kubas wrong about competing carriers receiving a free ride, the access rate structure in Pennsylvania extracts a subsidy for RLEC broadband service.

Q. If the carrier charge does not lead to the free ride Mr. Kubas alleges, why is Sprint's mirroring proposal so strongly opposed?

A. This case is not really about getting a free ride. To the contrary, this case is about ensuring that multi-modal telecommunications competition in Pennsylvania is fostered and promoted. This is a statutory goal assigned to the Commission by the legislature. The mirroring proposal Sprint advocates is an effective means to accomplish this statutory goal. Part of Sprint's proposal is familiar to RLECs since mirroring traffic-sensitive access rates to interstate levels is not a new concept in Pennsylvania. In fact, CenturyLink's traffic-sensitive rates already mirror interstate rates, and the PTA carriers agreed to mirror their traffic-sensitive interstate rates in 2000 and 2003.[10] Mirroring traffic-sensitive interstate rates will have a zero dollar impact on CenturyLink and accounts for only 16.3% of the impact of mirroring based on PTA's calculations.[11]

The majority of the dispute in this case centers on eradicating the anachronistic carrier line charge. Despite all logic and reason, Pennsylvania persists on forcing competing carriers to subsidize the RLECs through common line costs improperly

[10] *See* Prepared Direct Testimony of Gary M. Zingaretti, PTA, at 15.
[11] *Id* at 16 (reference table between lines 10 and 11).

allocated for payment to competing carriers instead of the cost causer – the local customer. Dr. Brian Staihr, who testifies in this case on behalf of CenturyLink, has testified in the past regarding the extreme illogic of assigning loop costs to competing carriers. In a 1999 Kansas proceeding, Dr. Staihr testified: "Under the [then] current allocation method a customer pays for part of a loop every time he or she makes a toll call through access charges. It is *inefficient, uneconomical, and unfair* to recover loop costs this way ... [I]n fact it makes more economic sense to recover the loop cost as part of basic local service than through any other means currently available."[12] Sprint agrees with Dr. Staihr and with the FCC when it urges the Commission to recognize that 100% of the loop cost is caused by the local customer when the loop is ordered, and 100% of the loop cost should be recovered from the cost-causer – the RLEC customer. Any suggestion of a half-measure, such as merely shifting the carrier charge subsidy into the PA USF, fails to address the problem and will merely perpetuate "inefficient, uneconomical and unfair" loop cost recovery.

Q: Are there any other ways to demonstrate how wrong Mr. Kubas statement is?

A: Sure, I will give several other examples. My wife used our home telephone to order a new sofa from a mail-order furniture store located in a different state. Under Mr. Kubas "theory" the furniture store got a "free-ride" on my local telephone loop because it used my loop to sell me a sofa. For that matter, the sales-person got a free-ride on my loop because he used my loop to get a commission on the sofa he sold.

[12] Rebuttal Testimony of Brian K. Staihr on behalf of CenturyLink (then Sprint), May 24, 1999 at p. 6 (emphasis supplied). Kansas Docket No, 99-GIMT-326-GIT, *In re Investigation into the Kansas Universal Service Fund (KUSF)) Mechanism for the Purpose of Modifying The KUSF and Establishing a Cost-Based Fund*, attached hereto as Exhibit JAA-1R

And the manufacturer of the sofa got a free ride, too. Under Mr. Kubas "theory" the furniture store, the salesperson, and the sofa manufacturer should pay the phone company for the loop because they all used it.

Q: Are there any other ways to demonstrate that Mr. Kubas "free ride" theory is nonsense?

A: Yes. I bought a book by online at Amazon.com using my high-speed internet access loop (which just so happens to be the same loop my wife used to make the call to the furniture store). Under Mr. Kubas "free ride" theory, Amazon, the publisher of the book, and C.S. Lewis all got a free ride on the loop and they should all pay for their use of the loop.

Q: Can you provide any other examples that illustrate that Mr. Kubas free ride theory is nonsensical?

A: Absolutely. If Mr. Kubas was to be consistent, he should be advocating for the local telephone companies and IXCs to pay about 20 years worth of carrier access charges to wireless providers for use of the wireless network and spectrum because under his theory, these local telephone companies and IXCs have enjoyed a long "free ride" on the wireless carriers' networks since they pay nothing for terminating non-local calls to the wireless carriers' networks. The prevailing point I make is really quite simple: carriers don't use loops, people use loops. Nobody, except for the ILECs assessing their ancient, unjustified carrier charges, is getting a free ride.

RLECs Have Attempted to Turn This Proceeding into a Rate Case but Have Failed to Produce the Financial Information to Prove Their Case

Q. Why were intrastate switched access rates set so high?

A. Back when RLECs were the only provider of local exchange service and interexchange carriers were the only providers of interLATA toll service, RLECs regulated by rate of return regulation submitted financial information that indicated the regulated price of local service was insufficient to recover the cost of the local network. Under monopoly-era policies intended to promote universal service, regulators limited the amount RLECs could charge for local exchange service despite the knowledge that they were setting below-cost local rates. To offset below-cost local rates, regulators permitted RLECs to collect the remaining revenue requirement through intentionally inflated intrastate switched access rates set well above the cost of providing switched access functionality. Thus, access rates were set high to subsidize basic local exchange service and thereby promote universal service by ensuring low (below-cost) local rates. This regulatory approach was developed during a time when regulators had few sources to look to in order to subsidize artificially suppressed local rates. Until the fairly recent past, local and long distance calling were in fact the only services offered over the local network.[13]

Q. Do the RLECs still offer mainly basic local exchange service over their networks?

[13] See Supplemental Testimony of James A. Appleby, Exhibits JAA-5 and JAA-6.

A. No. RLECs now offer a wide variety of custom calling features, long distance service, high speed internet and sometimes video entertainment all over the same local network. [14]

Q. Now that the RLECs provide all of these new services on the local network, shouldn't the RLECs be required to show those services still don't permit full recovery of the cost of the local network?

A. Yes. At one point, under rate-of-return/rate-base regulation, the RLECs were required to prove a financial need for the subsidies embedded in their intrastate switched access rates. Regulators would carefully weigh and measure revenues versus expenses and set rates to ensure an adequate, but not excessive return on investment. Today, however, all Pennsylvania RLECs are operating under alternative regulation plans and are no longer subject to rate-of-return/rate-base regulation.[15] Today, as OTS witness Kubas state, "RLECs are free to make as much profit (or absorb as much loss) as they can ..."[16] In light of the regulatory freedom RLECs enjoy, it now makes sense that before permitting the RLECs to continue collecting overcharges from their competitors, either in the form of distributions from the PA USF or through inflated intrastate access rates, the RLEC must be required to prove that their residential basic local services are provided below cost and the retail services the RLECs provide over their local network do not permit the full recovery of the cost of all retail services. Absent

[14] Supplemental Testimony of James A. Appleby on behalf of Sprint - page 19 line 17-22; Exhibits JAA-6 and JAA-8.
[15] *See* Direct Testimony of Joseph Kubas at Page 20, lines 16-20.
[16] *Id.*

such proof, the Commission must determine that RLECs should no longer be permitted to burden others with high switched access rates.

Q. Have the RLECs provided any financial analysis that could be considered proof the millions of dollars of access overcharges are subsidies that are still necessary?

A. No. There is not one piece of financial data in the record to demonstrate to this Commission that the RLECs have a financial need to retain the access overcharges. Mr. Kubas correctly points out that the basic local exchange service rate may already be above the cost for some or all RLECs.[17] Absent a showing to the contrary, it would be incorrect to assume the inflated access rates represent anything other than excess RLEC profits. Comcast witness Mr. Pelcovits also believes a need for subsidies must be proven.[18]

Q. Has Sprint asked the RLECs to produce the financial data necessary to prove the access overcharges provide a necessary subsidy that RLECs need to retain?

A. Yes. Sprint has asked the RLECs to produce a cost study of local service; the RLECs did not provide such studies.[19] Sprint asked the RLECs to produce a cost study for intrastate switched access services in Pennsylvania and the RLECs did

[17] Direct Testimony of Joseph Kubas on behalf of Office of Trial Staff – page 11 line 3-7
[18] Direct Testimony of Michael D. Pelcovits on behalf of Comcast Phone of Pennsylvania, LLC and Comcast Business Communications, LLC – page 20 line 6-7
[19] PTA Response to Sprint-PTA 2-1; CenturyLink Response to Sprint-CTL 2-1

not provide these studies either.[20] Sprint asked the RLECs to produce the total revenues and total expenses for providing retail services and again the RLECs refused.[21] I conclude the RLEC financial information must not support the RLEC contention that subsidies are needed or the RLECs would disclose the results.

Q. Lacking all of the necessary data to do a complete analysis of the financial position of the RLECs, what have the access purchasers produced in support of their belief the RLECs no longer need the high intrastate access rates?

A. The access purchasers have provided information that contradicts the RLEC contention that they must retain all of the access overcharges in the form of inflated switched access or PAUSF. The purchasers specifically provided the following:

- Sprint provided the average revenue per user data that the publicly traded RLECs have communicated to their shareholders.
- Comcast obtained discovery (and Sprint supplemented this request) from the RLECs showing the average retail revenue generated by the RLECs from services other that local exchange service, that are provided over the same facilities.
- ~~Sprint~~ AT&T explained the magnitude of the merger synergies that are created when RLECs combine and are able to eliminate redundant expenditures.

[20] PTA Response to Sprint-PTA 2-2; CenturyLink Response to Sprint-CTL 2-2
[21] PTA Response to Sprint-PTA 3-3; CenturyLink Response to Sprint-CTL 3-3

Each of these pieces of data explains the significant change the RLECs businesses have gone through since access rates were last reviewed and generally the financial strength of the RLEC's operations.

Q. Although each RLEC possess all of the financial information necessary to definitively demonstrate whether there exists any need to maintain inflated access rates, what information have the RLECs provided instead?

A. The RLECs submitted limited information that shows only what they want the Commission and the parties to this proceeding to see of their operations. The RLECs also resort to scare tactics to persuade the Commission not to act. Specifically, the RLECs have made the following showing:

- Instead of submitting a CenturyLink specific local service cost model as it has in access reform dockets in other states, CenturyLink simply points to the local service cost study produced by OCA in the prior proceeding at Docket No. I-00040105.[22] With a few minor adjustments, the OCA model apparently produced results CenturyLink liked.[23] However, the Commission can not assume this model provides an accurate portrayal of CenturyLink's cost or that of any other RLEC. In fact, CenturyLink agrees

  "Any potential policy arguments seeking to adjust Embarq's existing rates and revenues (e.g., intrastate switched access rates) or to reduce Embarq's current

[22] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 24 line 11-14 and footnote 3

[23] As described later, the price of CenturyLink's Pure Broadband service suggests the true cost is far less than the CenturyLink adjusted OCA cost model result.

draw from the PA USF (as some parties have suggested) would necessitate such a more accurate, Embarq-specific model."[24]

- The RLECs have explained that competition has taken away a significant number of access lines.[25] The RLECs do not, however, acknowledge that their average revenue per customer has increased since their access rates were last reviewed.
- CenturyLink boldly states that displaced access revenues can not be recovered from retail revenues, ever.[26] While CenturyLink would of course prefer that its competitors continue to help fund them forever, at some point the high access rates, which may or may not be subsidy, must come down. As ALJ Schnierle stated regarding access charge reform: "In short, politically unpopular though it may be, rate rebalancing is required, along with access charge reductions, if there is to be competition for all customers in all locations, and if urban customers are not to be saddled with excessive universal service fund costs."[27]
- The RLECs explain there is a high cost associated with the Carrier of Last Resort ("COLR") obligation. Yet, none of the RLECs can quantify this cost or even suggest how one might go about collecting the data to calculate it.[28]

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[24] See the Proprietary Rebuttal Testimony of Christy V. Londerholm filed in a previous phase of the proceeding Docket No. I-00040105 page 5 line 19-22, a copy of which is attached hereto as Exhibit JAA-13R

[25] Direct Testimony of David Bonsick on behalf of CenturyLink – page 9 line 14-19

[26] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 26 line 1-4

[27] In Re: Intrastate Access Charge Reform, Docket No. I-00960066, Recommended Decision, June 30, 1998 at page 28

[28] Direct Testimony of Gary Zingaretti on behalf of PTA – page 29 line 17-20

- The RLECs threaten that if the Commission does not sufficiently fund COLR and universal service,[29]
    - Broadband won't be built out in accordance with Act 183,
    - Rural rates will increase by multiples,
    - Lower income folks will leave the network, and
    - Jobs will be lost and the public interest is disadvantaged.[30]

The Commission must see through these hollow threats that have no financial foundation. State Commissions and State Legislatures across the country have taken intrastate access rates to interstate rate levels without making basic local rates unaffordable.[31] Reform can work in Pennsylvania as well.

Q. Is the Office of Trial Staff's witness correct that AT&T has not proven its case because it did not produce an access cost of service study?[32]

A. Of course not. AT&T as a purchaser of access services can not be expected to have the financial information necessary to produce an access service cost study for a RLEC. Only the RLECs possess this information.

Q. If the Commission permits the RLECs to continue to charge high access rates without proving a need for subsidy, what happens to the Pennsylvania consumers?

[29] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 28 line 17 to page 29 line 8
[30] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 6 line 13-16
[31] Corrected Main Testimony of James A. Appleby on behalf of Sprint - Exhibit JAA-1; Panel Direct Testimony of E. Christopher Nurse and Dr. Ola A. Oyefusi – Exhibit I
[32] Direct Testimony of Joseph Kubas on behalf of the Office of Trial Staff – page 9 line 19-21

A. The consumers of Pennsylvania will continue to pay prices for retail services - other than basic local service – that are inflated to cover the excessive profits built into the RLECs' access rates. Pennsylvania consumers will also suffer other negative effects from high access rates as companies will have less money to invest in expanding service areas, new services, new devices, etc. To protect the consumers of Pennsylvania, the RLECs must be required to prove financially that subsidies are necessary. If the RLECs can not prove a financial need, the high access rates are not a subsidy at all, they are simply excess profits for the RLECs and the consumers of Pennsylvania should not continue to be burdened by excess RLEC profits.

Q. Absent financial proof the RLEC access overcharges are subsidy, could the consumers of Pennsylvania be protected in another way?

A. Yes. The Office of Trial Staff's witness apparently believes RLEC overall profitability is irrelevant.[33] However, if the Commission does not want to investigate whether the RLECs need access overcharges, the Commission can permit the marketplace to constrain RLEC profits by exposing the inflated access revenue to the discipline of the marketplace. By requiring RLECs to replace their access overcharges with revenues received through the prices they charge for retail services, instead of through "hidden taxes"[34] in access charges or a "universal service" fund, consumers will be provided information about the RLECs costs of retail services. The consumers can use this improved information

[33] Direct Testimony of Joseph Kubas on behalf of Office of Trial Staff – page 20 line 15-20

[34] ALJ Schnierle used this term to describe high access rates. In Re: Intrastate Access Charge Reform, Docket No. I-00960066, Recommended Decision, June 30 1998 at page 6

to pick the provider that fits their needs best. It also bears noting that to the extent access revenues represent overcharges rather than a subsidy, there would be no need for RLECs to raise rate in any event.

The Long Distance Market Has Changed but Remains Burdened By High RLEC Intrastate Switched Access Rates

Q. How has the mass market for retail long distance services changed?

A. Significant market changes have greatly diminished the role of stand-alone long distance service providers. First, the ILECs gained the ability nationally to sell in-region long distance services and quickly recognized the value of bundling the long distance service with local voice service. Second, the IXCs lost the ability to purchase TELRIC based unbundled network elements (commonly referred to as UNEs) as a package to offer their own package of local and long distance voice service.[35] Third, wireless carriers began offering voice packages in blocks of time that did not distinguish local and long distance. Finally, cable providers recognized they possessed the technology necessary to add voice service over their networks built for video service, and began offering all distance packages of voice service. All of these factors combined to cause stand-alone long distance offerings from IXCs to lose favor in the market. Intermodal competitors, wireless and cable telephony providers, that were able to match the ILECs' total voice package gained favor. Because ILECs have the ability to offer long distance in combination with the legacy local voice service, a

[35] Dr. Loube agrees the loss of UNE-P greatly impacted traditional IXC operations. - Direct Testimony of Dr. Robert Loube on behalf of OCA – page 63 line 6-10

majority of ILEC local voice customers now purchase long distance service from their ILEC or its affiliated long distance provider.

Q. Do all provider of Long Distance services bear an equal access expense burden?

A. No. In particular, the two most prevalent intermodal competitors - cable telephony and wireless carriers – are highly exposed to the high costs of the RLEC's intrastate access rates. Other ILECs offering the package of local and long distance voice service within the state are also exposed to the high intrastate switched access rates of their neighboring ILECs. As long as all of the ILECs charge high rates, to themselves and to their intermodal competitors, they don't advocate for access reform. However, if one or two of the ILECs have their intrastate access charges decreased, those ILECs will undoubtedly advocate for the reform of the other ILECs' rates. The two intermodal competitors, cable telephony and wireless (as well as the traditional IXC for reasons discussed later) advocate for access reform. Like an ILEC that had its access rates reduced, cable telephony collects far less than the RLECs which have high rates. Wireless carriers collect nothing at all when a long distance call terminates to its customers. All of the carriers are net payers to the RLECs because of the RLECs' high access rates. The net payment disparity must be recovered by competing carriers from their own customers.

Q. Contrary to the assertions of several parties in this case, are high RLEC switched access rates discriminatory and anti-competitive?[36]

A. Yes. The RLECs' ability to charge rates far above the rates other providers can charge to serve the same service area makes the RLECs charges discriminatory and harmful to competition. Wireless carriers are always at a disadvantage because they are not permitted to charge access rates at all. Cable telephony providers and CLECs in general are permitted to charge the same rate level as the RLECs but billing the exact rate level of each RLECs requires the CLEC to match usage with the service territories of the RLECs it competes against. This matching process is very difficult to implement since CLECs most often provide service across many service territories. Unlike an RLEC, which is not permitted to provide service outside its service territory, a CLEC will provide services in multiple service territories. The RLECs' uniformity of access rates in their service territory is in stark comparison to the CLEC service area. For CLECs to charge multiple access rates across the area they serve, those CLECs would have to develop billing systems that could accurately track calls based on RLEC service area, and this is not the standard practice within the industry. Instituting such a practice would represent a non-standard investment that few if any CLECs make. As a result, most CLECs simply charge the rate of the largest ILEC[37], thus creating a competitive disadvantage for CLECs compared to the RLECs as well.

[36] Direct Testimony of Dr. Robert Loube on behalf of OCA – page 38 line 3-10; Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 35 line 7-11; Direct Testimony of Gary Zingaretti on behalf of PTA – page 46 line 1-4

[37] Typically, the largest ILEC will have the lowest switched access rate. Thus, charging that rate for all calls ensure that a CLEC does not over-bill for any calls. Unfortunately, this also means that for many calls the CLEC will *under-bill* for the call.

Q. Have the traditional IXCs maintained a dominant role in the enterprise services market?

A. Yes. The traditional IXCs still are the primary service providers in the enterprise business and governmental entities markets. These enterprise and governmental entities have high demands for data services and their voice service needs can be provided by the IXCs as well. By providing the voice needs of these enterprise and governmental entities, the IXCs remain exposed to the intrastate switched access rates of the RLECs.

Q. Given all of the background about the evolution of the IXCs role in the long distance market, are you surprised the IXCs have ceased marketing stand-alone long distance service to the mass market?

A. No. Sprint and other IXCs have recognized the transition of the long distance market. IXCs understand they can no longer compete effectively with a stand-alone offering in the mass market. But that does not mean the long distance market no longer exists.[38] As explained above, the long distance market has been subsumed by the all-distance offering of a variety of providers. The high access rates of the RLECs are adversely impacting the competition in today's long distance market.

Q. Does the fact that long distance carriers' role in the market is changing mean that their the customers will not benefit from access rate reductions?[39]

[38] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 36 line 18 to page 37 line 1

[39] Direct Testimony of Gary Zingaretti on behalf of PTA – page 38 line 4 to page 39 line 9

A. No. Access rate reductions will accrue to the benefit of consumers of all carriers that are competing in the all-distance voice service market. All LECs, cable telephony providers and wireless carriers will view access reductions as opportunities to increase market share by passing those input cost savings onto customers in the form of price reductions. The carriers could also use the savings to expand service coverage, improve service quality, improve customer care or develop new products and services the customers will want. All of those potential consumer benefits are enabled and enhanced by making the RLECs' access charges reasonable for intrastate switched access service.

Q. Mr. Zingaretti argues that access reductions to wireless and cable telephony coupled with local rate increases is a lose/lose for RLECs and their customers.[40] Is that accurate?

A. No. I have explained that the asymmetric switched access rates of the RLECs currently provide a competitive advantage to the RLECs,[41] so if the Commission corrects the competitive imbalance caused by these charges, cable telephony and wireless carriers will improve their footing in the increasingly competitive markets relative to the RLECs. RLECs will have to increase their focus on competing for end user customers and reduce their focus on trying to defend their access overcharges. I strongly disagree with his belief that RLEC customers lose. Competition is good for

[40] Direct Testimony of Gary Zingaretti on behalf of PTA – page 44 line 14 to page 45 line 2

[41] *See also* Direct Testimony of Michael D. Pelcovits on behalf of Comcast Phone of Pennsylvania, LLC and Comcast Business Communications, LLC – page 12 line 7-11 ("Therefore, to the extent that the RLECs are permitted to assess excessive access charges on their direct competitors, RLECs enjoy an artificial competitive advantage which will reduce the intensity of competition to the detriment of the public that resides in their home markets.").

consumers, if the RLEC competitive advantage caused by high access rates is reduced, the customers will see better offers in the market from competitors. Access rates set at interstate rate levels, which are closer to cost will permit more robust competition in today's all-distance market as described in detail above.[42] The Commission's role is not to favor any carrier over another, but to create an environment in which ALL Pennsylvania consumers benefit. Access overcharges reflect monopoly era policies favoring certain services (and by proxy certain carriers) at the expense of others. In the modern telecommunications market, such a policy is unnecessary, has anticompetitive results and injures consumers. If such a policy is warranted at all in the modern market, the policy itself must be effectuated in such a manner as to actually address the specific problems with which the Commission is concerned. Otherwise, the solution – access overcharges – becomes a problem that is perhaps larger than the issue(s) it is intended to address.

Access Reform is Best for the <u>all</u> Pennsylvanians

Q. If we have one set of providers, RLECs, charging much higher access rates than other ILECs, cable telephony providers and wireless carriers, don't the RLECs have a competitive advantage?

A. Yes. There is no doubt that the inflated intrastate switched access rates of the RLECs inflate the costs of the other providers in the market. The cable telephony and wireless carriers attempting to compete head-to-head with an RLEC within its service

[42] "Access charges must be closer in magnitude to access costs for there to be true competition in the toll market." In Re: Intrastate Access Charge Reform, Docket No. I-00960066, Recommended Decision, June 30, 1998 at page 24

territory are at a competitive disadvantage because those carriers are net payers of intrastate access charges to the RLECs. Similarly, the costs of other ILECs offering long-distance services are also inflated, causing their retail rates to be higher than they would be without the RLECs high access charges.

Q. The RLECs urge the Commission to protect the consumers in rural Pennsylvania by not reforming the access rates. Aren't they really asking to retain their competitive advantage in their service territories?

A. Yes. As long as the intermodal competitors, cable telephony and wireless providers must pay more to complete calls to the RLEC customers than they collect when RLEC customers call the intermodal customers, the intermodal carriers and long-distance carriers are at a competitive disadvantage, not caused by inferior service or business acumen, but instead by out-dated, monopoly-era, incumbent-favoring regulations. The net result is that consumers will pay higher retail rates for non-RLEC services that are available in their markets. While it is convenient for RLECs to accuse other carriers of seeking to shift the cost burden to consumers, the truth is that other carriers are only asking that consumers be allowed to make choices based on an accurate representation of the cost-of-service. Access charges make RLECs' service appear imminently affordable relative to other competitive options. This illusory cost-of-service information influences consumers to purchase services that may be more expensive in fact, but appear inexpensive due to the operation of regulatory fiat rather than competitive forces. Allowing consumers to make choices based on unsubsidized cost-of-service information will encourage adoption of

services on an economically rational basis rather than on an illusory pictures created by a regulatory scheme.

Q. If the Commission permits the RLECs to continue to charge high access rates without any financial justification for those rates, isn't the Commission choosing to favor one type of provider in a market over the other providers?

A. Yes. The Commission is favoring the incumbent wireline provider over wireless and competitive wireline providers. A decision favoring one segment over another is inconsistent with the Legislature's mandate. The market should determine the winner not governmental intervention.[43]

Q. Is CenturyLink correct that on-net rural consumers will be harmed by access reform?[44]

A. No. Consumers are better served by more choice and better information. Reasonable access rates will help balance the competitive playing field for service providers and reveal the hidden transactions and the hidden taxes[45] that have been buried in RLEC access rates. Inflated inputs imposed by the incumbents inflate the retail prices of competitors. In turn, this allows the incumbents charging the high access rates to maintain retail prices lower than they would be able to maintain if competitors paid reasonable prices for the inputs. All consumers benefit by competitive choice, and

[43] *See* Panel Direct Testimony of E. Christopher Nurse and Dr. Oya A. Oyefusi on behalf of AT&T – page 14 line 1-2

[44] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 16 line 10-11

[45] ALJ Schnierle used this term to describe high access rates. In Re: Intrastate Access Charge Reform, Docket No. I-00960066, Recommended Decision, June 30 1998 at page 6

access reform will encourage the proliferation of competitive choice. Additionally, nowhere in the record is there any proof that access overcharges are needed to offset RLECs' expenses. If RLECs recover their cost of service and a reasonable profit without access overcharges, there will be no need for RLECs to raise their rates after readjustment of access charges. Thus, in the face of competition from other carriers, RLECs may decline to increase their rates as such action will undoubtedly drive some consumers to adopt service from other carriers. Those other carriers will also, likely, modify their rates to reflect expense reductions from access expense reductions. The net result will be an increase of actual and perceived competitive choice for consumers. None of these benefits will accrue without access reductions, and thus all consumers are harmed by inflated input prices.

Q. Do customers really benefit from high access rates and the PA USF?[46]

A. As discussed in detail above, such an argument assumes the access overcharges and PA USF funding are providing financial support for local service rates that are below cost. This assumption has not been proven in this case. There is a second assumption embedded in the statement. It assumes customers that are benefiting are the customers that are currently served by the provider that is receiving external funding for its operations from the other carriers in the market. If the customers shifted providers, the customer would then be disadvantaged by the RLEC access overcharges and RLEC's collection from the PA USF. Similarly, if an RLEC customer purchases multiple modes of service (traditional wireline voice and cellular,

[46] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 20 line 5-14

for instance), that customer is injured by the overcharges as a wireless customer even while s/he is paying artificially suppressed retail rates for wireline service. In other words, the vast majority of current RLEC customers may be benefiting from the RLECs' current regulatory advantage in the market, but the overwhelming majority of them are simultaneously injured by that same benefit as customers of competing carriers. It is entirely possible that RLECs' customers are not deriving any benefit at all because the access overcharges may simply be enriching the RLEC rather than providing support for below-cost rates. Again, the rules should not be favoring one type of provider over another.

Q. Are you saying the benefit is really accruing to the RLEC provider?

A. Yes. The RLECs receiving access overcharges and PA USF are the beneficiaries. The RLECs may share some of this benefit with current customers in the form of suppressed rates, but the record in this proceeding contains no information that demonstrates the RLECs share the access overcharges or PA USF receipts with their customers. As stated above, only when the overcharges and PA USF subsidy are necessary to support below-cost rates can it be truly said that the customer is sharing in the benefit. Whether the RLECs are using the access overcharges to undermine competition or to simply enrich themselves, the RLECs are the beneficiaries of the overcharges.

Q. CenturyLink called the rural customers the most vulnerable.[47] Does the CenturyLink customer survey suggest their customers are not really as vulnerable to CenturyLink local telephone rate increases as they suggest?

A. The CenturyLink survey suggests the customers believe they have a competitive alternative to their voice service needs if CenturyLink institutes rate increases. The marketplace will protect the customers if we permit the market to function without inflated access charges or large wealth transfers from one carrier group to another through the PA USF.

Sprint is Committed to Providing Service in RLEC Service Territories

Q. Do the RLEC testimonies contain a recurring theme that only the RLECs care about providing service in RLEC service territories?

A. Yes. CenturyLink argues that AT&T, Verizon, Sprint and Comcast do not have a vested interest in rural Pennsylvania,[48] and are neglecting and abandoning rural Pennsylvania. They claim that only Pennsylvania rural ILECs are committed to serving rural Pennsylvania.[49]

Q. Is there any merit to these statements?

[47] Panel Direct Testimony of David Bonsick on behalf of CenturyLink – page 8 line 8-10
[48] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 30 line 18-21
[49] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 49 line 9-11

A. None. Sprint is committed to serving Pennsylvania. Sprint continues to build its nation-wide wireless network. Sprint has been building its network since the mid-90s and has done so with no access of PA USF subsidy whatsoever. The RLECs have built their network over a much longer time. It takes time for new entrants to cover all areas. However, Proprietary Exhibit JAA-2R (attached hereto) shows the magnitudes of Sprint's investment in counties within Pennsylvania where RLECs have significant service territory. Sprint has invested more than **[Begin Highly Confidential] [End Highly Confidential]** within those counties, or an average investment per county of **[Begin Highly Confidential] [End Highly Confidential].** These figures actually understate Sprint's investment because they do not include the significant investment made by Sprint to obtain spectrum rights.

Q. Does Sprint serve wireless customers in RLEC service territories?

A. Yes. Sprint has wireless customers located in *every RLEC service territory except one*. Sprint has more than **[Begin Highly Confidential] [End Highly Confidential]** wireless customers within RLEC service territories on Sprint's CDMA network as of January 31, 2009.[50]

Q. Does Sprint also support cable telephony providers' ability to offer service within RLEC service territory in Pennsylvania?

A. Yes. Through its cable telephony partners, Sprint is jointly providing cable telephony services to more than **[Begin Highly Confidential] [End Highly Confidential]** cable telephony customers within RLEC service territories. Service is

[50] Customer counts for the Sprint iDEN network were not available by RLEC service territory.

currently offered in **[Begin Proprietary]** **[End Proprietary]** and that number will reach **[Begin Proprietary]** **[End Proprietary]** before the hearing in this case is completed.

Q. How does the size of Sprint's operations in RLEC service territories compare to the RLECs operations?

A. Based on the information available in this proceeding, Sprint provides service to more customers in RLEC service territories than all but three RLECs.[51] Of course other competitive carriers likely have substantial operations in RLEC territories as well. Several carriers may provide service to more customers in RLEC service territories than Sprint. The actual ranks are not important here as much as the point that Sprint is committed to providing service in RLEC service territories, and that consumption of Sprint's wireless services in RLEC territories is occurring in significant numbers

Q. Is Sprint offering ubiquitous wireless services throughout the entirety of the RLECs service territories?

A. Sprint continues to expand its coverage as capital is available. As evidenced by the investment and subscriber data above, however, Sprint is already a significant service provider in RLEC service territories. Additionally, Sprint enables its customers to roam on other CDMA providers' networks at no additional cost. Sprint's service, both direct and through roaming agreements with other companies, covers **[Begin**

[51] Comparison of Sprint customer counts to RLEC access line counts as of December 31, 2008 provided to responses to AT&T-PTA 1-1(b) and response to Sprint-Embarq 1-2. Sprint notes that other major wireless carriers (e.g. Verizon Wireless, AT&T Mobility, and T-Mobile) and numerous CLECs offer service in RLEC territories, but Sprint has no way of ascertaining their customer counts.

Proprietary] **[End Proprietary]** of all Pennsylvanians. Considering that the overall telephone penetration rate for Pennsylvania is 98.6%[52] Sprint's service availability compares favorably and certainly contributes to universally available telephone service in Pennsylvania. Setting RLEC intrastate access rates at reasonable levels would free up resources for Sprint and other competitors to expand coverage, develop new services, offer better pricing in the market, or all of the above. Setting RLEC's interstate switched access rates at reasonable levels would also minimize the regulatory advantage the RLECs have in their service territories caused by asymmetrical rate levels.

RLECs Use of Regulated Revenues to Fund Non-Regulated Services

Q. Does §3011(4) of the Pennsylvania Public Utility Code prohibit regulated services from subsidizing competitive ventures?

A. Although I am not an attorney, a straightforward reading of the statute makes it clear that proceeds for regulated services such as access service can not be used to fund competitive ventures such as the deployment of broadband services. I am also aware that cross-subsidization is an issue that AT&T raised in its complaint and is an issue to be addressed in this docket.

Q. Do the RLEC state their current access rates are helping fund broadband?

[52] *See* Telephone Subscribership in the United States, Federal Communications Commission at Table 3 (February 2010), available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-296121A1.pdf.

A. Yes. CenturyLink explains that its commitment to provide 100% broadband availability in Pennsylvania by 2013 could be in jeopardy if access revenues are reduced without a suitable replacement.

Q. But don't the RLECs say their inflated access rates are necessary to cover the cost of providing basic local services priced below cost? Therefore, aren't the access overcharges really providing support to basic local services?

A. First of all, the RLECs have provided no proof that their basic local service rates are indeed below cost. Unless RLECs' basic local service rates are indeed below cost, then the RLECs access overcharges are either illegally funding competitive broadband, unduly enriching the RLECs, or some of each. None of these are acceptable public policy, and the first is flatly illegal in Pennsylvania.

Q. How do the cost allocation rules direct the ILECs to handle investments in non-regulated services such as broadband?

A. FCC Part 32 rules instruct ILECs which general ledger accounts are applicable based on the type of investment purchased. Part 64 rules direct the ILECs to assign costs associated with the provision of non-regulated services directly to non-regulated accounts whenever possible. Costs which cannot be directly assigned shall be described as common costs and allocated between regulated and non-regulated activities.[53] If non-regulated activities are not addressed in the application of Part 64 rules, the costs would remain within the regulated accounts and allocated to the interstate and intrastate jurisdictions in accordance with Part 36 rules. For example,

[53] 47 C.F.R.§64.901

circuit equipment is allocated between the interstate and intrastate in two ways. It can be directly assigned or allocated based on the relative number of minutes of use, which have been frozen since 2000.[54]

Q. Have the PTA RLECs disclosed how they allocate broadband investments and costs when applying these cost allocation rules?

A. No, not specifically. Sprint requested that each PTA RLEC explain how several types of broadband investments are handled in their cost allocation process. The PTA companies did not answer the question.[55] Nevertheless, the PTA Companies have indicated that they follow the FCC's Part 64 cost allocation rules.[56] Additionally, the sections of the PTA Companies' Biennial Network Modernization Plan reports that describe their Pennsylvania broadband investments include account numbers that correspond to the FCC's Part 32 Uniform System of Accounts (47 C.F.R. §32.1, et seq.).[57] Without more on the record, it must be concluded that the amounts of the broadband investments listed on the PTA Companies Network Modernization Plan reports are allocated to the intrastate (Pennsylvania) jurisdiction.

Q. Has CenturyLink disclosed how it has allocated broadband investments and costs?

[54] 47 C.F.R.§36.155
[55] PTA Response to Sprint-PTA 3-4 (attached hereto as Exhibit JAA-3R)
[56] PTA Response to Sprint-PTA 2-6 (attached hereto as Exhibit JAA-4R)
[57] See relevant sections of the 2009 Biennial NMP reports of the D&E Companies, Consolidated Communications, Lackawaxen, North Penn, Palmerton, and Windstream, attached hereto as Highly Confidential Exhibit JAA-5R

A. Yes. CenturyLink has explained that its DSLAM investments are classified as **[Begin Proprietary]**[58];[59].

[End Proprietary]

Q. Why is the accounting treatment of these investments and costs relevant to this access investigation?

A. There are at least three reasons. First, the RLECs have now disclosed within this proceeding the magnitude of their incremental investments associated with the provision of broadband services in accordance with Act 183. CenturyLink has demonstrated that broadband investment is about **[Begin Proprietary]** half **[End Proprietary]** of their total investments within Pennsylvania from 2006 – 2009. [60] If the expenses that underlie their reported broadband investments were not properly assigned within the cost allocation process, RLEC financial information reported to the Commission is simply wrong. Second, the RLECs continue to advocate that they

[58] DSLAM is an acronym for "Digital Subscriber Line Access Multiplexer." "A DSLAM serves as the point of interface between a number of subscriber premises and the carrier network." Newton's Telecom Dictionary, 16th Edition, A DSLAM serves the function of combining packet data from multiple lines for transmission over one or more high-speed circuits. *Id.*

[59] CenturyLink Response to Sprint-CTL 3-4. (attached hereto as Exhibit JAA-6R)

[60] CenturyLink Response to Sprint-CTL 2-8; (attached hereto as Proprietary Exhibit JAA-7R), and Response to AT&T-CTL 3-10

need to continue to collect high access rates to perform their obligations within the state alleging they have a financial need for the access overcharges. To properly understand the financial position of the RLECs, the Commission must understand if the revenues and costs reported by the RLECs are properly matched. If all of the broadband revenue is assigned to the interstate jurisdiction but most of the costs remain in the intrastate jurisdiction, the revenues and expenses have not been matched violating one the most important accounting principles. Such a cost-revenue misalignment would inappropriately inflate costs reported to the Commission and hide the RLECs earning picture. Third, the Commission is obligated to ensure that regulated services are not subsidizing non-regulated services. This is also one of the issues to be addressed in this docket. If the RLECs are assigning their costs and investments from broadband to their intrastate regulated accounts and treating such costs and investments as part of their regulated operation, as CenturyLink indicates it does, it is impossible to see how the RLECs can avoid cross-subsidization. Additionally, if 0% of the revenues from broadband is assigned to the intrastate (Pennsylvania) jurisdiction it defies logic how cross subsidization is not occurring. The records indicate that while of the **[Begin Proprietary]**

[End Proprietary] are assigned to the intrastate regulated account, no revenue is assigned there to cover those expenses. Accurate financial information is critical to assessing whether the prohibition against cross-subsidization is being violated.

Q. Does it make sense for the RLECs to report most of their broadband costs in intrastate accounts, none of their broadband revenues in such accounts, and to claim that the Commission cannot look to the broadband revenues for revenue neutrality purposes?

A. No, it does not make sense. Since the RLECs assigning broadband investment and cost to their intrastate accounts it is absurd to claim that revenues cannot be acknowledged for revenue neutrality. To the contrary, ignoring these revenues and costs give RLECs the benefit of costs and investment for conveying a skewed, inflated financial snapshot, but withholds the revenue to create an accurate picture. This is inappropriate. If the RLECs submit broadband financials for one purpose, they cannot be allowed to turn around in the next breath and say broadband financials cannot be considered for other purposes. The RLECs have already made their decision regarding the Commission's ability to consider broadband financials – both revenues and costs/investments – from there it is up to the PUC to decide what treatment to give the tremendous and ever expanding broadband revenues.

Q. What option is available to the Commission to remedy this regulated to non-regulated cross subsidy?

A. The Commission can remedy the matter by reducing the access rates as Sprint and others propose. To the extent funding is needed for broadband, inflated access charges cannot be the source for funding. Mirroring interstate switched access rates will ensure that there is still a reasonable profit to support basic local service, but the level of profit would help to ensure that the illegal cross-subsidization that is

undoubtedly occurring today will be limited to a far reduced level. Private investment should be used for competitive broadband deployment, and in those narrow instances where competition cannot be expected to drive broadband investment, RLECs today have a large number of competitive services[61] that can be relied upon to legally provide funding to broadband build-out.

The RLEC Business Focuses on Non-Regulated Services for Growth

Q. Do the public statements of the RLEC corporations clearly demonstrate their understanding that their growth will not come from voice services but instead from non-regulated services such as broadband?

A. Yes. Within the following statement from a recent 10Q, CenturyLink explains that voice service revenues and their access overcharges imposed on other carriers are decreasing. CenturyLink intends to make up for those declining revenues by selling bundles, new services and penetrating a higher percentage of its customer base with broadband and premium services:

"During the last several years (exclusive of acquisitions and certain non-recurring favorable adjustments), we have experienced revenue declines in our voice and network access revenues primarily due to declines in access lines, intrastate access rates and minutes of use, and federal support fund payments. To mitigate these declines, we plan to, among other things, (i) promote long-term relationships with our customers through bundling of integrated services, (ii) provide new services, such as video and wireless broadband, and other additional services that may become available in the future due to advances in technology, wireless spectrum sales by the Federal Communications Commission ("FCC") or improvements in our infrastructure, (iii) provide our broadband and premium services to a higher percentage of our customers, (iv) pursue acquisitions

[61] *See*Exhibit JAA-6.

of additional communications properties if available at attractive prices, (v) increase usage of our networks and (vi) market our products and services to new customers."[62]

In summary, CenturyLink and the RLECs are (a) fully aware they cannot sustain inflated access rates, and (b) well positioned and prepared to overcome reductions in their access rates by intensifying their attention on providing more and better services to end users.

Q. Are we in the midst of a revolutionary change in the wireline telecom world?

A. Yes. The RLECs, spurred by Act 183, are actively deploying broadband technology. The singularly-focused narrow-band, voice-only network that was tasked with delivery of only voice services is being modified into a broadband network capable of delivering voice, broadband, and so many more services to the citizens of Pennsylvania. The regulations designed for the narrow-band networks of the past must change to keep pace with the changes in the market. To regulate the exchange of voice traffic in the same manner as when voice networks carried only voice traffic deters the transition to the future.

Q. Building broadband networks is only one step in the journey to connecting the citizens of Pennsylvania to the high speed internet. What else must occur?

A. Pennsylvanians must also subscribe to the services. Sprint believes the elimination of the access subsidies will actually drive broadband adoption. As the CenturyLink suggests in its 10Q, as quoted above, it will work harder to replace declining voice revenues by selling retail services to its customers including broadband services. We

[62] CenturyLink 3rd quarter 2009 – 10Q page 18 filed 11-9-09 (emphasis added), a copy of which is attached hereto as Exhibit JAA-8R

believe that RLECs will work tirelessly to broaden the take rate for broadband services if the access subsidies no longer cushion the RLECs' profits.

Q. *CenturyLink witness Mr. Bonsick argues that access reduction will create an untenable burden and will "foist rate increases" onto bundled services often offered by unregulated affiliates.* Does his statement directly contradict the CenturyLink corporation statement in the 10Q?

A. Yes. Although the statements in the 10Q indicate that CenturyLink will make up for lower voice revenues through increased sales of bundles and non-regulated service, Mr. Bonsick apparently argues that the very strategy described in the 10Q is unreasonable. Mr. Lindsey and Mr. Harper also disagree with their company's 10Q when they state that recovery of displaced switched access revenues via increased retail sales is not a viable option.[63] Frankly, the CenturyLink witnesses are denying the transition that is actually well underway in today's market already.

Q. Does Mr. Zingaretti have any proof that PTA companies can not recover the lost access revenues through "... rate increase on competitive, deregulated, and non-jurisdictional services or already high local rates ..."?[64]

A. Mr. Zingaretti produced no support for his statement.[65] Further, Mr. Zingaretti produced nothing to explain how the "...Commission is well-aware that those levels

[63] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 26 line 1-4
[64] Direct Testimony of Gary M. Zingaretti on behalf of PTA – page 51 line 21 to page 52 line 3
[65] Response to Sprint-PTA 3-5

of revenues will never be realized..."[66] However, as Comcast witness Michael Pelcovits explained, there have been significant changes in the marketplace that the Commission must consider when evaluating the RLECs' ability to replace access revenues, namely the increase in RLEC revenues from unregulated services.[67] Moreover, the very premise of Mr. Zingaretti's statement is that competing carriers must support the RLECs' competitive, deregulated, non-jurisdictional services. Such a position is patently anti-competitive.

All RLECs Should Mirror Their Interstate Access Rates and Rate Structure

Q. Why is the interstate rate of each RLEC the appropriate rate level for each RLEC's intrastate rates at this time?

A. First, the lowest prevailing rate each RLEC offers to exchange non-local traffic today is the LEC's interstate rate level.[68] If this rate level is acceptable for interstate communications,[69] it should be acceptable for intrastate non-local traffic as well. Second, the LEC is providing the exact same function for non-local interstate and intrastate traffic. CenturyLink admits that the functionally is identical.[70] Since the same switching and transport equipment is being utilized to provide both interstate and intrastate traffic, there is no basis for the charges to

[66] *id*
[67] Direct Testimony of Michael D. Pelcovits on behalf of Comcast - page 14 line 12-19
[68] Some traffic that is local for a wireless carrier (intraMTA traffic) could otherwise be non-local for a wireline carrier, and such traffic is exchanged at reciprocal compensation rates – often lower than the interstate rates.
[69] RLECs have not challenged the level of their interstate rates. Panel Direct Testimony of E. Christopher Nurse and Dr. Ola A. Oyefusi on behalf of AT&T – page 6 line 4-5
[70] *See* Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 12 line 22

differ. Third, pricing intrastate access at interstate rate levels will reduce billing costs and reduce rate arbitrage. Fourth, many other states have in the past adopted the interstate rate level as the appropriate standard for intrastate access rates and more states are recognizing this is the appropriate intrastate rate standard.[71] Just last month, the New Jersey Board of Public Utilities ordered all LECs, incumbent and competitive large and small, to set their intrastate rates at interstate rate levels.[72] Finally, as discussed further below, moving intrastate rates to the interstate rate level moves the industry toward what Sprint and others consider the industry's ultimate goal, pricing all traffic exchange at marginal cost.

Q. Is the interstate rate level the most appropriate, final rate level for the exchange of traffic in a competitive market?

A. No. The interstate rate level Sprint and AT&T advocate in this proceeding should not be the final price for traffic exchange functionality in a competitive market. Ultimately, Sprint believes that carriers which refuse to exchange traffic on a bill-and-keep basis should exchange traffic with all other carriers at the marginal cost of that functionality. Sprint further believes that the cost of voice traffic exchange on a broadband network approaches zero. Nevertheless, setting RLECs' rates at their interstate levels is a long overdue incremental step toward the ultimate goal. "Consumers are best served when prices reflect underlying cost and all

[71] Direct Testimony of James. A. Appleby on behalf of Sprint Exhibit JAA-1; Panel Direct Testimony of E. Christopher Nurse and Dr. Ola A. Oyefusi on behalf of AT&T – Exhibit I

[72] Final Order, In the Matter of the Board's Investigation and Review of the Local Exchange Carrier Intrastate Exchange Access Rates, BPU Docket No. TX08090830 (February 1, 2010).

competitors can compete on a level playing field."[73] Therefore, it is best to eliminate as much of the overcharges in access as possible as quickly as possible. Sprint avers that the best course for the Commission to follow is to presently reset intrastate access rates to mirror interstate access rates and rate structure. Such further rate reform as may be necessary or desirable may be addressed at some later date, and presumably in conjunction with comprehensive reform by the FCC.[74]

RLEC Basic Local Rates Can Be Increased to Cover Some Access Revenue Reductions

Q. Does Sprint believe the Commission should establish a residential local service rate affordability benchmark?

A. Yes. Sprint continues to support the public policy goal of universal service. A critical aspect of that policy is maintaining an affordable rate for basic residential local service. Establishing a rate that is deemed affordable will facilitate that public policy goal.

[73] Direct Testimony of Dr. Ola A. Oyefusi on behalf of AT&T – Page 21 line 25 to page 22 line 2 in Arizona Docket No. T-00000D-00-0672

[74] *See generally High-Cost Universal Service Support; Federal-State Joint Board on Universal Service; Lifeline and Link Up; Universal Service Contribution Methodology; Numbering Resource Optimization; Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Developing a Unified Intercarrier Compensation Regime; Intercarrier Compensation for ISP-Bound Traffic; IP-Enabled Services*, CC Docket Nos. 96-45, 96-98, 99-68, 99-200, 01-92, WC Docket Nos. 03-109, 04-36, 05-337, 06-122, Order on Remand and Report and Order and Further Notice of Proposed Rulemaking, FCC 08-262 (rel. Nov. 5, 2008)("Intercarrier Compensation FNPR").

Q. Based on the information provided in this proceeding thus far, what is the affordability standard for residential basic local service?

A. An affordable rate standard of $16 was first set in the *Global Order* and later updated in 2003 to a level of $18. Although some RLECs chose not to increase their rates to that level, other RLECs, including CenturyLink, are at that rate level. Two RLECs, the TDS companies, are above the $18 rate cap, and Frontier of Breezewood and Denver & Ephrata are just below the rate cap. Sprint recommends the $18 rate cap be adjusted for inflation since it was set in 2003 and indexed to inflation going forward. AT&T has calculated the inflated adjusted rate to be $21.97.[75]

Q. If the Commission sets the residential affordability benchmark rate as you suggest should it be mandatory the RLECs charge the residential customers at the benchmark rate?

A. No. The RLECs should be permitted to charge any rate below that benchmark. There may be strategic or marketing reasons to keep the price of basic residential local service low. The RLECs should be permitted that flexibility. But the potential revenue that could be collected if the rate is set at the benchmark must be included in the determination of revenue neutrality in accordance with Act 183. The Commission must also acknowledge that RLECs presently earn substantial revenues from jurisdictional, non-protected/competitive services as well. This category is comprised of telephonic services that are provided over the

[75] Panel Direct Testimony of E. Christopher Nurse and Dr. Ola A. Oyefusi on behalf of AT&T - Page 8 line 12-15

local network, but have previously been declared competitive or non-protected services. Call waiting, directory assistance, call forwarding, private line services, etc., are examples of such services. The Commission can, and should, recognize that price increases to these services can generate substantial revenues for RLECs. For instance, CenturyLink projected 2009 earnings on such services of **[Begin CenturyLink Confidential] [End CenturyLink Confidential]**[76] Such earning reflected a new revenue opportunity of **[Begin CenturyLink Confidential] [End CenturyLink Confidential]** over revenues from the prior year,—or revenue growth of approximately **[Begin CenturyLink Confidential] [End CenturyLink Confidential]** from the previous year. There is absolutely no reason the Commission should ignore revenues from such services in determining that RLECs have the opportunity to achieve revenue neutral access reductions. To the contrary, the Commission should look to the full panoply of revenues earned over the local network, regardless competitive or jurisdictional distinction.

Pennsylvania Universal Service Fund Should Play a Limited Role in Access Reform

Q. Do you believe the PA USF is the primary means for RLEC revenue neutrality?[77]

[76] Data from confidential responses to ATT-EQ 1-35, 2008 Price Stability Index, Appendix D, Price Change Summary, a copy of which is attached hereto as Confidential Exhibit JAA-9R

[77] Direct Testimony of Dr. Robert Loube on behalf of OCA – page 6 line 12-18

A. No. As Mr. Wilson of OSBA explained, there should be no automatic entitlement to replacement of access revenues via the PA USF.[78] Any shift to recover access charge revenues from the PA USF should only occur if there is a financial demonstration that subsidies are needed in today's marketplace. If recovery of access overcharges is shifted from access charges themselves to the PA USF, the only change is in the way those overcharges are collected from competitors' customers.[79] Either way, the customers pay the RLEC overcharges when they pay their service provider's bill. True reform calls for access overcharges to be collected from RLECs' own customers – if RLECs elect to collect their overcharges from their customers. It is important that ~~the~~ in the access reform process the Commission ensure that a subsidy truly is needed before determining how it will be collected.

Q. What should be considered in a financial analysis to determine if the RLEC's subsidies are still needed?

A. As explained in my direct testimony, RLECs have more services to sell over their local networks than ever before. These services provide significant contributions toward an RLEC's recovery of the fixed costs of the local network. I explained that the average retail revenue per customer the RLECs generate on the local network has greatly expanded. Any financial review of an RLEC's need for

[78] Direct Testimony of Mr. John W. Wilson on behalf of OSBA – page 21 line 13 to page 22 line 4

[79] While it is true that PA USF charges cannot be collected via a line-item charge to customers, it is also true that since carriers receive their revenues from customers, any PA USF payment is collected from the customer base via retail rates. PA USF increases inflate companies' cost of service, and that cost is ultimately reflected in the rates consumers pay. Preventing PA USF revenues from being charged in a customer bill line-item in no way changes the fact that consumers ultimately bear the burden of the PA USF.

subsidies should consider the revenues of all of the retail services provided on the local network as well as the subsidies collected from the Federal jurisdiction. If the local network, considering all revenues generated thereon, is self-supporting, there is no rational basis for continuing to allow access overcharges under the moniker of "subsidy" or otherwise.

Q. Did Sprint ask each of the RLECs to produce this financial information regarding revenues received for all services provided over their local networks?

A. Yes. After objecting to the question and requiring Sprint to compel a response, CenturyLink provided a response on March 4, 2010. The PTA companies also objected and were compelled to provide a response, but they have only provided a partial response as of the date of the filing of this Rebuttal Testimony.[80] Due to the lateness of the RLECs' provision of this information, I reserve the right to conduct further analysis of this information and supplement my testimony accordingly.

Q. Do you believe an RLEC's other services provide more than enough support to permit the RLEC to manage the access revenue reductions that are not offset by basic local service rate increases?

A. Yes. Sprint believes each RLEC is able to manage the transition of intrastate access rates to interstate access rate levels without burdening the customers of

[80] PTA Response to Sprint-PTA 3-9 and CenturyLink Response to Sprint-CTL 3-9, attached hereto as Proprietary Exhibit JAA-15R

other carriers with higher surcharges – whether access or PA USF – paid into the current subsidy support system. However, to the extent an RLEC is required to provide stand-alone basic local service to any customer that desires only that service and the rate an RLEC is permitted to charge for that basic service is still controlled by regulation at a level **proven to be below cost**, an explicit subsidy system that provides support for stand-alone basic residential local service customers would be acceptable. If a provider has been granted pricing flexibility for service bundles and other non-basic local services, the provider already has the opportunity to recover its local service costs in the retail market on those customers as competition permits.

Q. Is the PTA correct that the only place an RLEC can collect reduced access revenues is through basic local service rates and universal service support?[81]

A. No. As documented in my direct testimony, in public statements by several of the RLECs, and in my supplementary testimony,[82] the local networks are providing far more retail services to customers than in the past. These non-regulated services provide the opportunity for positive financial margins that can relieve the customers of other carriers from continuing to pay large overcharges to RLECs. RLECs themselves are already planning to address their access revenue depletion from access lines lost to competition by looking to their competitive and

[81] Direct Testimony of Mr. Gary Zingaretti on behalf of PTA – page 5 line 24 to page 6 line 2
[82] Corrected Main Testimony of James A. Appleby on behalf of Sprint – pages 17-24; Supplemental Testimony of James A. Appleby on behalf of Sprint – page 12-20.

broadband services.[83] To the extent RLECs are already looking to these sources, it is obvious that the Commission should acknowledge them as well.

Q. How should the limited subsidy available on stand-alone residential basic local service customers be calculated?

A. Sprint recommends each RLEC be required to establish its cost of residential basic local service using a TELRIC based cost of service study. Sprint next recommends that each RLEC determine the total access revenue reduction that will occur[84] when the RLEC's intrastate rates are set equal to interstate rate levels. New local service revenues that could[85] be generated by increasing basic local service rates to the benchmark rate level Sprint recommends should be subtracted from the total access revenue reduction. For carriers that establish that their cost of residential basic local service is above the permitted rate: if there is a remainder, that revenue should be divided by the RLEC's total access lines. The per line remainder will be the recovery the RLEC is permitted to collect each month from the PA USF for each residential customer that only purchases basic local service. If the customer purchases, any features, long distance or broadband service provisioned by the RLEC or its affiliates on the local network, the RLEC will not receive any PA USF support on those lines. The support amount should be set on a per line basis and be awarded on residential lines that are actually

[83] *See* CenturyLink 3rd quarter 2009 – 10Q page 18 filed 11-9-09, Exhibit JAA -8R and *see* discussion of same above.

[84] The most recent 12 month period of access service demand and delta between current intrastate and interstate access rates should be used to calculate the access revenue reduction.

[85] The RLECs should have the option to increase basic local service rates to the rate benchmark but that change should not be mandatory. However, subsidy collection from the PA USF would assume the rate was increased.

served during a given period of time. With the rapid changes in the market, the actual lines served should be updated as often as administratively possible, at a minimum quarterly. For carriers that cannot establish that their cost of service is above their permitted rate, such carriers shall be ineligible to collect the difference between their current and reset access rates through a PA USF subsidy, but will be permitted to recover such difference through retail rates should they choose to do so.

Q. Isn't the limited additional PA USF Sprint proposes tailored exclusively to the benefit of only the incumbent?

A. Not really. To the extent the RLEC is the only carrier required to sell stand-alone basic local service at rates that are suppressed by regulation and demonstrated by the RLEC to be below cost, the fund is really targeted at residential local service customers that want only basic local service, not specifically at incumbent carriers. To make the program competitively neutral, the Commission could certify other carriers that offer basic stand-alone service to residential customers at the rate benchmark to receive the same support per line that the RLEC receives.

Q. Do you have any estimate of the number of residential customers that purchase only basic local service today?

A. CenturyLink disclosed that just **[Begin Confidential]** **[End Confidential]** of its residential lines purchased only basic local service as of

December 31, 2008.[86] PTA was asked the same question but instead of providing a count of customers that purchase only basic local service, the PTA companies provided counts of customers not purchasing service bundles. Customers certainly do purchase more than basic local service even if the RLEC has not bundled the services together into a bundle at one price. Accordingly, Sprint does not believe the PTA data accurately reflects the purchase decisions of the RLEC customers. Sprint represents that publicly reported information suggests only 20-30% of residential local service customer buy just basic local service from the ILEC. That means 70-80% of residential customers purchase enough services provisioned over the local network to permit the RLEC to manage the transition away from access overcharges.

Q. Does each of the RLECs in Pennsylvania have sufficient retail pricing flexibility to manage the transition?

A. I am aware that each of the RLECs is governed by an alternative regulation plan (Act 183 Plan), and that they do have the ability to apply for rate increases under the terms of their plans, but I am not familiar enough with the terms of each plan and the past practice of the Commission in response to requested price increases to evaluate the true level of price flexibility each RLEC enjoys. Nevertheless, there is healthy competition for service bundles. Cable telephony providers are offering bundles of voice, broadband and video services. Wireless carriers are offering bundles of voice and data (internet and texting) services. Over-the-top VoIP providers are offering all-distance voice service. In this environment, the

[86] CenturyLink response to AT&T-EQ I-1 (attached hereto as Confidential Exhibit JAA-10R)

RLECs should be permitted to respond to that competition by adjusting their prices. Sprint encourages RLEC retail rate flexibility for all services and service bundles as long as this relief is accompanied by the reduction of access rates. These changes are needed to transition to a fully competitive market.

Access Rates at Interstate Parity Will Improve Universal Service

Q. Is CenturyLink "the instrument of universal service"[87] in today's market?

A. No. We no longer live in a world with one monopoly provider of voice service within a service territory. Consumer's needs are served by a variety of service providers. Surveys show that more than 20% of American households no longer have landline service. And that percentage continues to grow. Record evidence from RLECs in this proceeding indicates that consumers are abandoning stand-alone landline service at a rapid and substantial pace. Universal service means simply that all have an opportunity to communicate and be in touch with society. As discussed above, Sprint provides wireless and cable telephony service to over **[Begin Highly Confidential]** **[End Highly Confidential]** customers in RLEC service areas. There can be no doubt that Sprint is one of the largest providers of communications services to customers in RLEC service areas in Pennsylvania. Sprint has accomplished this level of RLEC service area subscribership with no subsidy available to build its wireless system, and all the while paying subsidy to its embedded RLEC competitors. For a RLEC to suggest

[87] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 23 line 5

it is the only carrier serving the communication needs of the consumers in its service territory is simply wrong.

Q. Will Sprint's access proposal harm customers in terms of destroying universal service?[88]

A. No. Universal service is strengthened by the availability of more options for the consumer to choose for their communications needs. I have explained in this testimony that pricing access at reasonable rates will enhance competition for Pennsylvanians. Besides, Sprint does not advocate local rate increases, nor does it believe that RLECs will choose to increase their rates on a dollar for dollar basis should access reform occur since Sprint believes that RLECs will continue to collect profits from access even after access rates are reset to interstate levels. It is CenturyLink that claims basic local service rates must increase multiples in rural areas.[89] Of course, the claim that rates must go up multiples is unsubstantiated and CenturyLink's own survey suggest customers believe they have alternatives available to serve their needs if CenturyLink increases rates for local voice service.

Access Rates at Interstate Parity Will Not Impact the RLECs' COLR Obligations

[88] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 21 line 11-17

[89] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 28 line 17 to page 29 line 3

Q. Are you aware of any state that has relieved an RLEC of its COLR obligation in conjunction with access reform?

A. No. To my knowledge no state regulatory body has relieved ILEC of its carrier of last resort ("COLR") obligations in its service territory in conjunction with a proceeding that decreased intrastate switched access rates. As documented in my Initial Testimony[90] and AT&T's Direct Testimony in this proceeding,[91] many states have taken the access rates of at least the largest ILEC to a rate level that approximates interstate. Each of those states retained the ILEC's as COLR obligations. The two issues have not been linked by other state regulatory bodies. The New Jersey Board just last month dismissed this very argument by CenturyLink.[92]

Q. Mr. Zingaretti argues RLECs incur higher costs due to their COLR obligation to provide a ubiquitous network.[93] Are the RLECs also provided revenue opportunities because of their ubiquitous network?

A. Yes. In today's market, customers have more choices for their telecommunications needs. An RLEC's obligation as carrier of last resort is only triggered when no other provider has facilities to serve a customer. For instance, the RLEC may be the only choice in a geographic area that is just being developed. The RLEC must extend its network to this new area to satisfy that first service request. But it also means the

[90] Corrected Main Testimony of James A. Appleby on behalf of Sprint - Exhibit JAA-1.
[91] Panel Direct Testimony of E. Christopher Nurse and Dr. Ola A. Oyefusi – Exhibit I
[92] The New Jersey Board of Public Utilities just mandated all ILECs and CLECs mirror their interstate rate levels. Although the ILECs requested to be relieved of COLR obligations in that proceeding, the Board did not alter the ILEC's COLR obligation. - In the Matter of the Board's Investigation and Review of the Local Exchange Carrier Intrastate Exchange Access Rates in BPU Docket No. TX08090830 – Order released February 1 2010.
[93] Direct Testimony of Gary Zingaretti on behalf of PTA at page 29, lines 3-15

RLEC will be the first and likely only carrier available to serve other customers that request service in that area, thereafter.

Q. Are the RLECs able to point to significant recent investments required by their COLR obligations?

A. No. CenturyLink is unable to identify the cost associated with its COLR obligation.[94] PTA also was unable to produce the cost of COLR in Pennsylvania.[95] Mr. Zingaretti explained "the [COLR] costs themselves are undefined and an appropriate methodology has never been set" to determine COLR costs.[96] It is beyond obvious that RLECs would want to state their COLR costs for the record if they intend to rely on those costs as a part of their justification for their inflated switched access rates. The RLECs failure to compute a cost suggests that the cost associated with the RLECs' COLR obligation is not as significant as the RLECs would have the Commission believe or that the costs of the obligation are already recovered through means other than the imposition of access overcharges on other carriers.

Q. Are the CenturyLink panel witnesses accurate that when a RLEC loses a customer the cost of serving that customer does not "magically go away"?[97]

A. No. At a fairly high level, the RLEC network has several distinct components that support its retail services to the customer. There is the drop wire that goes from the customer's house to the street. That piece of the network is dedicated to that

[94] CenturyLink response to Sprint-EQ 1-15, attached hereto as Exhibit JAA-11R
[95] PTA response to Sprint-PTA 1-15, attached hereto as Exhibit JAA-12R
[96] Direct Testimony of Gary M. Zingaretti on behalf of PTA – page 29 line 17-20
[97] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 22 line 10-12

customer's services and is a sunk cost, so that cost would not go away. The drop is connected to distribution wires and in turn connected to feeder lines. These wires are not dedicated to the service of one customer. The wires can be utilized by the RLECs to serve new customers. The feeder lines are often fiber facilities, and fiber can and is reused to support consumers' "voracious appetite for broadband services ... continually demand[ing] more bandwidth to meet this spiraling demand." [98] In short, few of the facilities on the RLEC network are dedicated to the exclusive use of one customer and therefore, little cost is sunk if that customer chooses another provider.

Q. Do the RLECs have opportunities to recover certain costs of serving new customers pursuant to their COLR obligations in addition to rates for the provision of telecommunication services?

A. Yes. RLEC's general exchange tariffs include a section that details under what circumstances special construction charges will be assessed to new customers requesting extension of service. Discussion of this COLR cost defrayment opportunity is noticeably absent from CenturyLink and PTA testimonies.

Q. Did CenturyLink acknowledge a significant cost advantage as the incumbent provider of voice services?

A. CenturyLink explains it was much cheaper to build a broadband network over a legacy voice network.[99] The existing narrowband network permitted the transition to

[98] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 20 line 14-16

[99] Panel Direct Testimony of Jeffery L. Lindsey and Mark D. Harper on behalf of CenturyLink – page 21 line 5-9

a broadband capable network at lower incremental cost than building from scratch like the wireless competitors have done.

Q. Are there other significant revenue opportunities the RLECs enjoy as the service provider with a ubiquitous network?

A. Yes. The people living in RLEC service areas do not just want landline service in today's market. Most consumers today have both wireline and wireless service. Their demand for wireless service drives wireless carriers to expand coverage. The cell towers the wireless carriers use to connect to their customers are connected to wireless switches. In most cases, the mobile switch is connected to the cell sites via special access services purchased from the RLEC. The RLEC would not have facilities to sell to the wireless carrier if not for their obligation to build a ubiquitous network to serve that first retail customer that requested service in the developing area.

Q. Do wireless carriers use RLEC special access almost exclusively today?

A. Yes. Wireless carriers use the RLEC provided special access in the RLECs' service areas because of the geographically dispersed locations in which cell sites must be placed to optimize coverage. This means the RLECs' ubiquitous network is often the only choice. The RLECs rapid growth in special access revenues coincided with the timeframe in which wireless carriers were rapidly expanding their networks, and this shows the value of the RLECs' ubiquitous network.

Q. Do the RLEC earn handsome profits on special access services in Pennsylvania?

A. Absolutely. We have public data from the FCC's ARMIS system on CenturyLink and Windstream. Special access services are mostly sold as interstate services. CenturyLink's interstate special access rate of return in 2007 was 357% on Pennsylvania revenues of $21.7 million. Windstream reported an interstate return of special access of 81% in 2007 on revenues of $17.1M. Windstream special access revenues have increased from $8.3 to $17.1M from 2003 to 2007. Since the FCC's authorized rate of return is 11.25%, Windstream and CenturyLink over-earned $7.1M and $10.7M respectively on interstate special access service in 2007. Clearly, special access services are a key profit centers for the RLEC and those services are based on the RLECs' privileged ubiquitous network position.

Q. Do other carriers also face pressure to have ubiquitous networks?

A. Yes. Although not mandated by statute, other carriers such as wireless and cable telephony providers face customer expectations on a daily basis. For wireless carriers, the customers expect to get a quality signal anywhere they go. Potential customers demand coverage maps be available on the providers website and scrutinize those maps prior to choosing a service provider to ensure their needs are met. Cable telephony providers are often asked, by customers desiring a greater number of service providers, when service will be expanded to their area. Competitive pressure is driving all providers to expand toward ubiquitous networks. The RLECs' COLR obligations give them the advantage of already being in the market and ready to gain revenues from any customer who desires service. Their ability to charge tariff rates

for line extensions is also in stark contrast to other competitors that have to fund such coverage extensions themselves.

Q. If technology advances yet again and creates another telecom service customers must have - like broadband, which companies are in the most advantageous position to benefit?

A. The ubiquitous RLEC network provides an advantage over other carriers that must build the underlying network from scratch.

Q. Do you agree it is a detriment to the RLECs to be COLR?

A. No. I believe today's revenue opportunities and the RLEC's in-place ubiquitous network advantage more than offsets the RLEC's undefined, largely illusory COLR costs.

The Local Loop Expense is Not a Cost Caused by the Exchange of Voice Traffic

Q. Do you believe the local loop is traffic sensitive or non-traffic sensitive cost?

A. The cost of a local loop cost is non-traffic sensitive. The cost is not changed by the number of voice minutes that traverse the facility in a given month or the number of retail services the RLEC is able to sell to the end user over that facility. But that cost – the ENTIRE cost – is created when a customer chooses to become a RLEC customer. The United Telephone Company's (now CenturyLink) witness Christy Londerholm admitted as such in testimony that she submitted in a prior phase of this

proceeding. Ms. Londerhelm unequivocally stated, on page 7 of her testimony, "the cost causation to Embarq for the loop is basic local service".[100]

Q. How have the FCC and many state Commissions determined is the best way to collect local loop costs?

A. The FCC and many state Commissions have ruled that these non-traffic sensitive costs should no longer be collected on a minute of use basis from voice services and should not be recovered from other carriers.[101] The state Commissions have sometimes permitted increased end user charges to offset the reduced lost access revenues in the form of increases in Subscriber Line Charges ("SLC") or increases to basic local service rates.

Q. Do the RLECs permit their customers to purchase high speed internet service without also purchasing local service ("stand-alone DSL")?

A. Yes. RLECs do permit a customer to purchase stand-alone DSL, or broadband service without also purchasing local voice service. CenturyLink offers a service called "Pure Broadband" in all areas of its Pennsylvania service territory.[102] A residential customer can get broadband 1.5Mbps service without local voice service for $29.95 if they agreed to a 1 year contract. The customer can continue to get that price at the end of the 12 month period by signing another 1 year contract. Customers can also

[100] Rebuttal Testimony of Christy V. Londerholm on behalf of The United Telephone Company of Pennsylvania LLC d/b/a/ Embarq Pennsylvania Statement 3.0 Proprietary version in Docket I-00040105 filed January 15, 2009 (Attached hereto as Proprietary Exhibit JAA-13R), at page 7

[101] MTS and WATS Market Structure, CC Docket No. 78-72, Third Report and Order, Phase 1, 93 FCC 2d 241, 278 (1983); recon., 97 FCC 2d 682 (1983), second recon., 97 FCC 2d 834 (1984)("1983 Access Charge Reform Order"). See also Final Order, In the Matter of the Board's Investigation and Review of the Local Exchange Carrier Intrastate Exchange Access Rates, BPU Docket No. TX08090830 (February 1, 2010), at p. 27.

[102] Per a conversation with CenturyLink Customer Service on 3-1-10.

call 911 on this service. Consolidated is currently offering broadband service without local voice service for $24.95 if the customers agrees to a one year contract and $20.95 on a two year contract.[103] Windstream customer service representatives explained residential customers can purchase broadband without local voice service in some areas of its service territory.[104] Finally I entered the zip code of five towns served by Commonwealth Telephone into its website. "Standalone High Speed Internet" service is available is each of the five towns.[105]

Q. If a RLEC sells stand-alone broadband service is the carrier forgoing their Federal universal service funding, state universal service funding and access overcharges?

A. Yes. For a line over which an RLEC offers only broadband service, the RLECs will not collect retail local service charges, federal Universal Service Fund subsidies, PA USF subsidies, or access overcharges. For such lines, the RLEC collects only the retail charge of the stand-alone broadband service.

Q. Do CenturyLink's Pure Broadband rates cover the average cost by exchange in the OCA model as adjusted by CenturyLink?[106]

A. In a table submitted by the United Telephone Company of PA (now CenturyLink) in a previous phase of this access investigation, their witness Christy Londerholm

[103] Per a conversation with Consolidated Customer Service on 3-1-10.
[104] Per a conversation with Windstream Customer Service on 3-1-10.
[105] Review of www.frontier.com on 3-1-10.
[106] Rebuttal Testimony of Christy V. Londerholm on behalf of The United Telephone Company of Pennsylvania LLC d/b/a/ Embarq Pennsylvania Statement 3.0 Proprietary version in Docket I-00040105 filed January 15, 2009 – Table CVL – 1 on page 14-15 (Attached hereto as Proprietary Exhibit JAA-13R)

submitted Table CVL-1,[107] In column "C" of this table, only three exchanges of the thirty-one listed show a "monthly cost per line" that is less than the $29.95 price for Pure Broadband service that CenturyLink is advertising. And the price for Pure Broadband barely covers the costs listed for those three exchanges.

Q. What do the results of this comparison between the price of Pure Broadband and the CenturyLink's representation of the monthly per line cost indicate?

A. There are two plausible, possible conclusions. One is that since CenturyLink is willing to sell retail standalone broadband service over a local connection for $29.95, its monthly cost per line couldn't possibly be as high as depicted in Ms. Londerholm's table. Alternatively, if CenturyLink is selling a non-regulated service at below-cost levels, it would have to recover the margin from captive carriers that must pay CenturyLink's above cost access services for other lines. Either conclusion discredits CenturyLink's argument that it must continue to collect high access charges.

If the Carrier Charge is Eliminated, IXCs Would Still Be Paying to Support the RLEC Local Loops

Q. OTS witness Kubas states that IXCs would become intrastate freeloaders on the RLECs network if the Commission eliminated loop cost recovery from the intrastate switched access rates.[108] Is he correct?

[107] *Id.*
[108] Direct Testimony if Joseph Kubas on behalf of Office of Trial Staff – page 14 line 1-4

A. No. Above and beyond the massive subsidy IXCs pay to Pennsylvania RLECs in the form of the carrier charge today, carriers contribute $33.6M dollars annually to the PA USF, a fund designed to subsidize the RLEC cost of the local loop. That translated into a subsidy of approximately $2.80 per local loop. If the Commission eliminated the carrier charge from the intrastate switched access rate structure, the IXCs would still be providing significant subsidy of RLEC local loops.

Q. Do the IXCs also support the RLEC intrastate local loop costs through their contributions to the FCC's High Cost Loop ("HCL") Universal Service Program?

A. Yes. The HCL program subsidizes RLEC intrastate allocated local loop costs. Again, the IXCs pay into this subsidy fund.

Q. Do IXCs also support RLEC interstate allocation local loop costs?

A. Yes. Both the MAG and the CALLS interstate access reform plans recovered a portion of the lost access revenues through new universal service programs. The RLEC in PA collect approximately $35 million or approximately $2.93 per loop of their interstate costs from those sources as well. Most of that interstate access cost is loop costs. Clearly, even if the IXCs never paid another dime of loop cost in the intrastate access rates of the RLECs, the IXCs would not be getting a "free ride" on the RLECs' local loop network. As Verizon witness, Mr. Price put it after pointing out the Federal subsidies the RLECs collect, "Providing additional subsidies to these RLECs through unreasonably high access charges, only exacerbates the harm to other

carriers who must cover not only their costs through their retail rates, but also the costs of their competitors."[109]

Q. By way of comparison, how much subsidy of their local networks do wireless carriers receive from access charges?

A. None. Wireless carriers are prohibited from collecting access charges from other carriers that send traffic over the wireless carrier's networks, so wireless carriers do not receive any cost recovery for their networks from other carriers for non-local call termination.

What Services are Really Getting a Free Ride on the LEC Local Network

Q. Mr. Kubas states "Since the local loop is a shared facility, the cost should be allocated to the services that are carried over the local loop and from the entities that provide those services."[110] Does Sprint agree we need changes in the cost allocation rules?

A. No. The existing loop cost allocation rules are antiquated. It is neither practical nor necessary to fix the rules. End users use loops, carriers do not. End users choose to make and receive calls on their loops, carriers do not. End users cause the cost of the loop, carriers do not. Cost recovery should reflect cost causation.

[109] Direct Testimony of Don Price on behalf of Verizon – page 10 line 15-20
[110] Direct Testimony if Joseph Kubas on behalf of Office of Trial Staff – page 12 line 10-12

Q. Instead of attempting to alter cost allocation rules, how should the Commission permit the RLECs to collect their network costs?

A. The Commission should allow the RLECs to collect their network costs, particularly the local loop, from the whole suite of retail services the RLECs provide over their local network, keeping in mind two important public policy goals. First, the price of basic local service for residential customers should remain affordable. Sprint has suggested an affordability standard within this testimony. Second, the charges carriers impose on each other for the exchange of traffic should be limited to the incremental cost of providing those functions. As described above, asymmetric rates such as RLECs charging $.05 per minute while others carriers charge $.01 or zero, causes the carrier with lower rates to enrich the carrier with higher access rates.

What If Loop Costs Were Allocated to More than Voice Services

Q. What method would be reasonable to allocate local loop costs between voice services, basic local, interstate access and intrastate access, and broadband service?

A. Initially, Sprint notes that it is opposed to the allocation of loop costs to anyone other than the cost causer – the local customer. Nevertheless, for the sake of argument Sprint notes that since no specific service or activity changes the cost of the local loop, the amount of time each service uses the loop facility could be a suitable allocator, and certainly provides a useful insight into the gross mischaracterization of IXCs and wireless carriers as attempting to get a "free ride" on the local loop.

Q. Approximately how much time does the average broadband user spend on the internet each month?

A. According to a CEA Market Research Report, "Adults with broadband at home spend on average 2.4 hours per day online".[111] Converted to minutes per month, the average adult uses the internet 4380[112] minutes per month.

Q. How many minutes of voice usage are typical on an access line in a month?

A. Historically, the total voice usage per month has been approximately 1800 total minutes and intrastate access minutes were about 120 minutes per month.

Q. What percentage of the cost of the local loop would be allocated to intrastate access if local loop costs are allocated to voice and broadband service based the potion of time the local loop is used?

A. Intrastate access represents only 1.94%[113] of the total time the local loop was used for voice and broadband services. The table below gives you an indication of portion of a local loop cost that would be attributable to intrastate access using a range of potential local loop costs.

Range of Local Loop Cost		Intrastate Access Allocation	
$	10.00	$	0.19
$	20.00	$	0.39
$	30.00	$	0.58
$	40.00	$	0.78
$	50.00	$	0.97

[111] Consumer Electronics Association Market Research Report "Broadband in America: Access, Use and Outlook released July 2007 – page 9 (a copy of which is attached hereto as Exhibit JAA-14R)
[112] 4380 minutes = 2.4 hours times 60 minutes per hour times 365 days divided by 12 months.
[113] 1.94% = (120 of intrastate access minutes divided by total minutes of (4380 + 1800))

Q. In this scenario, did you allocate any local loop cost to the other services that also traverse the local loop?

A. No. I did not try to allocate any cost to calling features, voicemail, video or other services that must use the local loop. Make no mistake, calling features and voicemail use the local loop and the some RLECs provision video services over the loop as well. If you truly were ~~coming~~ trying to allocate loop to all services that use it, those services must pay their share as well.

Q. How do even the highest per loop amount on the table above compare to the existing PA USF subsidy IXCs pay?

A. Today, the PTA companies collect about $2.80 per line in PA USF mostly from the IXCs. Even if you completely disregard the substantial federal USF program support the IXCs pay, the existing subsidy in the PA USF itself more than pays the IXCs "fair share" if the loop cost was allocated on relative use.

Q. What is the point of your example?

A. First and foremost, the cost of the loop should not be recovered from any party other than the cost causer, which is the end user. Second, for the sake of argument, if one were to allocate loop cost based on its various uses, the amount of loop usage associated with intrastate access is extremely small and cannot possibly justify the charges imposed on IXCs today. Third, it is important to recognize that the local loop is used for many more retail services today than it was when access rates were set so high. Given today's broadband networks, it is just absurd to not consider broadband services in any analysis of the reasonableness of access rates, the financial strength of

the RLECs and their ability to recover their network costs by means other than the imposition of these costs on other carriers customers.

CenturyLink Survey is Flawed

Q. Have you reviewed the survey CenturyLink developed?

A. Yes. I have reviewed the survey results and the structure of the questions in the survey.

Q. Does Mr. Staihr's conclusion about the survey match the survey he developed?

A. No. Mr. Staihr has concluded RLECs can not recover displaced access revenues through retail rates.[114] In reality, Mr. Staihr's survey, with all of its other flaws, tested the customer's willingness to permit rate increases or to switch providers for telephone service,[115] not the customer's willingness to permit a rate increase to all of the retail services the customer purchases from CenturyLink. If there were no other flaws, Mr. Staihr's survey results could only speak to the customer's willingness to accept rate increases to telephone service.

Q. Do you believe the survey is designed to elicit the response the questioner wishes to receive?

A. Yes. By asking each customer progressively higher increases in their telephone charges, CenturyLink generated a progressively higher portion of the customers that

[114] Direct Testimony of Dr. Brian K. Staihr on behalf of CenturyLink – page 4 line 1-4
[115] Direct Testimony of Dr. Brian K. Staihr on behalf of CenturyLink - Exhibit BKS-1 survey question 8a, 8b

would cancel service if a rate increase is implemented. It is only human nature to increase your dissatisfaction of some potential change if given a progressively worse situation to evaluate. You can see this effect by reviewing the increasing numerical results of the survey each time questions 8(a) and 8(b) were asked. If the survey had randomly selecting the starting point for the local rate increases between the $2 and $5 range CenturyLink wished to test, the survey would have captured a more meaningful opinion of the magnitude of local rate increases that would cause customers to cancel service or switch providers.

Q. How else did the survey generate the desired results for CenturyLink?

A. The survey asked for the customer's reaction to a two dollar increase on telephone service. I think most people understand they pay $20-$30 for telephone service today. I believe a $2 increase on a $20-$30 charge would elicit a much different response than a $2 increase on the service bundle they purchase for $60-$70. In this way, CenturyLink created a much higher percentage of customers that would cancel or switch providers. In reality, a high number of CenturyLink customers purchase a bundle, so the question posed to those customers failed to elicit a response based on their consumption of all services purchased.

Q. Are bundle customers likely to see significant rate increases?

A. Both AT&T and Comcast express their opinion that RLEC bundle customers will see little change in their overall price of the bundle.[116] I agree that competition caused the

[116] Panel Direct Testimony of E. Christopher Nurse and Dr. Ola A. Oyefusi on behalf of AT&T – page 61 line 10-14; Direct Testimony of Michael D. Pelcovits on behalf of Comcast – page 19 line 10-12

RLECs to bundle services together and is likely to suppress rate increases. I also agree the access costs savings that reductions in RLEC access rates will generate for other RLEC service bundles will help offset potential local service rate increases. None of these variables were tested in the CenturyLink survey. In fact, it is quite possible that as CenturyLink experiences declines in access revenue, it will reduce the price for bundles and other services in order to attract more customers and increase sales of these services. The statements referred to earlier in CenturyLink's 10Q certainly reflect that increasing sales of these services is their clear intention as intrastate access revenues decline.

Q. What other observation do you have of the survey results?

A. Although I don't believe the survey accurately captures how customers would react to rate increases, it was interesting to see the proportion of the customers that believe they have another provider that can serve their needs. An essential element of consumer choice is a customer's perceived choices for his or her communications needs. Universal service, or a consumer's ability to obtain the communications service they need, would not be impacted by RLEC rate increases if the customer has choices and if those that don't today have such a choice are provided that choice by a balancing of the competitive interests of all providers in the market. Reductions to reasonable rate levels for intrastate switched access charges are a must to reach that balance.

Retroactive Rate Relief Is Warranted

Q. Please respond to Mr. Zingaretti's conclusion regarding the applicability of retroactive rate relief under Section 1309(b) of the Public Utility Code to this proceeding.

A. Section 1309(b) of the Public Utility Code states that

> "... a final decision and order of the Commission which determines or fixes a rate reduction shall be retroactive to the expiration of such nine-month period.....This subsection shall apply only when the requested reduction affects more than 5% of the customers and amounts to in excess of 3% of the total gross annual intrastate operating revenues of the public utility, provided that, if the public utility furnishes two or more types of service, the foregoing percentages shall be determined only on the basis of the customers receiving, and the revenues derived from, the type of service to which the requested reduction pertains.

Mr. Zingaretti theorizes that retroactive relief cannot apply in this case, because by his calculation intrastate access rate reductions would only affect .18% of the RLECs' total customers, and intrastate access rate reductions would amount to 0% of the RLECs' total gross annual intrastate operating revenues. I am not a lawyer (and neither is Mr. Zingaretti), but in my view Mr. Zingaretti's analysis does not comport with a plain reading of the statute and is clearly wrong.

With respect to the "5% of customers test", the statute states that if the utility provides two or more types of service, the percentage shall be determined only on the basis of the customers receiving the type of service to which the requested reduction pertains. The RLECs provide more than two types of tariffed services. They provide basic local service, intrastate switched access service, interstate switched access service, special access service, etc. The requested reduction relates only to intrastate switched access service, and under the statute, only customers receiving switched access service are to be counted for purposes of the "5% test". Obviously, 100% of RLEC customers

receiving intrastate switched access service will be affected by the requested reduction in RLEC intrastate switched access service. Therefore, it is clear that the "5% of customers" test is met.

The requested intrastate switched access charge reduction also meets the "3% of intrastate operating revenue test". Mr. Zingaretti attempts the creative argument that because access rate relief must be done on a revenue neutral basis, the "effect" of AT&T's complaint will be "zero" reduction in the RLECs intrastate operating revenues. Mr. Zingaretti's position is rather self-contradictory, because considerable portions of his testimony are dedicated to arguing that access charge reductions will significantly decrease the RLECs intrastate revenue. For instance, on page 16 of his Direct Testimony, Mr. Zingaretti states that "the impact of complete mirroring on the PTA Companies would be a reduction in intrastate revenue of $63,910,478, or 65%". In any event, Mr. Zingaretti's interpretation of the "3% revenue test" is not supported by a plain reading of the statute. The statute does not refer to the net "effect" of rate reductions on the public utility, as Mr. Zingaretti states. The test in the statute is whether the "requested reduction in rates" amounts to in excess of 3% of the total gross annual operating revenues of the public utility. In this case, because the RLECs provide two more types of service, only revenue derived from the type of service at issue – intrastate switched access service – is to be considered. Mr. Zingaretti's testimony and exhibits make it clear that the reduction in intrastate access rates being sought in this case exceed 3% of the total gross annual operating revenues that the RLECs receive from intrastate access service. Specifically, PTA Exhibit GMZ-10 shows that the requested reductions in intrastate access rates exceed 3% of the total gross annual operating revenues that the

RLECs receive from intrastate access service. As such, it is clear that the "3% of intrastate operating revenue test" is met, and retroactive rate relief under 1309(b) is applicable.

Summary of Testimony

Q. Please summarize the main conclusions to be taken from your testimony.

A. The majority of the dispute in this case centers on eradicating the anachronistic carrier line charge component of the RLECs' intrastate access charges. CenturyLink's traffic-sensitive rates already mirror interstate rates, and the PTA carriers agreed to mirror their traffic-sensitive interstate rates in 2000 and 2003.[117] Mirroring traffic-sensitive interstate rates will have a zero dollar impact on CenturyLink and accounts for only 16.3% of the impact of mirroring based on PTA's calculations.[118] As CenturyLink's own witness has stated, "it is inefficient, uneconomical, and unfair to recover loop costs through the common carrier line charge.... [I]n fact it makes more economic sense to recover the loop cost as part of basic local service than through any other means currently available." This Commission should follow the lead of the FCC and other state commissions that have ruled that non-traffic sensitive costs should no longer be collected on a minute of use basis from voice services and should not be recovered from other carriers.

There is not one piece of financial data in the record to demonstrate to this Commission that the RLECs have a financial need to retain the access overcharges. If the RLECs cannot prove a financial need for access charges in order to provide basic local exchange service at prices below cost, the high access rates are not a subsidy at all,

[117] *See* Prepared Direct Testimony of Gary M. Zingaretti, PTA, at 15.
[118] *Id* at 16 (reference table between lines 10 and 11).

they are simply excess profits for the RLECs and the consumers of Pennsylvania should not continue to be burdened by excess RLEC profits. The RLECs are unable to quantify any significant costs associated with their COLR obligations. Conversely, the RLECs are provided revenue opportunities because of their ubiquitous network.

As long as the intermodal competitors, cable telephony and wireless providers must pay more to complete calls to the RLEC customers than they collect when RLEC customers call the intermodal customers, the intermodal carriers and long-distance carriers are at a competitive disadvantage, not caused by inferior service or business acumen, but instead by out-dated, monopoly-era, incumbent-favoring regulations. The net result is that consumers will pay higher retail rates for non-RLEC services that are available in their markets.

In analyzing the revenue-neutrality restriction on access charge reductions, the Commission must also acknowledge that RLECs presently earn substantial revenues from jurisdictional, non-protected/competitive services. The Commission should recognize that RLECs now offer a full slate of services over their exchange access network from which to recover their network costs (i.e. local, toll, long distance, high speed internet, and other services).

The Commission should require the RLECs to demonstrate that they are not using regulated service revenues to fund or subsidize non-regulated services. If the RLECs are assigning their costs and investments from broadband to their intrastate regulated accounts and treating such costs and investments as part of their regulated operation, as CenturyLink indicates it does, it is impossible to see how the RLECs can avoid cross-subsidization.

Sprint recommends the current $18 rate cap for basic local service be adjusted for inflation since it was set in 2003, and set at $21.97, and then indexed to inflation going forward. The RLECs should be permitted to charge any rate below that benchmark.

Q. Does this conclude your Rebuttal Testimony?

A. Yes.

SPRINT EXHIBIT

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EX. 9

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: John Wine, Chair
Cynthia L. Claus
Brian J. Moline

In the Matter of the General Investigation)
Into the Reformation of Intrastate) Docket No. 01-GIMT-082-GIT
Access Charges.)

REBUTTAL TESTIMONY
OF
BRIAN K. STAIHR
ON BEHALF OF
SPRINT

July 13, 2001

REBUTTAL TESTIMONY OF BRIAN K. STAIHR

I. Introduction

Q. Please state your name, title and business address.

A. My name is Brian K. Staihr. I am employed by Sprint Corporation as Senior Regulatory Economist in the Department of Policy and Regulatory Affairs. My business address is 6360 Sprint parkway, Overland Park, Kansas 66251.

Q. Are you the same Brian K. Staihr who filed direct testimony on May 31, 2001?

A. Yes I am.

II. Purpose

Q. What is the purpose of your rebuttal testimony?

A. In my rebuttal testimony I address three specific issues raised in the direct testimony of Bion C. Ostrander on behalf the Citizens' Utility Ratepayer Board. The issues I address are 1) penetration rates for telephone service in Kansas, 2) affordability of basic rates in Kansas, and 3) the economically flawed argument that the local loop is a shared or a common cost among multiple services.

III. PENETRATION RATES

Q. On page 16 of his testimony witness Ostrander claims that the proposed rate re-balancing in the Stipulation and Agreement come "...at a time

when Kansas is one of the few states in the nation with problems regarding penetration levels for telephone service." Does Sprint agree with this assessment?

A. No. It should be noted that Mr. Ostrander does not define or explain what he considers these "problems" to be. He offers no evidence, no statistics, no data whatsoever suggesting that penetration levels in Kansas are decreasing, or are lower than the national average, or are lower than those of comparable states, or are somehow a "problem". On page fifteen he does state that penetration levels in Kansas show "little or no growth" and he calls this a "disturbing trend". However, Mr. Ostrander omits one important fact: Penetration levels in Kansas have shown less growth than national averages because they started out significantly higher than the national average rate.

According to the FCC's Common Carrier Bureau Industry Analysis Division, in 1984 the national average penetration level was 91.6%. At that time in Kansas, the penetration level was 94.3% or 2.7% above the national average. In 2000 the national average penetration rate was 94.4%, and the penetration rate in Kansas was 94.8%, 0.4% above the national average.[1] During the years from 1984 to 2000 the amount of variation across state penetration levels was reduced by nearly fifty percent, as measured by the FCC data's standard deviations. For example, in 1984 there were a dozen states with penetration rates that

[1] *Telephone Subscribership in the United States*, Industry Analysis Division, Common Carrier Bureau, FCC. Released March 2001.

were fully 4% above or below the national average. But in 2000 not a single state had a penetration rate that was 4% above the national average, and only two states have rates that are 4% below the national average. In a nutshell, penetration rates are converging. And as penetration rates converge it is not surprising that Kansas' rate, which started out significantly higher than average, should increase less than the rates in some states that were well below average. But contrary to what Mr. Ostrander would suggest, this represents neither a "problem" nor a "disturbing trend".

Furthermore, the Stipulation and Agreement should actually help to ease any concerns Mr. Ostrander might have regarding the penetration rate for basic service in Kansas. Because it has been mandated that access charge reductions will flow through to the end user in the form of toll charge reductions, Kansas consumers will see lower toll bills as a result of the Stipulation and Agreement. It is well known, among those who study consumer demand, that the reason many customers choose not to have telephone service is because of high long-distance calling charges. Put simply, in certain cases it is easier for consumers to have no service than it is to control or curtail toll calling. In addition, disconnection from the network takes place because of non-payment of toll charges. This is one of the key reasons that access to toll blocking was included in the FCC's list of services to be supported by universal service in its first universal

service order.[2] In the Order the Commission stated "Studies demonstrate that a primary reason subscribers lose access to telecommunications service is failure to pay long distance bills."[3] Although that section of the Order generally refers to the customer being disconnected because of non-payment, the fact is that non-subscribership, either as a result of action on the part of the customer or on the part of the carrier, is often caused by high toll charges. Lower toll charges, which would be brought about by the Stipulation and Agreement, can help keep customers on the network. Obviously services such as toll blocking can help as well, but some end-users may be unaware that such options exist. Because the Stipulation and Agreement will lead to lower toll charges, the effect on penetration levels should only be positive.

For Kansas, telephone penetration has increased over time, and remains slightly above the national average. Mr. Ostrander's concerns are misplaced, and the data does not support his claims that Kansas has a "problem" with regard to penetration rates.

IV. AFFORDABILITY

Q. **On pages 16-17 of his testimony Mr. Ostrander states that "If local rates are increased on the basis that they are currently "affordable", I believe it will be necessary to find that long distance rates are currently "unaffordable"." He goes on to state that because no**

[2] FCC USF Report and Order, CC Docket 96-45, released May 7, 1997 (USF Order).
[3] USF Order, paragraph 385

information suggests that long distance rates are unaffordable, access reductions are not necessary. Please comment.

A. Mr. Ostrander has somehow misinterpreted both the goals of the 1996 Telecom Act and the intentions behind the Stipulation and Agreement. The two goals of rate re-balancing, which involves the removal of implicit subsidies, are to move rates closer to costs and to make rate structures more reflective of the underlying costs of providing the services. The issue at hand is not whether local rates are currently affordable; they clearly are. This affordability is obviously a necessary condition for rate re-balancing, but it is not "the basis" for rate re-balancing. Nor does affordability (or non-affordability) of long distance rates play any part in need to rate re-balance. To the extent that access charges (or a portion thereof) serve as an implicit subsidy for loop costs and basic service, it is desirable to reduce them and allow the rates charged for basic service to come closer to covering the costs of basic service. In the process, the rates that IXCs are charged for access to the LECs network come closer to cost, and long-distance charges to end users also come closer to cost. The goal, which is both economically efficient and social-welfare-enhancing, is to allow rates for all services to approach costs regardless of the direction the rate must move in order to get there. Clearly, if the rate has to move "up" then it is correct to be concerned about affordability. This concern is the basis for having an explicit high-cost universal service fund. But the fact that toll rates are currently affordable, as Mr. Ostrander

states (and as Sprint also believes) is no reason to leave in place an inefficient and undesirable system of implicit subsidies. Furthermore, it is also detrimental to perpetuate a system in which the cost of a non-traffic sensitive item, the local loop, is recovered through a traffic-sensitive mechanism, access charges. Sprint witness Harper, in his direct testimony, explains the advantages to customers of the more equitable system that Sprint supports as part of the Stipulation and Agreement.

v. **LOOP AS A COMMON COST**

Q. **Throughout his testimony (p.7, p.9, p.18) Mr. Ostrander makes reference to "common" loop costs. He also advocates that these "common" loop costs be recovered over a variety of services, including access. Please comment.**

A. This issue, as raised by Mr. Ostrander, is really two separate issues. The first issue is whether or not the cost of the local loop is properly defined as a common cost or a direct cost. The second issue is, regardless of how the cost is defined, what is the proper way to recover the cost? In economic terms, the first issue determines the second: for the sake of economic efficiency the cost must be recovered from the parties that causes the cost to be incurred in the first place. In political terms, sometimes the method of cost recovery has not been directly aligned with the cost causer because of other concerns, e.g. social welfare issues.

With regard to the claim that the loop is a common cost, it is Sprint's position, a position supported by the majority of today's leading regulatory economists, that the cost of the loop is not a common or shared cost, but a direct cost of access to the public switched network.[4]

Because this issue has been argued extensively for many years, and because innumerable pages of testimony have been filed on this issue with the Kansas Corporation Commission, the FCC, and undoubtedly every other state commission or board across the country, in the name of efficiency I will not repeat all of Sprint's arguments here.[5] Instead, I include below a quote from Dr. Alfred Kahn, testifying on this subject before the Pennsylvania Public Utility Commission. This is followed by six simple facts:

"The arguments proffered by these witnesses [that the loop is a shared cost] are the most persistent weeds in the regulatory garden. Other mainstream economists and I have dealt with and debunked these claims for years and I suppose this will remain our task for as long as parties to proceeding such as this insist on conflating the politics of setting prices with the economics of determining costs."[6]

Fact #1: The local loop is a functionality or capability that allows an end-user to have access to the first point of switching. It provides the end-user with the opportunity to place and receive calls.

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[4] Rather than include a long list of names in this testimony, I refer the reader to a 1994 article in the Yale Journal on Reoulation by Dr. Steve Parsons entitled "Seven Years *After Kahn and Shew: Lingering Myths on Costs and Pricing Telephone Service.*" The article provides an excellent discussion and overview of this topic.

[5] Sprint will gladly provide any interested party with a portfolio of arguments, articles, testimony and transcripts addressing this issue and supporting the position that the loop is not a common or shared cost.

Rebuttal Testimony of Dr. Alfred Kahn before the Pennsylvania Public Utility Commission, Docket No. I-940035, February 15, 1996. [6]

Fact #2: That functionality comes from the loop. Not a portion of the loop, the entire loop.

Fact #3: There is a cost that the LEC incurs when it provides this capability to a customer.

Fact #4: Nothing the end-user does affects the cost of his or her loop, the cost that LEC incurs when providing the customer with this opportunity of placing and receiving calls.

Fact #5: Following directly from Fact #4, the manner in which a customer uses his or her loop has no impact on, and nothing to do with, the cost of that loop or the proper method for recovering that cost.

Fact #6: Currently, a portfolio of telecom services (both inter- and intra-state, both regulated and non-regulated) makes use of the local loop. And many of the same services provide revenues that are used to compensate the LEC for incurring the cost of the loop. We generally refer to this as allocating the cost of the loop.

It appears that Mr. Ostrander believes this current allocation method is the best allocation method. Sprint believes it is not. Sprint believes that it is inefficient, that it is not consistent with the goals of the 1996 Telecom Act, and that it is not sustainable in a competitive market. Every time a customer makes a toll call he or she pays a part of a loop cost through access charges. It is simply uneconomical and unfair to recover loop costs this way. The box below lists two hypothetical but representative customers, with different monthly calling patterns. For purposes of

illustration, let's assume the two live side by side, and that the costs that the LEC incurred to provide their loops is exactly the same for both customers.

End User	Basic R1 Rate	Local Minutes of Use (per Month)	Toll Minutes of Use (per Month)	Total Usage
Ms. White	$16.00	350	20	370
Mr. Brown	$16.00	150	100	250

Under this hypothetical, as long as access charges include a subsidy to recover loop costs, Mr. Brown is paying more in loop costs every month than Mrs. White despite the fact that the costs of their loops are the same. Even using the erroneous argument of usage as some type of justification, Mr. Brown is using his local loop less than Ms. White but paying more. Sprint is at a loss to understand how Mr. Ostrander can consider this cost-allocation method either economical or equitable. It is not economical because recovery of a flat rate cost on a per minute basis is inconsistent with economic efficiency. It is inequitable because there is no justifiable reason whatsoever that Mr. Brown should pay more in loop costs every month than Ms. White.

To the extent that the Stipulation and Agreement moves toward recovering a flat-rate cost on a flat rate basis, and reduces the inequities illustrated above, it is a step toward a better method for recovering loop costs.

Q. Does this conclude your rebuttal testimony?

A. Yes it does.

VERIFICATION

STATE OF KANSAS)
) ss:
JOHNSON COUNTY)

I, Brian K. Stahr, of lawful age, being first duly sworn, on my oath state: that I am the witness herein named; that I have read the above and foregoing Testimony; and that the statements, allegations and matters contained therein are true and correct to the best of my knowledge and belief..

Brian K. Stahr

Subscribed and sworn to before me this 13th day of July, 2001

Notary Public

My Appointment Expires:

MICHAEL G. McCAIN
Notary Public, State of Kansas
My Appt. Exp. 4/26/2003

SPRINT HIGHLY CONFIDENTIAL EXHIBIT

JAA-2R

SPRINT EXHIBIT

JAA-3R

Person Answering: Gary Zingaretti

Sprint-PTA 3-4 Within the cost allocation process referenced above, are the costs associated with the following transaction assigned directly to interstate, intrastate or allocated to both?

a. DSLAM equipment and the depreciation expense of such equipment?

b. Costs to condition a local loop for the provision of high speed internet service such as removing bridge taps and load coils?

c. Augmentation of existing feeder and distribution local loop plant to accommodate high speed internet service?

d. Placement of fiber in the feeder and distribution local loop plant to accommodate high speed internet service?

e. Placement of a fiber fed digital loop carrier plant to facilitate the sale of high speed internet service?

Answer: Not applicable. See the response to Sprint-PTA-3-3.

SPRINT EXHIBIT

JAA-4R

Person Answering: Gary Zingaretti

Sprint-PTA 2-6

(a) Is each PTA company in compliance with 66 Pa.C.S. § 3016(f)(1), which reads in relevant part: "A local exchange telecommunications company shall be prohibited from using revenues earned or expenses incurred in conjunction with noncompetitive services to subsidize competitive services."

(b) For each PTA company which answers that it is in compliance with section 3016(f)(1), please provide all documents, worksheets, memoranda, etc. that were used to determine that such company is in compliance with section 3016(f)(1).

(c) If the responding PTA company has no documents, worksheets, memoranda, etc. that were used to determine its compliance with section 3016(f)(1), please describe the process by which that company determined or determines that it is in compliance with section 3016(f)(1).

Objections: See General Objections. Further, the PTA Companies object to this interrogatory as it seeks a conclusion of law, is not relevant to this proceeding nor reasonably calculated to lead to the discovery of admissible evidence, seeks information subject to the attorney/client privilege, attorney work-product exemption, or other applicable privileges or immunities from disclosure, and is contrary to the laws and rules governing privilege and exemption. Issues raised by § 3016(f) were not sought to be included in the issues to be litigated in this case and are not included in ALJ Melillo's list or as modified by the Commission on interlocutory review. ALJ Colwell granted PTA's objections to similar discovery by Comcast in the phase of the PA USF investigation before her, where the issue was ruled irrelevant also.

Answer: Subject to and without waiving these objections, the PTA Companies provide the following response:

(a) To the best of each PTA Company's knowledge, yes.

(b) No studies have been undertaken by the PTA Companies for the purpose of determining compliance with § 3016(f). Nor are any required.

(c) The Commission has described the purpose of this provision is "to prevent unfair competition and cross-subsidization in any local exchange market within this Commonwealth." The Commission has not identified the cost standards to be used in applying this test. Having said this, the companies, of course, must be and are in compliance with the FCC's Part 64 cost allocation rules.

SPRINT HIGHLY CONFIDENTIAL EXHIBIT

JAA-5R

SPRINT EXHIBIT

JAA-6R

AT&T Communications of Pennsylvania, LLC et al, vs. Armstrong Telephone Company – Pennsylvania, et al.
Docket No. C-2009-2098380, et al.

Response of The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink To Discovery Propounded by Sprint Nextel -- Set III

Sponsor: Mark Harper

Sprint-CTL 3-4:

Within the cost allocation process referenced above, are the costs associated with the following transaction [sic] assigned directly to interstate, intrastate or allocated to both?

a. DSLAM equipment and the depreciation expense of such equipment?

b. Costs to condition a local loop for the provision of high speed internet service such as removing bridge taps and load coils?

c. Augmentation of existing feeder and distribution local loop plant to accommodate high speed internet service?

d. Placement of fiber in the feeder and distribution local loop plant to accommodate high speed internet service?

e. Placement of a fiber fed digital loop carrier plant to facilitate the sale of high speed internet service?

Objections:

See, general objections and specific objections to Sprint-CTL 3-3, incorporated herein.

Response:

As a result of a meet and confer call of 2/22/2010 and subsequent emails, Sprint modified the prefatory portion of the question to read as follows: "Within the process for allocating costs per its books, are the costs associated with the following transactions assigned directly to interstate, intrastate or allocated to both?"

With this clarification, Sprint also provided an extension of the due date to 3/5/2010.

Sprint-CTL 3-4: (Supplemental Response 3/5/2010)

With the above-noted additional clarification, and with the further assumption that the question now refers to the jurisdictional separations processes inherent in the

AT&T Communications of Pennsylvania, LLC et al, vs. Armstrong Telephone Company – Pennsylvania, et al.
Docket No. C-2009-2098380, et al.

Response of The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink To Discovery Propounded by Sprint Nextel -- Set III

FCC Part 36 Separations Rules, without waiver of any objections CenturyLink provides the following response:

FCC Part 36- Jurisdictional Separations Procedures outline the procedures ILECs use to separate their investment and expenses between the state and interstate jurisdictions. CenturyLink follows these procedures for its investment and expenses in Pennsylvania. Part 36 drives the separation of costs and investments to the appropriate jurisdiction by separation categories and allocation factors. In 2000, the Federal–State Joint Board on Separations issued a Recommended Decision for an interim freeze of the Part 36 category relationships and allocation factors. For CenturyLink in Pennsylvania, the Part 36 Separations factors and, hence the jurisdictional separations category relationships and allocation factors, have been frozen by the FCC since 2001.

For a) through e), in the question above, the determination of whether the Separations factor or ratio utilized for the allocation of each individual transaction depends upon the specific Part 36 category, factor, and Part 32 account where the transaction being described is actually recorded on the books.

For example, in transaction a) described above, the DSLAM equipment is considered Central Office Circuit Equipment and the booked costs would be allocated using the Part 36 Separations factor for Central Office Transmission Equipment. The Separations Factors used in Pennsylvania for those particular costs are approximately 71% intrastate and 29% interstate.

As an additional example, for transaction b) described above, the cost of conditioning would normally be charged to the appropriate expense account and would be split by jurisdiction using the Part 36 Separations Factor for Plant-Specific Expenses applicable to Account 6421/6422/6423, depending upon the specific type of Cable and Wire (Outside Plant) facility involved in such a transaction. The Separations Factors in Pennsylvania used to jurisdictionally separate these types of Plant-Specific Expenses are approximately 77% intrastate and 23% interstate.

For the transactions described in c) through e) above, those descriptions are far too broad or vague to be able to accurately determine the specific plant/expense accounts involved or the related Part 36 jurisdictional separations factors.

SPRINT PROPRIETARY EXHIBIT

JAA-7R

SPRINT EXHIBIT

JAA-8R

Form 10-Q

CENTURYTEL INC - CTL

Filed: November 09, 2009 (period: September 30, 2009)

Quarterly report which provides a continuing view of a company's financial position

Subsequent to the Embarq acquisition, we are now an integrated communications company primarily engaged in providing an array of communications services in 33 states, including local and long distance voice, data, wholesale, Internet access, broadband, and satellite video services. In certain local and regional markets, we also sell communications equipment and provide fiber transport, competitive local exchange carrier, security monitoring, and other communications, professional and business information services. We operate approximately 7.2 million access lines and serve approximately 2.2 million broadband customers, based on operating data as of September 30, 2009. For additional information on our revenue sources, see Note 9. For additional information on the merger, see Note 2.

During the third quarter and first nine months of 2009, we incurred a significant amount of one-time expenses, the vast majority of which are directly attributable to our acquisition of Embarq. Such expenses are summarized in the table below.

Description	Three months ended Sept. 30, 2009	Nine months ended Sept. 30, 2009
	(Dollars in thousands)	
Severance and retention costs due to workforce reductions, including contractual early retirement pension benefits for certain participants	$ 97,450	97,450
Transaction related costs associated with our acquisition of Embarq, including investment banker and legal fees	47,154	47,154
Integration related costs associated with our acquisition of Embarq	25,055	54,482
Accelerated recognition of share-based compensation expense due to change of control provisions and terminations of employment	16,967	16,967
Settlement and curtailment expenses related to certain executive retirement plans (see Note 5)	8,900	16,611
Charge incurred in connection with our $800 million bridge facility		8,000
	$ 195,526	240,664

All of the above items are included in operating expenses except for the $8.0 million charge incurred in connection with our $800 million bridge facility, which is reflected in Other (income) expense. None of the above items include pre-closing expenses incurred by Embarq prior to the effective time of the merger.

In addition, due to Internal Revenue Code Section 162(m) limitations, a portion of the lump sum distributions related to the termination of an executive retirement plan made in the first quarter of 2009 are currently being reflected as non-deductible for income tax purposes and thus increased our effective income tax rate. Certain merger-related costs incurred during the first nine months of 2009 are also non-deductible for income tax purposes and similarly increased our effective income tax rate. Such increase in our effective tax rate was partially offset by a reduction to our deferred tax asset valuation allowance associated with state net operating loss carryforwards. See Note 8 and "Income Tax Expense" below for additional information.

Upon the discontinuance of regulatory accounting, we recorded a one-time, non-cash extraordinary gain that aggregated approximately $218.6 million before income tax expense and noncontrolling interests ($133.2 million after-tax and noncontrolling interests). See Note 12 for additional information.

During the last several years (exclusive of acquisitions and certain non-recurring favorable adjustments), we have experienced revenue declines in our voice and network access revenues primarily due to declines in access lines, intrastate access rates and minutes of use, and federal support fund payments. To mitigate these declines, we plan to, among other things, (i) promote long-term relationships with our customers through bundling of integrated services, (ii) provide new services, such as video and wireless broadband, and other additional services that may become available in the future due to advances in technology, wireless spectrum sales by the Federal Communications Commission ("FCC") or improvements in our infrastructure, (iii) provide our broadband and premium services to a higher percentage of our customers, (iv) pursue acquisitions of additional communications properties if available at attractive prices, (v) increase usage of our networks and (vi) market our products and services to new customers.

SPRINT PROPRIETARY EXHIBIT

JAA-9R

SPRINT PROPRIETARY EXHIBIT

JAA-10R

SPRINT EXHIBIT

JAA-11R

AT&T Communications of Pennsylvania, LLC, et al, vs. Armstrong Telephone Company – Pennsylvania, et al.

Docket No. C-2009-2098380, et al.

Response of The United Telephone Company of Pennsylvania LLC d/b/a Embarq Pennsylvania
To Sprint Nextel Set I

Sponsor: Gerald Flurer

Sprint-Embarq-15

a. Does your company track the cost of being a Carrier of Last Resort (COLR) in Pennsylvania?

b. If so, what was the cost of COLR by year for the last three years (2006, 2007 and 2008)?

c. If so, please provide a description of how this cost is identified?

Objection:

No objection.

Response:

Embarq PA does not track costs responsive to this request. However, the tasks required to maintain a loop to a household which has canceled wireline service differ little from those required to maintain a working loop given the requirement that Embarq PA must provide service within five days of a primary service order request to place that loop back in service. As a result, maintenance efforts related to plant items that serve both working and non-working loops (e.g., central office equipment, remote digital line carriers, feeder cable, and distribution cable) will be continually performed on both types of loops. In addition, plant records must be updated and maintained accurately to insure that facilities will be available to serve that household if required. *See,* ARMIS reports for "UTPA" available online at http://fjallfoss.fcc.gov/eafs7/paper/43-01/PaperReport01.cfm.

SPRINT EXHIBIT

JAA-12R

Person Answering: Gary Zingaretti

Sprint-PTA - 15:

a. Does your company track the cost of being a Carrier of Last Resort (COLR) in Pennsylvania?
b. If so, what was the cost of COLR by year for the last three years (2006, 2007 and 2008)?
c. If so, please provide a description of how this cost is identified?

Answer: No "Carrier of Last Resort" cost of service study exists. I am aware of no generally accepted methodology for even conducting such a study.

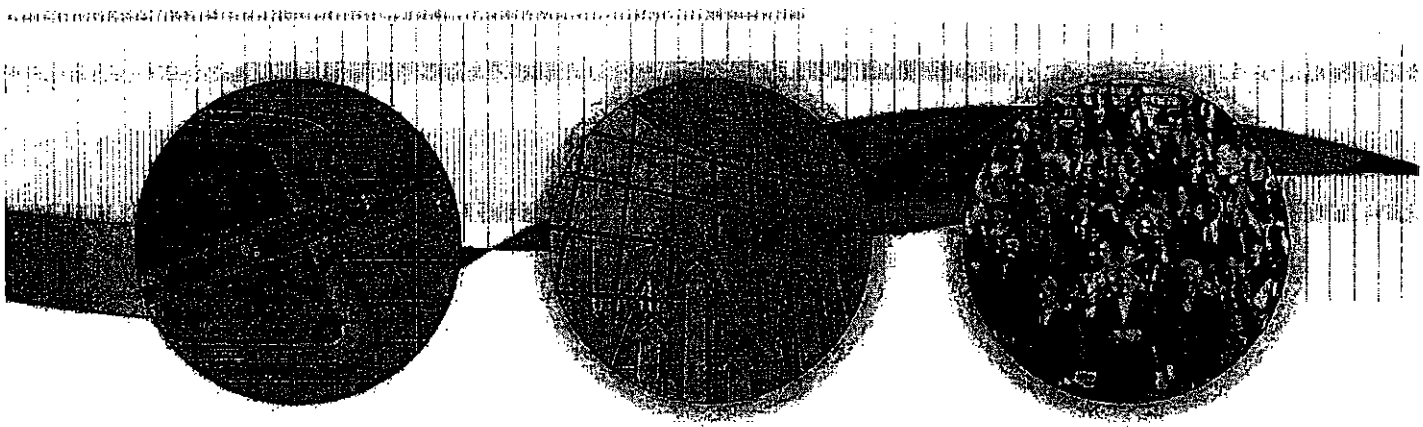
SPRINT PROPRIETARY EXHIBIT

JAA-13R

SPRINT EXHIBIT

JAA-14R

Broadband in America: Access, Use and Outlook



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Broadband in America: Access, Use and Outlook

Shawn G. DuBravac, CFA

The discussion surrounding how best to promote broadband Internet access in the United States relative to other countries persists, with compelling arguments mounting on all sides. The principal goal of this paper is to look beyond the issue of national rankings and examine broadband in America from the eyes of the US consumer.

The broadband debate until now has been decidedly macro in scope. But the decision to adopt broadband at home is largely decided by individuals and their households. This paper focuses on the micro underpinnings of broadband adoption - what individuals and households are doing and how they perceive the broadband landscape. While much of the broadband debate has focused on the US' relative position vis-à-vis other countries, this paper sidesteps that piece of the debate by centering squarely on US households. By doing so, this study is able to shed light on consumer perceptions of the following questions:

- Who has broadband, who doesn't, and why?
- What compels a household to subscribe to broadband at home?
- Does speed matter?
- How do consumers use the Internet at home and how does having a broadband connection impact usage?
- What is the inclination of households towards broadband adoption into the future?
- What is the outlook for consumer broadband in the US?

The findings of the study are clear. The prevalence of broadband in the home has grown significantly. For the first time, there are more households with broadband than without. Above and beyond broadband at home, access outside the home is also playing a vital role in the broadband story. Taken together, 72 percent of all adults either have broadband at home or regularly access a broadband connection outside the home.

Moreover, the findings of this study reveal that media-rich digital entertainment, content and services like online video and streaming audio play a central role in the decision to ubscribe to broadband at home and a major motivation towards upgrading in the future. The study also clearly finds that greater facilities-based competition should help improve Internet connection speeds - a major catalyst for broadband adoption - and broadband subscription costs - a major deterrent to broadband adoption.

Key Insights

- **Broadband Adoption in the US is Robust**
  57.8 million US households subscribe to broadband at home - 51 percent of all households - an increase of 21 percent in the last 12 months

- **Broadband is the Primary Internet Connection in US Homes**
  Seventy-five percent of US adults with Internet access at home subscribe to broadband

- **Broadband Access Outside the Home is a Vital Component of Total Access**
  42.6 million adults - 43 percent of all adults without broadband at home - regularly access a broadband connection outside the home

- **Seventy-two percent of All US Adults Regularly Access a Broadband Connection**
  In addition to 51 percent of adults with home broadband, 21 percent of adults without home broadband regularly access a broadband connection outside the home

- **Speed Matters**
  Sixty-five percent of current broadband subscribers upgraded for a faster Internet experience

- **Broadband Adoption Growth to Continue**
  Forty-four million adults - 20 percent of non-subscribers - expect to have broadband at home within the next two years

- **Increased Digital Entertainment Use is a Major Driver of Adoption**
  Current subscriber adults with Internet connectivity at home point to increased media-rich digital entertainment use as a key motivating factor in the decision to upgrade to broadband

- **Price is a Major Deterrent to Broadband Adoption**
  Fifteen percent of all non-subscribers say price is the number one reason they don't have broadband at home

Who Has Access to Broadband?

Access to broadband in the US is a vital concern for a myriad of reasons. Multiple studies suggest wide diffusion of broadband will lead to broad economic growth, including both job and income expansion. Broadband access enlarges lines of communications which can boost competitiveness in an increasingly global business environment. Furthermore, increased broadband access also brings with it the hope of widely disseminating knowledge and improving and increasing services like healthcare and distance learning. Increased broadband access also augments technology use, spurring innovation and other positive outcomes as a result.

Today, over 57.8 million US households subscribe to broadband at home - an increase of 21 percent in just the last 12 months. But perhaps even more remarkable than the 51 percent of US households currently subscribing to broadband at home is that 75 percent of all US households with Internet connectivity at home subscribe to broadband. This highlights the paramount role broadband plays in home Internet connectivity and only strengthens the importance of ensuring robust access to broadband in the US.

As broadband increases as the primary Internet connection of choice in US homes, so does its tenure. The average broadband household has had broadband for 3.7 years. But this figure masks the extreme growth broadband has experienced in recent years. As mentioned earlier, in just the last year, the number of US adults with broadband at home has grown by 21 percent. Moreover, 28.5 million US households - 49 percent of all broadband households - have had broadband at home for three years or less.

While much of the broadband debate has focused specifically on broadband at home, this is only part of the broadband story. US adults are also increasingly accessing broadband connections in numerous places outside the home. Today, 46.2 million US adults without broadband in their home regularly go online through a broadband connection outside of their home. Together, 72 percent of all US adults either have a broadband Internet connection at home or regularly go online through a broadband connection outside of the home.

These additional 46.2 million individuals go online from access points at work, friends and relatives homes, public libraries and government centers, schools and universities, and even through portable devices like wireless phones. Table 1 highlights the percent of US adults regularly accessing broadband at locations outside their home by the type of Internet connection they have at home. These results highlight how broadband Internet connections outside of the primary residence have become an ever-important component of broadband access - painting a much more enlightening and complete vision of broadband access.

Table 1
Percentage of Consumers Accessing Broadband Elsewhere by Type of Home Internet Connection

	Total US	Broadband at Home	Internet (Not Broadband at Home)	No Internet at Home	No Computer at Home
Percent of all US Adults	–	51%	17%	7%	26%
Percent Accessing Broadband Outside the Home	53%	61%	51%	36%	41%
Your Workplace	32%	43%	30%	18%	14%
Public Access Locations (i.e., Library or Government Center)	21%	16%	23%	17%	29%
Wireless "Hotspots", such as a Coffee Shop	9%	14%	4%	3%	3%
School or University	15%	18%	16%	8%	12%
Relative's House	18%	21%	14%	11%	18%
Friend's House	16%	17%	11%	10%	17%
Through Blackberry or PDA Device	5%	8%	2%	1%	1%
Through Wireless Phone	7%	9%	6%	6%	6%

*Not Mutually Exclusive

Speed Matters

Connection speeds matter in an absolute sense when it comes to broadband access; faster speeds can help facilitate service offerings and other Internet-based applications at home. Many also argue faster speeds define what is possible - setting the stage for a plethora of yet undiscovered or underutilized Internet-related service offerings, applications and innovations.

Speed appears to matter for US households as well. Sixty percent of broadband households indicate they first subscribed to broadband because they wanted a faster connection and greater speed at home. Additionally, five percent of households indicate they wanted to download files faster or the previous connection they had was too slow or frustrating. Collectively, 65 percent of current broadband subscribing households (37.5 million households) upgraded to broadband because of speed.

At the same time, however, 82 percent of households do not know the speed of their home broadband connection. It is clear while households indicate broadband speed is important, it is important to them in a relative sense and not an absolute sense. Households do not appear to care about the actual speeds they achieve with their broadband subscription as long as that connection allows them to perform tasks, run applications, and gain information quickly and effectively.

With the help of competition, consumer demand for increased speed could also indicate a positive trend for future broadband speed. Recall, 49 percent of all broadband subscribing households have had broadband for under three years - so for a large number of households broadband is still a comparatively new service. If relative speed is what actually matters, these results suggest speeds will increase in the future as households - after becoming accustomed to a certain speed range over a longer length of time - begin desiring and demanding faster connections. This might indicate Internet speeds in general and broadband speeds specifically will continue to increase into the future as service providers increase the amount of bandwidth households have access to in an effort to appease customers who want faster speeds and increased bandwidth.

The Service Provider Landscape

In almost every market, competition is important for consumers in establishing competitive pricing and a choice of service offerings. The positive news is that, in the market for broadband at home, consumers perceive to have at lease minimal choice in broadband service providers. Today, a typical US household perceives the presence of 2.2 different providers of broadband service in their area. Currently, 21 percent of households state that they have only one service provider from which they can purchase broadband in their geographic locale. For those households that have broadband, this does not appear to impact price nor their decision to subscribe to broadband - suggesting competition in some markets is helping consumers in other markets.

There is a risk in markets with a single provider of a given service that the sole merchant will constrain output and raise prices - charging the monopolist's price. Across the board, however, consumers are reporting that the average monthly price paid for broadband by US households is $40 a month. This average does not appear to change in areas where consumers perceive there to be more than one provider.

These findings do not disprove that lone service providers have or exercise market power in geographic areas where they are the only service provider option, but these findings do suggest any market power or discrimination does not show-up in aggregate data on pricing and adoption. Reduced or limited competition could impact a plethora of broadband characteristics - from price to speed to customer service to service offerings. Furthermore, just because geographic areas with a single service provider do not exhibit monopolistic signs in aggregate does not mean some of these service providers are restricting output and raising prices now or that they could at any point in the future. Ensuring competitive markets ensures households have access to the widest array of available service offerings at competitive prices. This is most important when examining households who reported that they have not upgraded because it is too expensive (more discussion later in report). As witnessed in other communication service markets, more competition will bring down prices and incentives providers to upgrade their service offerings.

Finally, bundling of services appears to be used frequently

and broadband providers appear to leverage the installed base of current customers. Only 18 percent of households subscribe to broadband from a provider that does not also provide the household's telephone or television services - with 21 percent of households receiving broadband from a company that provides both the households' telephone and television subscriptions. Broadband subscribers are almost equally divided among cable (46.6 percent) and DSL (49.9 percent), with 3.9 percent having a broadband connection besides cable or DSL.

Understanding Where Broadband Service Is Not Available

Not every household in the US can subscribe to broadband. In certain geographic areas, broadband is simply not available. The results of this study find 11 percent of households perceive they do not have a broadband service provider in their area. But of these roughly 12.5 million households, 53 percent (6.6 million households) do not have a home computer and 14 percent (1.7 million households) do not have any type of Internet connectivity at home.

Because households either do not have a home computer or do not have some type of Internet connection at home, there might be less incentive for these households to be fully informed about potential broadband providers in their area. Therefore these results might overstate the true number of households that are unable to subscribe to broadband. Nevertheless, only 23 percent of these households (2.9 million US households) claim their primary reason for not subscribing to broadband is that it is not available where they live.

Of the 12.5 million households ascertaining there is no broadband provider in their area, 42 percent are in urban areas, 19 percent are in suburban areas, and 39 percent are in rural areas. The percentage of households in urban areas without even a single potential service provider might add credence to the idea that some households are simply uninformed about their options. Clearly, more work needs to be done to get specific and accurate information on the reach of current broadband service. Knowing precisely what areas are served is a fundamental prerequisite to effective policymaking on this issue.

72 percent of all US adults either have a broadband Internet connection at home or regularly go online through a broadband connection outside of the home.

65 percent of current broadband subscribing households (37.5 million households) upgraded to broadband because of speed.

Of households with Internet connectivity at home, 75 percent have a broadband connection

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The Demographics of Broadband Adoption

There are four distinct consumer groups in the midst of the broadband debate. These groups include (1) households with no computer at home, (2) households with no Internet connection at home, (3) households with some other type of Internet connectivity at home, and (4) households with broadband at home. Understanding the demographic make-up of these subgroups helps to explain their inclination towards broadband adoption at home and their use of broadband away from home.

The Non-Internet and Non-Computer Households

A major element of the broadband narrative is the significant number of households without a home computer or without home Internet connectivity of any flavor. Approximately 30 million households do not have a home computer. This figure alone represents over half of the US households without broadband. An additional eight million households with a home computer do not have Internet access at home of any type. What do we know about these households and their attitude toward home broadband?

When asked to characterize their current attitude toward broadband, 34 percent of households without a home computer say the primary reason they don't subscribe to broadband is because they don't own a home computer. An additional 16 percent of households without a home computer say they would like broadband, but can't afford it and 11 percent say they just don't want another bill.

For households with home computers but without Internet connectivity, the primary response offered by 25 percent of these households was they would like to have broadband, but can't afford it. At the same time, 22 percent of households with a home computer but without Internet at home say they would not use it enough if they had it and 12 percent flatly said they were not interested in broadband.

Households without home computers and households without Internet access do appear to be well informed about the rough price of broadband. On average, these households perceive the monthly cost of broadband as $36 and $35 respectively - only slightly less than the average price of $40 a month paid by the households subscribing to broadband.

Describing their current attitude toward home broadband as wanting it, but not being able to afford it is an important theme with these two subgroups of households. Only 14 percent of all non-subscribers say they want it and can't afford it. And yet, 60 percent are households without home computers and an additional 18 percent are households without Internet.

While cost is a concern, 45 percent of these households have either satellite or cable television subscriptions - lower than the national average, but still significant. These results suggest many of these households have a finite budget for entertainment and communications expenditures and have opted to spend these dollars elsewhere for the present time. As broadband services evolve and converge, these households could easily reallocate these dollars towards broadband services. If the goal is increased home broadband adoption, then ensuring that media-rich entertainment is easily accessible on the Web should help accomplish this. Greater competition among broadband service providers should also help improve the cost-benefit analysis households perform by lowering prices, increasing available services and speeds, or both.

The percent of US adults without a home computer or home Internet access - 33 percent of all households - are perhaps the biggest, though often most ignored, part of the broadband debate. Much of this segment of the population does go online through a broadband connection - with 40 percent of adults indicating they regularly access a broadband connection outside the home.

Regression analysis sheds some light on why select households do not own computers - suggesting education, income, age and race are statistically significant influences on home computer ownership. Adults with a college degree are 10 percent more likely to own a home computer than adults with a high school degree and adults without a high school degree are 36 percent less likely to own a home computer than adults with a high school diploma. Furthermore, adults with annual household income greater than $40,000 are 21 percent more likely to own a home computer than adults with an annual household income under $40,000. Adults over the age of 65 are 21 percent less likely to own a home computer than adults under the age of 30. Finally, Hispanic adults are 11 percent less likely to own a home computer than Caucasian adults. African Americans and other minorities appear statistically no less likely to own a home computer than Caucasian adults with similar backgrounds.

The Households with Internet Connectivity at Home Other Than Broadband

Of the 68 percent of households with Internet connectivity at home, 75 percent have a broadband connection and 25 percent have some other type of home Internet connection - most notably of course is dial-up. In many instances, this subgroup of the population shares characteristics with the segment of the population discussed above - the slice having either no computer at home or no Internet access of any type at home, but there are notable distinctions. For example, regression analysis suggests income is not a significant factor in differentiating between households with broadband and households with other Internet connections.

The most influential characteristics in distinguishing between broadband households and households with non-broadband Internet connectivity are education, age and geographical location. Adults with a college degree are 13 percent more likely to have broadband at home instead of dial-up compared with adults with a high school diploma. Adults over the age of 65 are 30 percent more likely to have dial-up instead of broadband compared with adults under the age of 30. Adults in urban and suburban areas are respectively 19 percent and 21 percent more likely to have broadband as their Internet connection compared with an adult living in a rural area. Other characteristics, notably children in the household, have no statistically significant impact on the decision to adopt broadband at home.

US Adults with Home Broadband Access

Table 2 highlights both broadband adoption as a percent of the total population and broadband adoption as a percent of the population with home Internet connectivity. Broadband penetration across the entire population can be deceiving because the penetration rate is artificially lowered by households that either have no home computer or have no Internet connectivity at home. For example, while only 24 percent of US adults over 65 have broadband, 57 percent of all 65+ US adults with Internet access at home have broadband.
Table 2 clearly shows, across a host of demographic details, there is hardly a single characteristic where broadband adoption as a percentage of home Internet connectivity is less than 50 percent.

Table 2
Broadband in America

	% of Total	% Subscribing to Broadband at Home (Penetration Rate)	% of Internet Connected Home Subscribing to Broadband (Penetration Rate)
Age			
18-29	20%	52%	77%
30-49	39%	62%	79%
50-64	25%	50%	76%
65+	17%	24%	57%
Race			
White (non Hispanic)	70%	55%	81%
Black	12%	33%	75%
Hispanic	12%	45%	79%
Other	6%	54%	74%
Education			
Less than High School	8%	13%	58%
High School	32%	37%	67%
Some College	25%	53%	76%
College +	36%	71%	81%
Household Income			
Less than $30K	28%	30%	72%
$30K-$50K	23%	36%	60%
$50K-$75K	19%	65%	80%
Greater than $75K	30%	79%	86%
House Type			
Single Family Home	74%	54%	75%
Townhouse	6%	68%	83%
Condo	3%	50%	86%
Apartment	13%	39%	84%
Mobile home	5%	24%	45%
Own	73%	55%	77%
Rent	27%	42%	75%
Urban	49%	53%	80%
Suburban	26%	64%	83%
Rural	25%	33%	55%

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How do Americans use Broadband?

We now turn to how Americans use broadband. Adults with broadband at home spend on average 2.4 hours each day online - compared with 1.9 hours for individuals with a home Internet connection other than broadband. These two figures are statistically indistinguishable - suggesting US adults with home broadband connections and those with other home Internet connections use the Internet from home each day a statistically equivalent amount. But while these two groups of individuals might use the Internet at home a similar amount of time each day, their use of the Internet within that time is very different.

As already mentioned, in addition to the 112.2 million US adults with a home broadband connection, 46.2 million adults regularly access broadband outside of the home. Together, over 158.4 million US adults regularly access a broadband connection or have a broadband connection at home.

This section will explore how US adults with a home broadband Internet connection use the Internet at home differently than other segments of the population. This section will also explore how US adults use the Internet while utilizing broadband Internet connections away from home.

Internet Use at Home: Comparing Those with Broadband and Those Without

As one would expect, for the most part households with broadband at home tend to perform Internet-related tasks more than households with non-broadband Internet connections. But this is not always the case. Regardless of their home Internet connection type, there are several Internet-related tasks households perform at home at roughly an equal rate. For example, 45 percent of households with a broadband Internet connection at home go online to do homework or schoolwork compared with 43 percent of households with an Internet connection other than broadband. On the other hand, banking online is performed by 66 percent of households with a home broadband connection versus 39 percent of households with a home Internet connection other than broadband.

Table 3 illustrates these results for a diverse list of online activities. The findings are clear, households with broadband engage in sundry list of activities - and they do them significantly more than households without broadband. This is especially true with media-rich digital entertainment.

While upgrading to broadband for greater bandwidth is only part of the motivation behind households' decision to get broadband at home, these findings do suggest activities like viewing video content and streaming audio are important Internet activities for homes with broadband and clearly factored into the decision process.

Table 3
Performing Internet-Related Tasks From Home - Broadband and Non-Broadband

Online Activity	Broadband Connection	Other Home Internet Connection	Difference
Online Banking	66%	39%	27%*
Getting Directions	83%	58%	25%*
Viewing Video Content	46%	23%	23%*
Streaming Audio	46%	23%	23%*
Getting News	74%	52%	22%*
Downloading Music	42%	21%	21%*
Telecommuting	38%	22%	16%*
Home Networking	23%	8%	15%*
Shopping	73%	59%	15%*
Surfing the Web	85%	71%	14%*
Uploading Photos	58%	45%	14%*
Downloading Photos	52%	39%	13%*
Posting on Blogs	18%	6%	12%*
Playing Games	58%	47%	11%*
Reading Blogs	27%	17%	10%*
Instant Messaging	47%	38%	9%
Downloading Movies	14%	5%	8%*
E-mailing	94%	86%	7%*
Social Networking	33%	26%	7%
Buying or Selling on eBay	38%	31%	7%
VoIP	8%	2%	6%*
Uploading Movies	9%	5%	4%
Uploading Music	28%	25%	3%
Homework	45%	43%	2%

* Statistically significant at the 5% level

Broadband Use Away From Home: Comparing Subscribers to Non-Subscribers

Time spent online suggests some self-selection is likely taking place when it comes to choosing a home Internet connection. While US adults with broadband or non-broadband Internet connections at home spend a similar amount of time online at home, this is not the case away from home. US adults with a broadband connection at home use the Internet away from home more than any other segment of the population - averaging 1.8 hours a day online while away from home compared to 1 hour for non-broadband subscribers. The real insight comes from individuals with home computers but no Internet access at home - who spend on average just 23 minutes a day online.

These results might suggest there is a self-selection bias when it comes to selecting a home Internet plan. The segment of the population using the Internet the most self-selects a broadband connection while consumers finding little need for an Internet connection - let alone a home broadband connection - tend to use the Internet infrequently even when accessing the Internet outside of the home.

Table 4 reaffirms this conclusion. If there were significant market failures in the home Internet connection marketplace, one might expect individuals without broadband Internet connections at home to be heavy and active users of broadband Internet connections away from home. Furthermore, one would likely expect to see these individuals engage in the activities aided most by a fast connection and wide bandwidth when they were online via broadband connections.

Table 4 suggests the majority of individuals without a broadband Internet connection at home do not become heavily engaged in a multitude of online activities and tasks when they do go online via a broadband connection outside their home. Table 4 shows that for the most part, individuals without a broadband connection at home are on average no more likely to perform these broad activities online from a broadband connection away from home than they are from a dial-up connection at home.

Table 4
Percent of Individuals Engaging in Online Activity on a Broadband Connection Away From Home

Online Activity	Broadband at Home	Internet (Not Broadband at Home)	No Internet at Home	No Home Computer
Total Population	**51%**	**17%**	**7%**	**26%**
Downloading Movies	2%	5%	2%	4%
Downloading Music	8%	4%	6%	12%
Downloading Photos	10%	9%	4%	8%
Buying and Selling on eBay	6%	12%	5%	5%
E-mailing	48%	41%	16%	20%
Getting Directions	35%	24%	17%	20%
Getting News	35%	23%	10%	17%
Doing Homework	15%	15%	6%	16%
Instant Messaging	14%	7%	0%	8%
Online Banking	18%	13%	6%	5%
Playing Games	10%	11%	10%	15%
Posting on Blogs	4%	1%	4%	1%
Reading Blogs	5%	6%	4%	6%
Shopping	14%	11%	7%	11%
Social Networking	7%	5%	3%	7%
Streaming Audio	12%	8%	3%	10%
Surfing the Web	32%	31%	10%	22%
Telecommuting	12%	4%	4%	7%
Uploading Movies	2%	1%	2%	3%
Uploading Music	4%	4%	8%	7%
Uploading Photos	9%	9%	5%	8%
Viewing Video Content	11%	13%	2%	9%
VoIP	4%	1%	0%	1%

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Where Will Broadband Go From Here?

The findings from this study suggest broadband adoption will continue to grow in the foreseeable future. A full 20 percent of non-subscribers expect to have broadband at home within the next two years. This includes 19 percent of households without a home computer and 25 percent of households with a home computer but currently without Internet access.

While 12.5 million households maintain they do not have access to broadband at home, only 4.2 percent of all US households (4.8 million) claim the primary reason they do not have broadband is because it is not available in their area. This suggests most households wanting a broadband connection at home can get one.

One question remains. When all households have access to broadband and all markets are competitive, will all households upgrade to broadband?

Understanding Households That "Never" Expect to Have Broadband at Home

While there are many that assume all households want broadband service, this does not appear to be strictly the case. There are numerous households - in the snapshot of time - that just don't seem to want it. Part of understanding how broadband adoption will grow in the US is understanding when and under what conditions households will eventually subscribe to broadband at home. Convoluting this logic is that 54 percent of US adults without broadband at home say they will never subscribe to it. If this group holds to their intention and never adopts broadband at home, the highest broadband adoption the US will ever enjoy is 73 percent of all adults.

But buried within this finding is a sign of the slow progression households make towards having broadband in their home and an indication that preferences and intentions change over time. Only 26 percent of households maintaining they will never subscribe to broadband currently have any type of Internet connection at home. Sixty-two percent of these households don't even have a home computer. These results might suggest the slow transition a household goes through as it acquires a home computer, makes the decision to subscribe to some type of Internet, and then ultimately and eventually upgrades to broadband service if broadband was not the first Internet connection.

Regression analysis sheds some light on the characteristics influencing individuals that say they will never get broadband. Interestingly, the main influences are not employment status, rural location, or income. For this subgroup of the population, regression analysis suggests the primary influences are education and age. US adults with college educations are two percent less likely to say they will never get broadband at home and US adults over the age of 65 are 30 percent more likely to say they will never get broadband at home. It seems clear, that many adults over the age of 65 are content with dial-up services or for that matter, no Internet connection at home at all and are self-selecting to never get a home broadband connection.

Why Haven't Some Internet Subscribers Upgraded to Broadband?

When asked to describe their current attitude toward broadband at home there are four key responses given by households with dial-up Internet connectivity at home. At the top of the list, 25 percent of these households say they would like to have broadband, but it is not available in their area. This is equivalent to 3.7 percent of the entire US population - roughly 4.2 million households. As Table 5 illustrates, also among the top four reasons, 19 percent of these households say dial-up works fine and 13 percent say they just don't want another bill.

Table 5
Why Current Internet Subscriber Haven't Upgraded to Broadband Yet

You would like it, but it is not available where you live	25%
Dial-up service works just fine	19%
You just don't want another bill	13%
You don't know enough about it	12%

And yet, this subgroup of the population shows a high proclivity towards adopting broadband at home. Twenty-four percent of dial-up users expect to have broadband at home within the next three years and another 21 percent expect to have it at home within four years.

While much of this segment appears content with dial-up and not wanting "another" bill, the disparity between what these households pay each month on average for Internet ($20) and what broadband subscribers pay ($40) continues to converge. As the price discrepancy between Internet access and broadband access lessens, it will likely influence some of the 43 percent of Internet connected households claiming they will never upgrade to broadband to finally take the step and subscribe to broadband at home.

What Activities Would Non-Subscribers Engage In If They Had Broadband At Home?

Examining what Internet-related activities non-subscribers would engage in if they had broadband at home offers insights into some of the possible motivations spurring households to subscribe. The clearest and cleanest comparison is observing how individuals who currently have Internet at home would change their current online behavior if they had broadband. As Table 6 highlights, given the option of broadband at home, individuals with current home Internet connectivity would decrease activities like e-mailing and surfing the web and would drastically increase the amount of digital entertainment they enjoy. It is clear, online activities like downloading music and movies and streaming audio are powerful motivations for upgrading to broadband.

Table 6
Percent of Households Engaging in Online Activities

Online Activity	Current Internet Use at Home	Use Given Broadband at Home	Difference
Downloading Movies	5%	21%	16%
Streaming Audio	20%	33%	14%
Downloading Music	14%	28%	13%
Uploading Movies	4%	14%	11%
Home Networking	7%	16%	9%
Homework	32%	40%	8%
Telecommuting	16%	23%	7%
Viewing Video Content	20%	27%	7%
Buying or Selling on eBay	27%	32%	6%
Online Banking	32%	38%	6%
VoIP	2%	7%	5%
Uploading Music	21%	25%	4%
Downloading Photos	33%	37%	4%
Getting News	42%	45%	3%
Instant Messaging	31%	33%	2%
Posting on Blogs	4%	6%	1%
Reading Blogs	11%	10%	-1%
Playing Games	36%	34%	-1%
Getting Directions	57%	55%	-3%
Surfing the Web	64%	60%	-5%
Shopping	51%	46%	-5%
Social networking	21%	15%	-6%
Uploading photos	40%	33%	-7%
E-mailing	79%	69%	-10%

Conclusion

The macro implications of micro decisions are significant for the future of broadband in the US. Currently, things appear to be moving forward in a healthy direction. Adoption of broadband at home has grown significantly in the last three years and signs point to a strong near-term future for adoption.

At the same time, a significant number of Americans without broadband at home are left uncompelled to upgrade. As the study results show, for many of these households the cost-benefit equation does not yet tilt in their favor. Greater competition among service providers should tip the lure of broadband adoption towards the consumer by lowering price (a current impediment) and/or increasing speed (a current motivation).

A major motivation of broadband adoption is broadband speed relative to dial-up speed, and households adopting broadband are using their new service for a myriad of online activities. Consumers indicate that the chief driver of increased broadband adoption is media-rich digital entertainment pursuits. This is reconfirmed by the large number of households without broadband that indicate they are most interested in engaging in increased digital entertainment when they do get broadband.

The findings of this study reconfirm our belief that an increase in facilities-based competition along with a proliferation of compelling media-rich online applications - with a concurrent avoidance of undue mandates or limitations on web content and services - is the best way to promote continued broadband adoption. Again, this study only reveals consumers' attitudes towards adopting broadband. To facilitate effective policy making and to gain a better understanding of broadband deployment and penetration, increased and more effective gathering of data on the geographic thresholds of broadband service is vital.

Methodology

The report described herein was designed and formulated by the Consumer Electronics Association (CEA). The quantitative study was administered via telephone interview to a random national sample of 893 US adults between May 17 and 20, 2007.

The margin of sampling error at 95 percent confidence for aggregate results is +/- 3.28 percent. Sampling error is larger for subgroups of the data. As with any survey, sampling error is only one source of possible error. While non-sampling error cannot be accurately calculated, precautionary steps were taken in all phases of the survey design, collection and processing of the data to minimize its influence.

As is common practice in survey research, the data was weighted to reflect the known demographics of the population under study. In this survey, weights were applied to cases based on gender, age, race and geographic region. As a result, this data can be generalized to the entire US adult population.

The bases shown on all charts and tables are weighted bases. All percentages in the text, charts and tables included in this report are also based on weighted data.

CEA designed this study in its entirety and is responsible for all content contained in this report. During the fielding of this study, CEA employed the services of Opinion Research Corporation to conduct telephone interviewing. The telephone interviewing employed industry standard random-digit dialing and computer assisted telephone interviewing (CATI).

The Consumer Electronics Association is a member of the Marketing Research Association (MRA) and adheres to the MRA's Code of Marketing Research Standards.

Note: In the analysis and presentation of some data, the following figures were used in calculations.

Total US Population: 294 million
Total US Adult Population: 220 million
Total US Households: 114 million

The above data are 2007 projections made by CEA, based on the US Census Bureau's 2005 American Community Survey.

SPRINT PROPRIETARY EXHIBIT

JAA-15R

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REJOINDER TESTIMONY

OF

JAMES A. APPLEBY

On Behalf of

Sprint Communications Company, L.P., Sprint Spectrum, L.P., Nextel Communications of the Mid-Atlantic, Inc., and NPCR, Inc.

SPRINT STATEMENT 1.3

PUBLIC VERSION

April 8, 2010

Q. Please state your name and business address.

A. My name is James A. Appleby. My business address is 6450 Sprint Parkway, Overland Park, Kansas 66251.

Q. Are you the James A. Appleby that submitted Main Testimony in Docket No. C-2009-2098380, et al. dated July 2, 2009 as well as Supplemental Testimony dated November 30, 2009 and Rebuttal Testimony dated March 10, 2010?

A. Yes I am.

Q. What is the purpose of your Rejoinder Testimony?

A. The purpose of my Rejoinder Testimony is to respond to several statements made by witnesses for the other parties active in the proceeding. Specifically, I will address certain statements in the Surrebuttal Testimonies of the Joint Panel – Mr. Jeffery L. Lindsey and Mr. Mark D. Harper on behalf of United Telephone of Pennsylvania, LLC d/b/a CenturyLink, Dr. Robert Loube on behalf of the Office of Consumer Advocate, and Gary Zingaretti on behalf of the Pennsylvania Telephone Association. But first I will restate Sprint's request in this proceeding to ensure clarity.

Q. Please summarize your testimony.

A. In the multiple rounds of testimony Sprint has provided in this case, we have consistently stated the high access rates of the RLECs are inconsistent with the development of a fully competitive telecommunications market. We explained consumers will benefit as the competitive balance in the market is improved through

reductions in intrastate access rates. Sprint simply asks that the Commission order each RLEC to price its intrastate switched access services at the same level as its corresponding interstate switched access services. The RLECs should be permitted to offset the access revenue reductions from the host of services they provide to their own end users. Sprint does not mandate any specific retail rate changes, but Sprint does support a residential basic local service rate affordability benchmark initially set at $21.97 and increasing with inflation each year thereafter to protect residential consumers that want only basic local service. If an RLEC can prove the intrastate portion of the cost of local service is higher than the local service benchmark, the RLEC should be permitted limited recovery via the PA Universal Service Fund.[1] Sprint fully believes, and the record shows, that the RLECs have the financial strength to complete the transition of intrastate rates to interstate rate levels in Pennsylvania. Sprint has presented a variety of data that shows this financial strength in direct contradiction of the RLECs' refusal to provide data in discovery and hollow words. Sprint strongly urges the Commission to move forward with this much needed reform.

Responses to CenturyLink Surrebuttal Testimony

Q. The CenturyLink Panel discussed the FCC's Federal Broadband Plan in Surrebuttal Testimony.[2] Can you comment on the FCC's Broadband Plan?

[1] The Cost of local service as well as the calculation of the limited PA Universal Service Support is herein discussed in detail in the section called Responses to Mr. Zingaretti Surrrebuttal Testimony below.
[2] Harper and Lindsey, CenturyLink Panel Surrebuttal Testimony, page 5 line 9-15

A. Yes. The FCC released a voluminous plan (the "Broadband Plan") discussing numerous issues that it believes impact the transition of this nation's telecommunications infrastructure from narrow-band to broadband. One of the issues included was a brief discussion of the broken intercarrier compensation system. In the Broadband Plan the FCC again recognizes the need to reform intercarrier compensation and sets out a goal to transition away from intercarrier compensation payments over the next ten years. The first phase of the transition will cause intrastate access rates to mirror interstate access rates. That target is identical to the proposals put forth here by Sprint. Further, the Broadband Plan proposed to increase end user charges to offset reduced access revenues just as Sprint has suggested in this proceeding. In short, the Broadband Plan is consistent with the reform advocated by Sprint in this proceeding.

Q. Does the FCC have the authority to address the intrastate switched access rates of the RLECs in Pennsylvania?

A. Although the Broadband Plan opines that the FCC has sufficient authority, it is not clear. In fact, the Broadband Plan suggested that Congress could act to make the FCC's authority clearer. The Pennsylvania Commission possesses unquestioned authority today to reform the RLEC access rates. The Commission has already delayed action on the next phase of access reform for nearly five years. Sprint and others believe the Commission should act as many other states have already done and institute access charge reform by ordering the RLECs to mirror their own interstate rates.

Q. At page 54 through page 57, CenturyLink discusses the CenturyLink Pure Broadband product. What was your point in raising the CenturyLink service offering in your Rebuttal Testimony?

A. I raised the Pure Broadband service offering to cast doubt on the accuracy of the local service costs OCA calculated in the docket before ALJ Colwell, and which CenturyLink has characterized as low. The cost for most exchanges in the study are far higher than the $29.95 Pure Broadband service offering I was presented with when I called the CenturyLink customer service center. And to be clear, I was told I could renew the $29.95 offering at the end of introductory 12 month period.

Q. Has CenturyLink explained that the average revenue per Pure Broadband customer is approximately [BEGIN CTL CONFIDENTIAL] [END CTL CONFIDENTIAL]?

A. Yes. If I understand the information CenturyLink has shared, the average customer is paying at least **[BEGIN CTL CONFIDENTIAL] [END CTL CONFIDENTIAL]** per month for this service after the introductory offer expires after 12 months. This suggests non-regulated service prices can indeed increase to help offset lost access revenues if CenturyLink so chooses.

Q. Is this increase in non-regulated revenue consistent with the message CenturyLink has publicly conveyed to investors?

A. Yes. Page 39 of Appleby Rebuttal includes an excerpt from a recent CenturyLink 10Q. In the excerpt, CenturyLink indicates that it intends to make up for declining voice and network access revenues by selling bundles, new services and penetrating a higher percentage of its customer base with broadband and premium services. CenturyLink management clearly believes these are realistic goals. Industry trends support CenturyLink management's view. The PA Commission should also recognize and take notice of CenturyLink's ability to generate additional revenues as described in the 10Q.

Q. Do you believe the comparison between the non-regulated Pure Broadband service and the local service costs OCA calculated in the docket before ALJ Colwell, and which CenturyLink has characterized as low, strongly suggest a violation of Section Act 183?

A. Despite the attempt to suggest otherwise,[3] a plain reading of the statute says competitive services shall not be priced below cost. If the OCA calculated cost studies are accurate and CenturyLink stated the results are understated not overstated, Pure Broadband which is provisioned over a local loop and offered in all parts of CenturyLink service territory is priced below cost in most exchanges. Sprint sought information on broadband costs and revenues so it could better establish these numbers for the Commission, but its attempts to obtain such data were rebuked by the RLECs.[4]

[3] Lindsey and Harper, Surrebuttal Testimony , page 46 line 1 – 21.
[4] See Exhibit JAA-1RJ, attached hereto (CenturyLink Response to Sprint-EQ 1-13, PTA response to AT&T-PTA5-3, PTA-response to Sprint-PTA 1-13, and PTA response to Sprint-PTA 3-3)

Q. At page 5 lines 19-21, CenturyLink concludes "The need for speed to implement "immediate" intrastate switched access rate reductions has not impacted the development of competition and will not impact competition going forward as the record demonstrates." Do you agree?

A. No. Neither CenturyLink nor this Commission can not know how many more competitors would be in the market or how much more widespread competitive offerings would have been within Pennsylvania had the competing carriers not have been required to fund the RLECs operations through over-inflated access rates over the years. Sprint believes the markets in Pennsylvania would be more competitive, more carriers would offer services in Pennsylvania, more services would be offered to consumers, and consumers would have derived more benefits had reform been implemented earlier.

Q. Is it important that the CenturyLink and the RLECs are in compliance with the FCC and PA accounting rules in their treatment of broadband revenues and costs?[5]

A. No. The fact that the FCC order that deregulated ILEC broadband service did not require the ILECs to properly match broadband costs and revenues is not relevant. Since broadband costs and revenues are not matched, existing reporting cannot give this Commission an accurate view of the financial position of the RLECs. My point is not to fix any existing reporting or cost allocation rules but to simply explain to the Commission the flaws with the current reporting that do not accurately reflect the massive beneficial changes to the financial positions of the RLECs. It is simply

[5] Lindsey and Harper, Surrebuttal Testimony, page 45 line 3-12.

astounding that the RLECs would ask the Commission to ignore that fact that the RLECs are selling a new service, broadband, that generates approximately the same amount of revenues per customer as the original set of services the network was create to provide, i.e, voice services. Of course, broadband is only one of the many new services that generate revenue for the RLECs via their local networks. Others include video services, interLATA long distance service, and numerous special calling features, as discussed in my Direct and Supplemental Testimony. The RLECs expect the Commission to ignore these revenues also. Revenue per customer has doubled and the RLECs believe the Commission is supposed to ignore that fact. Despite their opposition to Sprint's contention that the Commission should recognize these revenues, the RLECs have not put forth any concrete explanation for why the Commission should ignore such revenues. They obviously have declined to do so as there is no reason the Commission should or must ignore those revenues.

Q. At page 29 lines 14-15, CenturyLink states "The new reality facing CenturyLink and the other RLECs is that we are unable to recover the high-costs of serving rural Pennsylvania from the remaining customers." Please comment.

A. Once again the RLECs are trying to project a poor financial condition when the data available publically suggests otherwise.[6] I offer yet another financial barometer of the financial strength of the largest RLECs in PA. The four large RLEC corporations are paying out more than $10.00 per line per month to their shareholders in dividends as

[6] In fact, the RLECs have no idea what their costs are as indicated by their responses to discovery questions seeking to determine their cost of basic local, access and COLR. See Exhibit JAA-3RJ , attached hereto (CenturyLink responses to Sprint-CTL 2-1 and 2-2, and PTA responses to Sprint –PTA 2-1 and 2-2). See also Exhibit JAA-11R, attached to Appleby Rebuttal Testimony.

depicted in the chart below. Further, Frontier's dividend yield is the highest of any S&P 500 company. And as you can see the dividend yields for the other three RLEC corporations are also significant. Shareholders are annually treated to returns in excess of 8% through dividends alone. This return does not include any stock price appreciation that may also occur. Clearly these companies exhibit financial strength with these large dividend payouts.[7]

RLEC	Dividend	Dividend Yield	Dividend Payout Per Line Per Month
Windstream	$ 1.00	9.1%	$ 12.55
CenturyLink	$ 2.90	8.1%	$ 10.28
Frontier	$ 1.00	13.4%	$ 12.28
Consolidated	$ 1.55	8.1%	$ 11.95

Responses to Dr. Loube's Surrebuttal Testimony

Q. On pages 20-21, does Dr. Loube mischaracterize your Rebuttal Testimony on the recovery of LEC local loop costs?

A. Yes. In Dr. Loube's reference to my Rebuttal Testimony,[8] he fails to recognize my statement in footnote 8. The footnote explains that RLECs now offer retail service over their local loops and the customer is NOT required to also purchase basic local service. It is Sprint's position that the RLECs should recover their local loop costs from their own end users. Sprint does not suggest how the local cost is be recovered amongst the many services provided to the RLEC's retail customers with one

[7] See Exhibit JAA-2RJ, attached hereto, for a more detailed analysis of the RLECs' dividend payouts.
[8] Appleby, Rebuttal Testimony, page 5 line 22 to page 6 line 3

exception. Sprint supports affordable residential basic local service rates. Sprint's rate benchmark proposal is provided at page 44 of Appleby Rebuttal Testimony.

Q. Is Appleby Rebuttal Testimony at page 40 inconsistent with Appleby Rebuttal at page 5 as Dr. Loube suggests?[9]

A. No. As stated above it is our position that the RLECs should recover their local loop costs from the retail services that are provisioned over retail consumers' network connection. We do not advocate recovery only from basic local service unless of course that is the only retail service provided on the network connection. This is how wireless carriers collect their customers' costs. Access charge reform will further move the market towards a competitively neutral environment. This will in turn maximize the information a consumer has about the choices in the market and maximize the value a consumer receives in purchasing telecommunications services. Asymmetrical inflated switched access rates are inconsistent with the development of a competitively neutral environment.

Q. At page 22 Dr. Loube discusses the value of the public switched telephone network to both calling and called parties. Please comment.

A. Dr. Loube explains that because both the calling party and the caller party derive a value from the ability to communicate over the public switched telephone network, the calling party should pay for the use of that network. To reach the inaccurate conclusion that Dr. Loube espoused in his Testimony, Dr. Loube's view of the public switched telephone network is entirely limited to the ILEC network. He ignores the

[9] Loube , Surrebuttal Testimony, page 22 lines 5 to 15.

network on the other side of the call. For example wireless carriers have also built networks to serve their end users. Those networks are interconnected to the ILEC networks. On a call from a wireless customer to an ILEC customer, the customers are deriving value from two networks, the wireless network and ILEC network. Dr. Loube's view that the ILEC network is the only network is outdated and harkens back to the monopoly era. Without a doubt, the competing carriers' networks are also part of the public switched network. Dr. Loube argues that the ILEC should charge for use of its network yet he is silent on the use of the other network, the wireless network. Compensation for the exchange of non-local traffic must eventually be symmetrical in order to have a competitively neutral retail service market. Sprint is not asking for symmetrical rates in this proceeding. Sprint simply asks that the asymmetrical rate paid to ILECs is reduced to interstate rate levels.

Responses to Mr. Zingaretti's Surrebuttal Testimony

Q. Is Mr. Zingaretti correct that Sprint advocates cost allocation rule changes?[10]

A. No. At page 65 of Appleby Rebuttal, Sprint clearly states "The existing loop cost allocation rules are antiquated. It is neither practical nor necessary to fix the rules. End users use loops, carriers do not. End users choose to make and receive calls on their loops, carriers do not. End users cause the cost of the loop, carriers do not. Cost recovery should reflect cost causation." Sprint advocates cost recovery changes, not cost allocation rule changes.

[10] Zingaretti, Surrebuttal Testimony, page 12 line 20 to page 13 line 4

Q. At page 38 lines 8-12 Mr. Zingaretti explains the PTA companies report total company regulated revenues in its annual reports including regulated broadband. Does that mean the full value of the retail broadband service is disclosed in those reports?

A. No. Many of the PTA companies conform to the NECA tariff and offer a regulated wholesale broadband service. This service is purchased by the non-regulated affiliate of the RLECs and offered to the end users at rates much higher than the wholesale service. Accordingly, the full margin the RLECs realize on broadband service is not reflected in the annual reports.[11]

Q. Do the RLECs collect carrier charge (CC) revenues on lines IXCs do not use?

A. Yes. Although Mr. Zingaretti stated his disagreement[12] with this statement of fact originally expressed in Appleby, Rebuttal, pages 5-10, he is simply and obviously wrong. The per line CC is collected whether or not the customer with that RLEC line uses the connection for non-local calls. As the Center for Disease Control has found in the report attached to this Testimony, 24.4% of all households with both landline & wireless receive all or almost all of their calls on their cellular phones.[13] This shows clearly IXCs are completing fewer calls on the ILECs local loops – as described in examples of telephone usage provided in my earlier testimony. This reduces the access minutes but not the access lines or the CC.

[11] PTA refused to provide data relevant to broadband service requested by Sprint. See Exhibit JAA-4RJ, attached hereto (PTA response to Sprint-PTA 2-7)
[12] Zingaretti, Surrebuttal, page 24 line 1 to page 25 line 11
[13] See attached study, JAA-5RJ

The rate paid by IXCs is set on a per minute basis and is equal to

$$\frac{\text{(Lines X Per Line CC Charge)}}{\text{Access Minutes}}$$

If the denominator in the formula above, access minutes, goes down without a corresponding percentage decrease in the numerator (lines), which is what happens when a customer stops using their landline for long distance calling but keeps basic local service, the average rate charged by the RLEC goes up.

Q. Is Mr. Zingaretti correct that wireless interMTA traffic is exchanged with RLECs only over local interconnection trunks?[14]

A. No. Nearly all interMTA wireless traffic between a wireless carrier and a landline carrier is exchanged over the access network connections, not local interconnection trunks. Wireless carriers, through their IXC affiliates or through contractual arrangements with unaffiliated IXCs, deliver their interMTA traffic via the IXC's access network connections. Although Sprint does not possess Pennsylvania specific numbers, Sprint incurs hundreds of millions of dollars each year to terminate interMTA wireless originated traffic to landline carriers. This is a very significant cost to our business and the main reason for Sprint's participation in this proceeding.

Q. Mr. Zingaretti discusses the cost standard Sprint suggests that would permit RLECs to collect a limited amount of PA Universal Service funding.[15] **Could you clarify Sprint's proposal?**

[14] Zingaretti, Surrebuttal, page 20 line 7 to page 21line19.
[15] Zingaretti, Surrebuttal, page 59 line 3-20.

A. Yes. Sprint believes the Pennsylvania Universal Service fund should provide support only in instances where two preconditions are satisfied: (1) the line is purchased by a residential customers ordering only basic local service, and (2) the RLEC's intrastate cost of local service is above the benchmark affordable local service rate. Sprint believes the TELRIC or TSLRIC cost standard is appropriate and the cost of local service would include the cost of the local loop. To reflect that 25% of the loop cost has been allocated to the interstate jurisdiction, the total TELRIC or TSLRIC cost of the local loop would be multiplied by 75%. The RLEC should be permitted to collect the lower of the per line access revenue reduction in the shift from intrastate rate levels to interstate rate levels, or the differential between the local service rate benchmark and the intrastate cost of service.

Q. Does this conclude your Rejoinder Testimony?

A. Yes.

SPRINT EXHIBIT

JAA - 1RJ

AT&T Communications of Pennsylvania, LLC, et al, vs. Armstrong Telephone Company – Pennsylvania, et al.

Docket No. C-2009-2098380, et al.

Response of The United Telephone Company of Pennsylvania LLC d/b/a Embarq Pennsylvania
To Sprint Nextel Set I

Sprint-Embarq-13

a. Please provide the number of customers in Pennsylvania that purchased your company's broadband services at the end of 2004, 2005, 2006, 2007 and 2008.

b. Please provide the percentage of your company's customers in Pennsylvania who were serviced over lines that were capable of providing broadband service.

Objection:

Embarq PA objects on the basis that broadband services are not regulated by the Commission. Broadband service information as requested is not relevant to intrastate switched access rates and not reasonably calculated to lead to the discovery of admissible evidence. 52 Pa. Code §5.321. Moreover, "lines that were capable of providing broadband" is over broad, burdensome, and oppressive, requiring the making of an unreasonable investigation and study. 52 Pa. Code §§5.361(a)(2) and (b). Embarq PA also objects to the request for information as far back as 2004 on the basis that doing so would require the making of an unreasonable investigation and study, particularly given the expedited nature of this proceeding. Embarq PA is not preparing to provide a response.

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

AT&T Communications of Pennsylvania, LLC, *et al.*
v. Armstrong Telephone Company - Pennsylvania, *et al.*
Docket No. C-2009-2098380, *et al.*

Interrogatories of ATT - Set V
Answers of the Pennsylvania Telephone Association

Person Answering: Gary Zingaretti

AT&T-PTA-5-3: Referencing page 18, lines 3-4 of Mr. Zingaretti's testimony, for each of the past three years, how much has each PTA company spent to "maintain and improve their networks?" Please separate out amounts spent for the legacy local network versus amounts spent on any broadband deployment.

Response: Please see the responses to Sprint-PTA-2-8 and AT&T-PTA-5-9. The PTA Companies record network investment by traditional plant accounts. Investment is not recorded separately for "legacy local network versus amounts spent on any broadband deployment" as requested.

Person Answering: Gary Zingaretti

Sprint-PTA - 13:

a. Please provide the number of customers in Pennsylvania that purchased your company's broadband services at the end of 2004, 2005, 2006, 2007 and 2008.
b. Please provide the percentage of your company's customers in Pennsylvania who were serviced over lines that were capable of providing broadband service.

Answer: Objected to.

Person Answering: Gary Zingaretti

Sprint-PTA 3-3 Provide 1) the total revenues earned from, and 2) total expenses incurred by the PTA carriers to provide, all retail services to residential customers in their service territory in Pennsylvania for the years 2005-2009. Describe fully the methodology utilized to allocate the cost of the local network to the residential customers as well as the methodology utilized to allocate the overhead expenses

a. between residential and business customers, and

b. between retail and wholesale services.

c. between competitive and non-competitive services

Answer: The information requested does not exist. The PTA Companies do not, and are not required to, separately track and record revenues and expenses separately by residential and business class, which records would be necessary to be able to provide the information requested.

SPRINT EXHIBIT

JAA - 2RJ

EXHIBIT JAA-2RJ

RLEC Corporation	Annual Dividend	Dividend Yield	4/6/2010 Share Price	*In Billions* Market Cap	*In Millions* Outstanding Shares	*In Millions* Dividend Payout	*In Millions* Access Lines 12/31/2009	Dividend Payout Per Line Per Month
Windstream	$ 1.00	9.1%	$ 11.02	$ 5.03	456	$ 456	3.03	$ 12.55
CenturyLink	$ 2.90	8.1%	$ 35.62	$ 10.67	300	$ 869	7.04	$ 10.28
Frontier	$ 1.00	13.4%	$ 7.50	$ 2.34	312	$ 312	2.12	$ 12.28
Consolidated	$ 1.55	8.1%	$ 19.12	$ 0.5661	30	$ 46	0.32	$ 11.95

SPRINT EXHIBIT

JAA - 3RJ

AT&T Communications of Pennsylvania, LLC, et al, vs. Armstrong Telephone Company – Pennsylvania, et al.
Docket No. C-2009-2098380, et al.

Response of The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink To Discovery Propounded by Sprint Nextel – Set II

Response Sponsor: Jeff Lindsey and Christy Londerholm

Sprint-CTL 2-1:

What is CenturyLink's cost of providing basic local service? Please describe how the cost of service was determined and provide all documents, worksheets, papers, etc. used to determine the cost of service.

Objection:

To the extent the question requests undertaking a cost study of basic local exchange service and a description of how the cost of service was determined, CenturyLink objects on the ground that doing so would require the making of an unreasonable investigation and an onerous special study which cannot be reasonably conducted. The question in this regard would cause unreasonable investigation as well as annoyance, burden, and expense. 52 Pa. Code §§5.361(a) and (b). Moreover, to the extent the question seeks cost information about services other than intrastate switched access services, CenturyLink objects on the ground that the information is not relevant and not reasonably calculated to lead to the discovery of admissible evidence 52 Pa. Code §5.321. Finally, CenturyLink objects on the basis that the information is not relevant to any Commission-identified issue in this proceeding and not likely to lead to admissible evidence. Indeed, Sprint now opens the door to the re-litigation of issues (in this instance cost matters) at issue in the PA USF proceeding Docket No. I-00040105.

Response:

Subject to and without waiver of CenturyLink's general or specific objections, CenturyLink has not endeavored to undertake cost studies in this proceeding for either basic local service or switched access service. The Office of Consumer Advocate (OCA) in the PA USF proceeding at Docket No. I-00040105 had provided cost study testimony. Specifically, as Sprint is aware, OCA witness Dr. Loube presented cost study results showing that CenturyLink's overall average monthly cost per line at the exchange level was approximately $42, but costs for each exchange and costs within an exchange can greatly vary and can be significantly times higher than that OCA-provided average.

AT&T Communications of Pennsylvania, LLC, et al, vs. Armstrong Telephone Company – Pennsylvania, et al.
Docket No. C-2009-2098380, et al.

Response of The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink To Discovery Propounded by Sprint Nextel – Set II

Response Sponsor: Jeff Lindsey/Christy Londerholm

Sprint-CTL 2-2:

What is CenturyLink's cost of providing switched access service? Please describe how the cost of service was determined and provide all documents, worksheets, papers, etc. used to determine the cost of service.

Objection:

To the extent the question requests undertaking a cost study of switched access service and a description of how the cost of service was determined, CenturyLink objects on the ground that doing so would require the making of an unreasonable investigation and an onerous special study which cannot be reasonably conducted. 52 Pa. Code §§5.361(a) and (b). Moreover, to the extent the question seeks cost information about services other than intrastate switched access services, CenturyLink objects on the ground that the information is not relevant and not reasonably calculated to lead to the discovery of admissible evidence. 52 Pa. Code §5.321.

Response:

Subject to and without waiver of CenturyLink's general or specific objections, *See,* response to Sprint-CTL 2-1.

Person Answering: Gary Zingaretti

Sprint-PTA 2-1 What is each PTA company's cost of providing basic local service? Please describe how the cost of service was determined and provide all documents, worksheets, papers, etc. used to determine the cost of service.

Objections: See General Objections.

Answer: Subject to and without waiving these objections, the PTA Companies provide the following response:

This issue was extensively debated in the proceeding before ALJ Colwell. In this proceeding, please refer to the PTA Companies' responses to ATT-1-27 (addressing the cost of extending local service to customers that have no alternative) and Sprint-1-15 (addressing the cost of being a "Carrier of Last Resort" in Pennsylvania). There is no defined cost methodology accepted or announced by the PUC to address telecommunications carriers, or to determine the companies' cost of providing either local or access services. Nor are local and access service rates set based upon cost. In any event, the PTA companies have undertaken no studies of the cost of providing either local or access service.

Person Answering: Gary Zingaretti

Sprint-PTA 2-2 What is each PTA company's cost of providing switched access service? Please describe how the cost of service was determined and provide all documents, worksheets, papers, etc. used to determine the cost of service.

Objections: See General Objections.

Answer: Subject to and without waiving these objections, the PTA Companies provide the following response:

See the response to Sprint-PTA-2-1.

SPRINT EXHIBIT

JAA - 4RJ

Person Answering: Gary Zingaretti

Sprint-PTA 2-7 For each PTA company, please describe and/or list all competitive and noncompetitive services for which revenue is included in its Annual Report, on the Income Statement page under line no. 1-6. For each line (1-6), list the services for which revenues or losses were included in the calculation of the figure listed in column b ("Current Year") and column c ("Prior Year").

Objections: See General Objections.

Answer: Subject to and without waiving these objections, the PTA Companies provide the following response:

To the best of the PTA's information, the PUC annual reports are limited to noncompetitive (i.e., regulated) services for which publically available tariffs are published as described in response to Sprint-PTA-2-3.

SPRINT EXHIBIT

JAA - 5RJ

(Released 05/06/2009)

Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, July-December 2008

by Stephen J. Blumberg, Ph.D., and Julian V. Luke
Division of Health Interview Statistics, National Center for Health Statistics

Overview

Preliminary results from the July-December 2008 National Health Interview Survey (NHIS) indicate that the number of American homes with only wireless telephones continues to grow. More than one of every five American homes (20.2%) had only wireless telephones (also known as cellular telephones, cell phones, or mobile phones) during the second half of 2008, an increase of 2.7 percentage points since the first half of 2008. This is the largest 6-month increase observed since NHIS began collecting data on wireless-only households in 2003. In addition, one of every seven American homes (14.5%) received all or almost all calls on wireless telephones, despite having a landline telephone in the home. This report presents the most up-to-date estimates available from the federal government concerning the size and characteristics of these populations.

NHIS Early Release Program

This report is published as part of the NHIS Early Release Program. In May and December of each year, the Centers for Disease Control and Prevention's National Center for Health Statistics (NCHS) releases selected estimates of telephone coverage for the civilian, noninstitutionalized U.S. population based on data from NHIS, along with comparable estimates from NHIS for the previous 3 years. The estimates are based on in-person interviews that NHIS conducts continuously throughout the year to collect information on health status, health-related behaviors, and health care utilization. The survey also includes information about household telephones and whether anyone in the household has a wireless telephone.

Two additional reports are published as part of the NHIS Early Release Program. *Early Release of Selected Estimates Based on Data From the National Health Interview Survey* is published quarterly and provides estimates for 15 selected measures of health. *Health Insurance Coverage: Early Release of Estimates From the National Health Interview Survey* is also published quarterly and provides additional estimates regarding health insurance coverage.

Methods

For many years, NHIS has included questions on residential telephone numbers, to permit recontacting of survey participants. Starting in 2003, additional questions were asked, to determine whether the family's telephone number was a landline telephone. All survey respondents were also asked whether "you or anyone in your family has a working cellular telephone."

A "family" can be an individual or a group of two or more related persons living together in the same housing unit (a "household"). Thus, a family can consist of only one person, and more than one family can live in a household (including, for example, a household where there are multiple single-person families, as when unrelated roommates are living together).

In this report, families are identified as "wireless families" if anyone in the family had a working cellular telephone at the time of interview. This person (or persons) could be a civilian adult, a member of the military, or a child. Households are

Percentages of adults and children living in households with only wireless telephone service or no telephone service: United States, 2005–2008

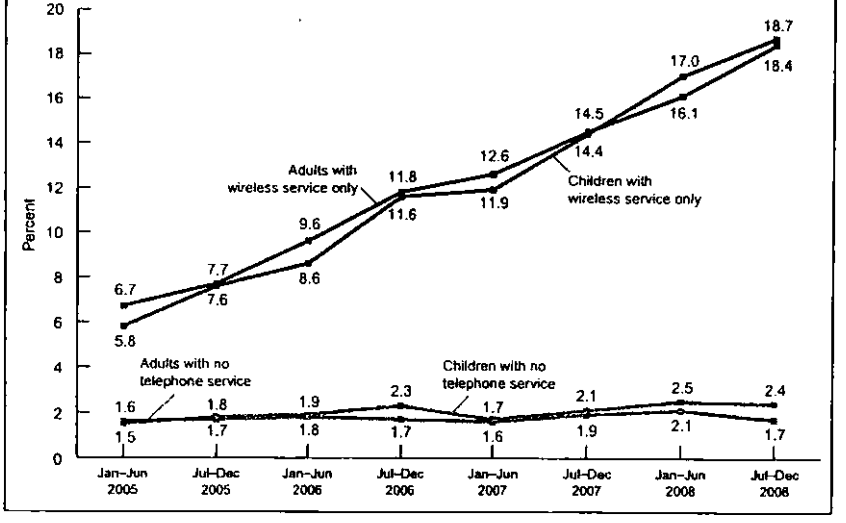

Figure 1

identified as "wireless-only" if they include at least one wireless family and if there are no working landline telephones inside the household. Persons are identified as wireless-only if they live in a wireless-only household. A similar approach is used to identify adults living in households with no telephone service (neither wireless nor landline). Household telephone status (rather than family telephone status) is used in this report because most telephone surveys draw samples of households rather than families.

From July through December 2008, information on household telephone status was obtained for 12,597 households that included at least one civilian adult or child. These households included 23,726 civilian adults aged 18 years and over and 8,635 children under age 18.

Analyses of demographic characteristics are based on data from the NHIS Person and Household files. Demographic data for all civilian adults living in interviewed households were used in these analyses. Estimates stratified by poverty status are based on reported income only. Household income was unknown for nearly 18% of adults.

Analyses of selected health measures are based on data from the NHIS Sample Adult file. Health-related data for one civilian adult randomly selected from each family were used in these analyses. From July through December 2008, data on household telephone status and selected health measures were collected from 9,841 randomly selected adults.

Because NHIS is conducted throughout the year and the sample is designed to yield a nationally representative sample each week, data can be analyzed quarterly. Weights are created for each calendar quarter of the NHIS sample. NHIS data weighting procedures are described in more detail in an NCHS published report (Series Report No. 2, Vol. 130). To provide access to the most recent information from NHIS, estimates using the July-December 2008 data are being released prior to final data editing and final weighting. These estimates should be considered preliminary and may differ slightly from estimates using the final data files.

Point estimates and 95% confidence intervals were calculated using SUDAAN software, to account for the complex sample design of NHIS. Differences between percentages were evaluated by using two-sided significance tests at the 0.05 level. Terms such as "more likely" and "less likely" indicate a statistically significant difference. Lack of comment regarding the difference between any two estimates does not necessarily mean that the difference was tested and found to be not significant. Because of small sample sizes, estimates based on less than 1 year of data may have large variances, and caution should be used in interpreting these estimates.

Questionnaire Changes in 2007

From 2003 to 2006, families were considered to have landline telephone service if the survey respondent provided a telephone number, identified it as "the family's phone number," and said that it was not a cellular telephone number. If the family's phone number was reported to be a cellular telephone number, the respondent was asked if there was "at least one phone inside your home that is currently working and is not a cell phone."

In 2007, the questionnaire was changed so that the survey respondent for each family was asked if there was "at least one phone inside your home that is currently working and is not a cell phone," unless the respondent indicated not having any phone when asked for a telephone number.

From 2003 to 2006, the questions about cellular telephones were asked at the end of the survey. Because of incomplete interviews, more than 10% of households were not asked about wireless telephones. In 2007, the questions were asked earlier in the survey, resulting in fewer families with unknown wireless telephone status.

In 2007, a new question was added to the survey for persons living in families with both landline and cellular telephones. The respondent for the family was asked to consider all of the telephone calls that his or her family receives and to report whether "all or almost all calls are received on cell phones, some are received on cell phones and some on regular phones, or very few or none are received on cell phones." This new question permits the identification of persons living in "wireless-mostly" households, defined as households with both landline and cellular telephones in which all families receive all or almost all calls on cell phones.

Finally, in 2007, the questionnaire was redesigned to improve the collection of income information. Initial evaluations suggest that the resulting poverty estimates are generally comparable with those from years 2006 and earlier. However, as a result of the changes, the poverty ratio variable has fewer missing values in 2007 and 2008 compared with prior years.

Telephone Status

In the last 6 months of 2008, more than one of every five households (20.2%) did not have a landline telephone but did have at least one wireless telephone (**Table 1**). Approximately 18.4% of all adults--more than 41 million adults--lived in households with only wireless telephones; 18.7% of all children--nearly 14 million children--lived in households with only wireless telephones.

The percentage of households that are wireless-only has been steadily increasing. In fact, the 2.7-percentage-point increase from the first 6 months of 2008 is the largest 6-month increase observed since NHIS began collecting data on wireless-only households in 2003.

The percentage of adults living in wireless-only households has also been

increasing steadily (see **Figure 1**). During the last 6 months of 2008, more than one of every six adults lived in wireless-only households. One year before that (that is, during the last 6 months of 2007), one of every seven adults lived in wireless-only households. And 2 years before that (that is, during the last 6 months of 2005), only 1 of every 13 adults lived in wireless-only households.

The percentages of adults and children living without any telephone service have remained relatively unchanged over the past 3 years. Approximately 1.9% of households had no telephone service (neither wireless nor landline). Nearly 4 million adults (1.7%) and 2 million children (2.4%) lived in these households.

Demographic Differences

The percentage of U.S. civilian, noninstitutionalized adults living in wireless-only households is shown by selected demographic characteristics and by survey time period in **Table 2**. For the period July through December 2008,

- More than three in five adults living only with unrelated adult roommates (60.6%) were in households with only wireless telephones. This is the highest prevalence rate among the population subgroups examined.
- Nearly two in five adults renting their home (39.2%) had only wireless telephones. Adults renting their home were more likely than adults owning their home (9.9%) to be living in households with only wireless telephones.
- More than two in five adults aged 25-29 years (41.5%) lived in households with only wireless telephones. Approximately one-third (33.1%) of adults aged 18-24 years lived in households with only wireless telephones.
- As age increased from 30 years, the percentage of adults living in households with only wireless telephones decreased: 21.6% for adults aged 30-44 years; 11.6% for adults aged 45-64 years; and 3.3% for adults aged 65 years and over. However, as shown in **Table 2** and **Figure 2**, the percentage of wireless-only adults within each age group has increased over time.
- Men (20.0%) were more likely than women (17.0%) to be living in households with only wireless telephones.
- Adults living in poverty (30.9%) and adults living near poverty (23.8%) were more likely than higher income adults (16.0%) to be living in households with only wireless telephones.
- Adults living in the South (21.3%) and Midwest (20.8%) were more likely than adults living in the Northeast (11.4%) or West (17.2%) to be living in households with only wireless telephones.
- Non-Hispanic white adults (16.6%) were less likely than Hispanic adults (25.0%) or non-Hispanic black adults (21.4%) to be living in households with only wireless telephones.

Wireless-Mostly Households

Among households with both landline and cellular telephones, 24.4% received all or almost all calls on the cellular telephones, based on data for the period July through December 2008. These wireless-mostly households make up 14.5% of all households.

The percentage of adults living in wireless-mostly households has been increasing (see **Table 3**). During the last 6 months of 2008, approximately 35 million adults (15.4%) lived in wireless-mostly households. Although this prevalence estimate was not significantly different from the estimate for the first 6 months of 2008 (14.4%), it was significantly greater than the estimate for the first 6 months of 2007 (12.6%).

Table 3 presents the percentage of adults living in wireless-mostly households by selected demographic characteristics and by survey time period. For the period July through December 2008,

- Adults with college degrees (18.0%) were more likely to be living in wireless-mostly households than

Polynomial regression equations fitted to a plot of the percentage of adults living in households with only wireless telephone service, by single year of age and by year of interview: United States, 2003–2008

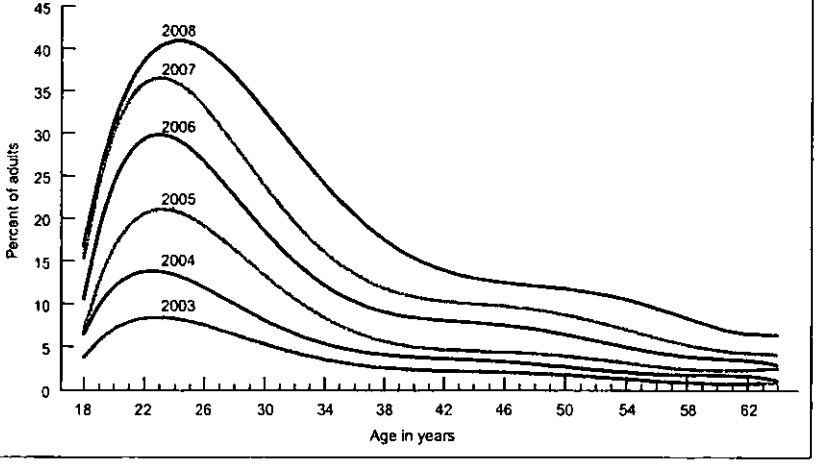

Figure 2

were high school graduates (13.2%) or adults with less education (9.8%).

- Adults living with children (19.2%) were more likely than adults living alone (12.2%) or with only adult relatives (13.2%) to be living in wireless-mostly households.
- Adults living in poverty (9.5%) and adults living near poverty (11.3%) were less likely than higher income adults (18.2%) to be living in wireless-mostly households.
- Adults living in metropolitan areas (15.8%) were more likely to be living in wireless-mostly households than were adults living in more rural areas (13.4%).

Selected Health Measures by Household Telephone Status

Most major survey research organizations, including NCHS, do not include wireless telephone numbers when conducting random-digit-dial telephone surveys. Therefore, the inability to reach households with only wireless telephones (or with no telephone service) has potential implications for results from health surveys, political polls, and other research conducted using random-digit-dial telephone surveys. Coverage bias may exist if there are differences between persons with and without landline telephones for the substantive variables of interest.

The NHIS Early Release Program updates and releases estimates for 15 key adult health indicators every 3 months. **Table 4** presents estimates by household telephone status (landline, wireless-only, or without any telephone service) for all but two of these measures. ("Pneumococcal vaccination" and "personal care needs" were not included because these indicators are limited to adults aged 65 years and over.) For the period July through December 2008,

- The prevalence of binge drinking (i.e., having five or more alcoholic drinks in 1 day during the past year) among wireless-only adults (36.7%) was nearly twice as high as the prevalence among adults living in landline households (19.7%). Wireless-only adults were also more likely to be current smokers than were adults living in landline households.
- Compared with adults living in landline households, wireless-only adults were more likely to report that their health status was excellent or very good, were more likely to engage in regular leisure-time physical activity, and were less likely to have ever been diagnosed with diabetes.
- The percentage without health insurance coverage at the time of the interview among wireless-only nonelderly adults (27.5%) was considerably higher than the percentage among nonelderly adults *living in landline households* (16.4%).
- Compared with adults living in landline households, wireless-only adults were more likely to have experienced financial barriers to obtaining needed health care, and they were less likely to have a usual place to go for medical care. Wireless-only adults were also less likely to have received an influenza vaccination during the previous year.
- Wireless-only adults (47.0%) were more likely than adults living in landline households (37.1%) to have ever been tested for HIV, the virus that causes AIDS.

Conclusions

The potential for bias due to undercoverage remains a real and growing threat to surveys conducted only on landline telephones. For more information about the potential implications for health surveys that are based on landline telephone interviews, see

- Blumberg SJ, Luke JV. Coverage bias in traditional telephone surveys of low-income and young adults. Public Opin Q 71:734-49. 2007.
- Blumberg SJ, Luke JV, Cynamon ML. Telephone coverage and health survey estimates: Evaluating the need for concern about wireless substitution. Am J Public Health 96:926-31. 2006.
- Blumberg SJ, Luke JV, Cynamon ML, Frankel MR. Recent trends in household telephone coverage in the United States. In: Lepkowski JM et al., eds., Advances in telephone survey methodology. New York: John Wiley and Sons, 56-86. 2008.

The potential for bias may differ from one state to another because the prevalence of wireless-only households varies substantially across states. For more information about state-level prevalence estimates from the 2007 NHIS, see

- *Blumberg SJ, Luke JV, Davidson G,* Davern ME, Yu T, Soderberg K. Wireless substitution: State-level estimates from the National Health Interview Survey, January-December 2007. National health statistics report; no 14. Hyattsville, MD: National Center for Health Statistics. 2009.

For More Information

For more information about the National Health Interview Survey and the NHIS Early Release Program, or to find other Early Release reports, please see the following websites:

- http://www.cdc.gov/nchs/nhis.htm
- http://www.cdc.gov/nchs/about/major/nhis/releases.htm

Suggested Citation

Blumberg SJ, Luke JV. Wireless substitution: Early release of estimates from the National Health Interview Survey, July-December 2008. National Center for Health Statistics. May 2009. Available from: http://www.cdc.gov/nchs/nhis.htm.

Table 1. Percent distribution of household telephone status, by date of interview, for households, adults, and children: United States, January 2005-December 2008

Date of interview		Household telephone status						
		Landline households with a wireless telephone	Landline households without a wireless telephone	Landline households with unknown wireless telephone status	Nonlandline households with unknown wireless telephone status	Wireless-only households	Phoneless households	Total
	Number of households (unweighted)	Percent of households						
January-June 2005	18,301	42.4	34.4	13.2	0.8	7.3	1.9	100.0
July-December 2005	20,088	42.6	32.4	13.8	0.8	8.4	1.9	100.0
January-June 2006	16,009	45.6	30.9	10.3	0.7	10.5	2.0	100.0
July-December 2006	13,056	44.3	29.6	10.2	0.8	12.8	2.2	100.0
January-June 2007[1]	15,996	58.9	23.8	1.7	0.1	13.6	1.9	100.0
July-December 2007	13,083	58.8	21.8	1.3	0.1	15.8	2.2	100.0
January-June 2008	16,070	58.5	20.6	0.9	0.0	17.5	2.5	100.0
July-December 2008	12,597	59.6	17.4	0.9	0.0	20.2	1.9	100.0
95% confidence interval[2]		57.96 - 61.15	16.22 - 18.57	0.68 - 1.23	0.01 - 0.11	18.84 - 21.69	1.64 - 2.18	
	Number of adults (unweighted)	Percent of adults						
January-June 2005	34,047	46.1	31.5	13.5	0.7	6.7	1.6	100.0
July-December 2005	37,622	46.4	29.7	13.9	0.7	7.7	1.7	100.0
January-June 2006	29,842	49.5	28.2	10.4	0.6	9.6	1.8	100.0
July-December 2006	24,473	48.1	27.3	10.5	0.7	11.8	1.7	100.0
January-June 2007[1]	29,982	63.3	20.8	1.7	0.1	12.6	1.6	100.0
July-December 2007	24,514	63.2	19.1	1.2	0.1	14.5	1.9	100.0
January-June 2008	30,150	63.0	17.9	0.8	0.0	16.1	2.1	100.0
July-December 2008	23,726	63.7	15.1	1.0	0.0	18.4	1.7	100.0
95% confidence interval[2]		62.09 - 65.32	13.99 - 16.29	0.73 - 1.31	0.01 - 0.12	17.13 - 19.84	1.47 - 2.03	

See footnotes at end of table.

Date of interview	Number of children (unweighted)	Household telephone status: Landline households with a wireless telephone	Landline households without a wireless telephone	Landline households with unknown wireless telephone status	Nonlandline households with unknown wireless telephone status	Wireless-only households	Phoneless households	Total
		Percent of children						
January-June 2005	12,903	49.3	27.0	15.8	0.7	5.8	1.5	100.0
July-December 2005	13,883	50.5	23.9	15.2	0.9	7.6	1.8	100.0
January-June 2006	11,670	53.4	23.8	11.5	0.9	8.6	1.9	100.0
July-December 2006	9,165	51.9	21.5	11.9	0.9	11.6	2.3	100.0
January-June 2007[1]	11,532	68.3	16.4	1.6	0.0	11.9	1.7	100.0
July-December 2007	9,122	68.5	13.8	1.1	0.0	14.4	2.1	100.0
January-June 2008	11,238	67.3	12.6	0.6	0.0	17.0	2.5	100.0
July-December 2008	8,635	67.1	11.1	0.7	0.0	18.7	2.4	100.0
95% confidence interval[2]		64.87 - 69.24	9.81 - 12.60	0.43 - 1.05	0.00 - 0.10	17.05 - 20.54	1.72 - 3.21	

0.0 means quantity is more than zero but less than 0.05.

[1] Questionnaire changes that occurred in 2007 should be considered when evaluating recent trends in household telephone status. See text for more information about these changes.

[2] Confidence intervals refer to the time period July through December 2008.

DATA SOURCE: *National Health Interview Survey, January 2005-December 2008.* Data are based on household interviews of a sample of the civilian, noninstitutionalized population.

Table 2. Percentage of adults living in wireless-only households, by selected demographic characteristics and by calendar half-years: United States, January 2005-December 2008

Demographic characteristic	Calendar half-year								95% confidence interval[2]
	Jan – Jun 2005	Jul – Dec 2005	Jan – Jun 2006	Jul – Dec 2006	Jan – Jun 2007[1]	Jul – Dec 2007	Jan – Jun 2008	Jul – Dec 2008	
	Percent								
Race/ethnicity									
Hispanic or Latino, any race(s)	8.5	11.2	11.2	15.3	18.0	19.3	21.6	25.0	22.70 - 27.48
Non-Hispanic white, single race	6.5	6.9	9.0	10.8	11.3	12.9	14.6	16.6	15.20 - 18.17
Non-Hispanic black, single race	6.6	8.5	10.5	12.8	14.3	18.3	18.5	21.4	18.81 - 24.15
Non-Hispanic Asian, single race	5.3	6.7	10.2	11.8	10.6	12.1	16.5	17.8	14.21 - 22.18
Non-Hispanic other single race	*11.1	*8.0	9.8	17.2	22.8	17.5	12.8	17.3	10.73 - 26.68
Non-Hispanic multiple race	8.1	11.5	15.4	14.6	17.3	22.8	22.3	22.5	16.33 - 30.26
Age									
18-24 years	16.6	17.5	22.6	25.2	27.9	30.6	31.4	33.1	29.33 - 37.16
25-29 years	16.5	19.8	22.3	29.1	30.6	34.5	35.7	41.5	38.34 - 44.67
30-44 years	6.5	7.8	9.4	12.4	12.6	15.5	19.1	21.6	19.87 - 23.40
45-64 years	3.2	3.7	5.3	6.1	7.1	8.0	9.2	11.6	10.50 - 12.76
65 years and over	0.9	1.2	1.3	1.9	2.0	2.2	2.8	3.3	2.68 - 3.98
Sex									
Male	7.5	8.6	10.7	13.1	13.8	15.9	18.0	20.0	18.53 - 21.59
Female	6.0	6.9	8.5	10.5	11.5	13.2	14.4	17.0	15.71 - 18.32
Education									
Some high school or less	6.7	8.0	8.3	12.9	14.6	15.4	16.1	18.8	16.90 - 20.79
High school graduate or GED[3]	6.9	7.6	9.6	10.6	11.8	13.4	15.2	17.8	16.19 - 19.52
Some post-high school, no degree	8.2	9.4	11.9	14.4	14.7	17.0	19.0	20.1	18.35 - 22.02
4-year college degree or higher	5.5	6.3	8.5	10.1	10.8	12.7	14.3	17.7	15.48 - 20.16
Employment status last week									
Working at a job or business	8.0	9.2	11.6	13.9	15.0	16.6	19.0	21.5	19.96 - 23.21
Keeping house	5.1	6.1	7.1	8.6	9.5	12.8	12.6	16.0	13.86 - 18.50
Going to school	10.8	15.5	17.3	20.4	21.3	28.9	21.5	23.5	17.98 - 30.21
Something else (incl. unemployed)	3.6	3.7	4.2	6.2	6.4	7.6	8.9	11.0	9.77 - 12.26

See footnotes at end of table.

Demographic characteristic	Calendar half-year								95% confidence interval[2]
	Jan – Jun 2005	Jul – Dec 2005	Jan – Jun 2006	Jul – Dec 2006	Jan – Jun 2007[1]	Jul – Dec 2007	Jan – Jun 2008	Jul – Dec 2008	
	Percent								
Household structure									
Adult living alone	11.2	12.3	16.2	18.2	20.3	22.9	24.6	28.1	25.69 - 30.75
Unrelated adults, no children	36.0	33.6	44.2	54.0	55.3	56.9	63.1	60.6	48.32 - 71.72
Related adults, no children	5.3	5.9	7.1	8.5	9.8	11.0	12.5	14.7	13.21 - 16.38
Adult(s) with children	5.4	7.0	8.6	10.5	11.3	13.0	15.1	17.2	15.69 - 18.95
Household poverty status[4]									
Poor	11.8	14.2	15.8	22.4	21.6	27.4	26.0	30.9	27.59 - 34.48
Near poor	10.8	12.7	14.4	15.7	18.5	20.8	22.6	23.8	21.29 - 26.46
Not poor	6.2	7.0	9.4	11.3	10.6	11.9	14.2	16.0	14.55 - 17.60
Geographic region[5]									
Northeast	4.1	4.7	7.2	8.6	8.8	10.0	9.8	11.4	8.92 - 14.46
Midwest	7.2	8.8	10.2	11.4	14.0	15.3	17.8	20.8	17.74 - 24.24
South	7.6	9.6	11.4	14.0	14.9	17.1	19.6	21.3	19.24 - 23.62
West	7.0	6.2	7.8	11.0	10.9	12.9	13.7	17.2	14.88 - 19.73
Metropolitan statistical area status									
Metropolitan	7.7	8.7	10.3	12.7	13.7	15.5	17.5	19.7	18.19 - 21.35
Not metropolitan	4.1	5.1	7.0	8.0	8.4	10.0	10.9	13.5	11.43 - 15.77
Home ownership status[6]									
Owned or being bought	3.1	3.8	5.1	5.8	6.7	7.3	9.0	9.9	8.84 - 10.99
Renting	16.7	19.3	22.5	26.4	28.2	30.9	33.6	39.2	36.82 - 41.61
Other arrangement	10.7	8.4	10.7	*20.3	22.5	23.2	23.4	17.7	12.60 - 24.36
Number of wireless-only adults in survey sample (unweighted)	2,263	2,918	2,804	2,878	3,819	3,558	4,939	4,426	

* Estimate has a relative standard error greater than 30% and does not meet National Center for Health Statistics (NCHS) standards for reliability.

[1] Questionnaire changes that occurred in 2007 should be considered when evaluating recent trends in household telephone status. See text for more information about these changes.

[2] Confidence intervals refer to the time period July through December 2008.

[3] GED is General Educational Development high school equivalency diploma.

[4] Poverty status is based on household income and household size using the U.S. Census Bureau's poverty thresholds. "Poor" persons are defined as those below the poverty threshold. "Near poor" persons have incomes of 100% to less than 200% of the poverty threshold. "Not poor" persons have incomes of 200% of the poverty threshold or greater. Early Release estimates stratified by poverty status are based on reported income only and may differ from similar estimates produced later that are based on both reported and imputed income. NCHS imputes income when income is unknown, but the imputed income file is not available until a few months after the annual release of National Health Interview Survey microdata. For households with multiple families, household income and household size were calculated as the sum of the multiple measures of family income and family size.

[5] In the geographic classification of the U.S. population, states are grouped into the following four regions used by the U.S. Census Bureau. *Northeast* includes Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island, New York, New Jersey, and Pennsylvania. *Midwest* includes Ohio, Illinois, Indiana, Michigan, Wisconsin, Minnesota, Iowa, Missouri, North Dakota, South Dakota, Kansas, and Nebraska. *South* includes Delaware, Maryland, District of Columbia, West Virginia, Virginia, Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Oklahoma, Arkansas, and Texas. *West* includes Washington, Oregon, California, Nevada, New Mexico, Arizona, Idaho, Utah, Colorado, Montana, Wyoming, Alaska, and Hawaii.

[6] For households with multiple families, home ownership status was determined by considering the reported home ownership status for each family. If any family reported owning the home, then the household level variable was classified as "owned or being bought" for all persons living in the household. If one family reported renting the home and another family reported "other arrangement," then the household level variable was classified as "other arrangement" for all persons living in the household.

DATA SOURCE: *National Health Interview Survey, January 2005-December 2008.* Data are based on household interviews of a sample of the civilian, noninstitutionalized population.

Table 3. Percentage of adults living in wireless-mostly households, by selected demographic characteristics and by calendar half-years: United States, January 2007-December 2008

Demographic characteristic	Calendar half-year				95% confidence interval[1]
	Jan – Jun 2007	Jul – Dec 2007	Jan – Jun 2008	Jul – Dec 2008	
	Percent[2]				
Total	12.6	14.0	14.4	15.4	14.30 - 16.46
Race/ethnicity					
Hispanic or Latino, any race(s)	13.2	14.5	16.0	15.9	13.66 - 18.46
Non-Hispanic white, single race	12.3	13.2	14.2	14.9	13.77 - 16.07
Non-Hispanic black, single race	11.9	15.1	13.3	14.7	12.21 - 17.64
Non-Hispanic Asian, single race	16.0	20.3	16.4	20.3	16.93 - 24.23
Non-Hispanic other single race	14.6	*8.6	*10.1	15.5	8.75 - 26.07
Non-Hispanic multiple race	14.6	19.7	17.7	24.2	17.93 - 31.78
Age					
18-24 years	17.3	18.2	19.2	18.8	15.97 - 22.00
25-29 years	17.2	19.7	17.3	18.3	15.95 - 20.97
30-44 years	15.5	17.3	18.2	19.0	17.54 - 20.59
45-64 years	11.5	13.0	13.8	15.4	14.20 - 16.72
65 years and over	3.4	3.9	4.4	4.9	4.00 - 5.99
Sex					
Male	13.2	14.3	14.9	15.4	14.24 - 16.65
Female	12.0	13.6	14.0	15.2	14.25 - 16.41
Education					
Some high school or less	8.0	8.7	10.0	9.8	8.37 - 11.42
High school graduate or GED[3]	10.6	12.7	12.5	13.2	11.95 - 14.59
Some post-high school, no degree	15.7	16.6	17.0	18.6	16.78 - 20.54
4-year college degree or higher	14.9	16.2	17.1	18.0	16.40 - 19.50
Employment status last week					
Working at a job or business	15.5	16.8	17.3	18.4	17.22 - 19.72
Keeping house	9.3	10.4	11.9	11.9	10.08 - 13.92
Going to school	17.2	20.4	25.2	21.5	15.46 - 29.04
Something else (incl. unemployed)	5.3	6.7	6.6	7.8	6.82 - 8.91
Household structure					
Adult living alone	10.8	10.7	10.1	12.2	10.28 - 14.37
Unrelated adults, no children	13.9	20.1	*15.4	21.3	12.96 - 32.97
Related adults, no children	11.6	12.1	12.8	13.2	11.97 - 14.43
Adult(s) with children	14.4	17.2	18.1	19.2	17.64 - 20.93
Household poverty status[4]					
Poor	8.4	8.6	10.8	9.5	6.69 - 13.32
Near poor	9.7	11.4	10.3	11.3	9.40 - 13.49
Not poor	14.8	15.9	17.1	18.2	16.91 - 19.53
Geographic region[5]					
Northeast	11.3	11.7	13.8	12.0	10.33 - 13.98
Midwest	10.6	13.3	12.6	13.2	11.50 - 15.11
South	13.8	14.3	14.6	16.2	14.54 - 18.08
West	13.7	15.9	16.4	18.7	16.20 - 21.59
Metropolitan statistical area status					
Metropolitan	13.2	14.7	15.0	15.8	14.63 - 17.14
Not metropolitan	10.2	10.9	12.1	13.4	11.67 - 15.40

See footnotes at end of table.

Demographic characteristic	Calendar half-year: Jan – Jun 2007	Jul – Dec 2007	Jan – Jun 2008	Jul – Dec 2008	95% confidence interval[1]
Home ownership status[6]					
Owned or being bought	12.1	14.0	14.7	15.9	14.74 - 17.17
Renting	13.9	13.8	13.9	13.0	11.36 - 14.93
Other arrangement	12.2	14.1	14.8	24.6	14.53 - 38.52
Number of adults in survey sample who live in landline households with wireless telephones (unweighted)	3,733	3,435	4,302	3,663	

* Estimate has a relative standard error greater than 30% and does not meet National Center for Health Statistics (NCHS) standards for reliability.

[1] Confidence intervals refer to the estimate of the percentage of adults living in wireless-mostly households for the time period July through December 2008.

[2] The sum of the percentage of adults in households that receive all or nearly all calls on wireless phones (shown here) and the percentage of adults in households that receive some or very few calls on wireless phones (data not shown) is equal to the percentage of adults living in landline households with wireless telephones (see Table 1).

[3] GED is General Educational Development high school equivalency diploma.

[4] Poverty status is based on household income and household size using the U.S. Census Bureau's poverty thresholds. "Poor" persons are defined as those below the poverty threshold. "Near poor" persons have incomes of 100% to less than 200% of the poverty threshold. "Not poor" persons have incomes of 200% of the poverty threshold or greater. Early Release estimates stratified by poverty status are based on reported income only and may differ from similar estimates produced later that are based on both reported and imputed income. NCHS imputes income when income is unknown, but the imputed income file is not available until a few months after the annual release of National Health Interview Survey microdata. For households with multiple families, household income and household size were calculated as the sum of the multiple measures of family income and family size.

[5] In the geographic classification of the U.S. population, states are grouped into the following four regions used by the U.S. Census Bureau. *Northeast* includes Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island, New York, New Jersey, and Pennsylvania. *Midwest* includes Ohio, Illinois, Indiana, Michigan, Wisconsin, Minnesota, Iowa, Missouri, North Dakota, South Dakota, Kansas, and Nebraska. *South* includes Delaware, Maryland, District of Columbia, West Virginia, Virginia, Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Oklahoma, Arkansas, and Texas. *West* includes Washington, Oregon, California, Nevada, New Mexico, Arizona, Idaho, Utah, Colorado, Montana, Wyoming, Alaska, and Hawaii.

[6] For households with multiple families, home ownership status was determined by considering the reported home ownership status for each family. If any family reported owning the home, then the household level variable was classified as "owned or being bought" for all persons living in the household. If one family reported renting the home and another family reported "other arrangement," then the household level variable was classified as "other arrangement" for all persons living in the household.

DATA SOURCE: *National Health Interview Survey, January 2007-December 2008*. Data are based on household interviews of a sample of the civilian, noninstitutionalized population.

Table 4. Prevalence rates (and 95% confidence intervals) for selected measures of health-related behaviors, health status, health care service use, and health care access for adults 18 years of age and over, by household telephone status: United States, July-December 2008

Measure	Household telephone status		
	Landline household[1]	Wireless-only household	Phoneless household
	Percent (95% confidence interval)		
Health-related behaviors			
Five or more alcoholic drinks in 1 day at least once in past year[2]	19.7 (18.32 - 21.25)	36.7 (33.87 - 39.70)	21.5 (14.73 - 30.19)
Current smoker[3]	18.3 (17.13 - 19.60)	26.5 (24.36 - 28.74)	28.4 (21.57 - 36.35)
Engaged in regular leisure-time physical activity[4]	31.9 (30.32 - 33.50)	38.0 (34.67 - 41.50)	19.5 (12.94 - 28.41)
Health status			
Health status described as excellent or very good[5]	59.8 (58.18 - 61.39)	67.8 (65.42 - 70.05)	44.0 (34.69 - 53.81)
Experienced serious psychological distress in past 30 days[6]	3.0 (2.57 - 3.52)	3.3 (2.52 - 4.29)	*7.2 (3.65 - 13.82)
Obese (adults 20 years of age or older)[7]	28.8 (27.44 - 30.22)	26.0 (23.63 - 28.56)	28.3 (20.78 - 37.15)
Asthma episode in the past year[8]	3.8 (3.34 - 4.37)	4.5 (3.47 - 5.90)	*3.1 (1.39 - 6.97)
Ever diagnosed with diabetes[9]	9.4 (8.67 - 10.26)	4.8 (3.75 - 6.09)	6.5 (3.78 - 11.07)
Health care service use			
Received influenza vaccine during past year[10]	36.0 (34.48 - 37.65)	19.0 (16.57 - 21.63)	14.7 (9.99 - 21.10)
Ever been tested for HIV[11]	37.1 (35.55 - 38.61)	47.0 (43.98 - 50.02)	39.7 (30.29 - 49.97)
Health care access			
Has a usual place to go for medical care[12]	87.0 (85.67 - 88.28)	72.0 (68.62 - 75.13)	65.0 (55.92 - 73.08)
Failed to obtain needed medical care in past year due to financial barriers[13]	7.5 (6.69 - 8.30)	14.9 (12.96 - 17.02)	12.9 (8.07 - 20.10)
Currently uninsured (adults 18-64 years of age)[14]	16.4 (15.07 - 17.86)	27.5 (25.12 - 29.96)	46.7 (36.41 - 57.21)
Number of adults in survey sample (unweighted)	7,510	2,133	198

* Estimate has a relative standard error greater than 30% and does not meet National Center for Health Statistics standards for reliability.

[1] In this analysis, landline households include households that also have wireless telephone service.

[2] A year is defined as the 12 months prior to the interview. The analyses excluded adults with unknown alcohol consumption (about 2% of respondents each year).

[3] Current smokers were defined as those who had smoked more than 100 cigarettes in their lifetime and now smoke every day or some days. The analyses excluded persons with unknown smoking status (about 1% of respondents each year).

[4] Regular leisure-time physical activity is defined as engaging in light-moderate leisure-time physical activity for greater than or equal to 30 minutes at a frequency greater than or equal to five times per week or engaging in vigorous leisure-time physical activity for greater than or equal to 20 minutes at a frequency greater than or equal to three times per week. Persons who were known to have not met the frequency recommendations are classified as "not regular," regardless of duration. The analyses excluded persons with unknown physical activity participation (about 3% of respondents each year).

[5] Health status data were obtained by asking respondents to assess their own health and that of family members living in the same household as excellent, very good, good, fair, or poor. The analyses excluded persons with unknown health status (about 0.5% of respondents each year).

[6] Six psychological distress questions are included in the National Health Interview Survey. These questions ask how often during the past 30 days a respondent experienced certain symptoms of psychological distress (feeling so sad that nothing could cheer

you up, nervous, restless or fidgety, hopeless, worthless, that everything was an effort). The response codes of the six items for each person are summed to yield a scale with a 0-24 range. A value of 13 or more for this scale indicates that at least one *symptom was experienced "most of the time" and is used here to define serious psychological distress.*

[7] Obesity is defined as a body mass index (BMI) of 30 kg/m^2 or more. The measure is based on self-reported height and weight. The analyses excluded people with unknown height or weight (about 4% of respondents each year).

[8] Information on an episode of asthma or an asthma attack during the past year is self-reported by adults aged 18 years and over. A year is defined as the 12 months prior to the interview. The analyses excluded people with unknown asthma episode status (about 0.3% of respondents each year).

[9] Prevalence of diagnosed diabetes is based on self-report of ever having been diagnosed with diabetes by a doctor or other health professional. Persons reporting "borderline" diabetes status and women reporting diabetes only during pregnancy were not coded as having diabetes in the analyses. The analyses excluded persons with unknown diabetes status (about 0.1% of respondents each year).

[10] Receipt of flu shots and receipt of nasal spray flu vaccinations were included in the calculation of flu vaccination estimates. Responses to the flu vaccination questions cannot be used to determine when the subject received the flu vaccination during the 12 months preceding the interview. In addition, estimates are subject to recall error, which will vary depending on when the question is asked because the receipt of a flu vaccination is seasonal. The analyses excluded those with unknown flu vaccination status (about 1% of respondents each year).

[11] Individuals who received human immunodeficiency virus (HIV) testing solely as a result of blood donation were considered not to have been tested for HIV. The analyses excluded those with unknown HIV test status (about 4% of respondents each year).

[12] The usual place to go for medical care does not include a hospital emergency room. The analyses excluded persons with an unknown usual place to go for medical care (about 0.6% of respondents each year).

[13] A year is defined as the 12 months prior to the interview. The analyses excluded persons with unknown responses to the question on failure to obtain needed medical care due to cost (about 0.5% of respondents each year).

[14] A person was defined as uninsured if he or she did not have any private health insurance, Medicare, Medicaid, State Children's Health Insurance Program (SCHIP), state-sponsored or other government-sponsored health plan, or military plan at the time of the interview. A person was also defined as uninsured if he or she had only Indian Health Service coverage or had only a private plan that paid for one type of service such as accidents or dental care. The data on health insurance status were edited using an automated system based on logic checks and keyword searches. The analyses excluded persons with unknown health insurance status (about 1% of respondents each year).

DATA SOURCE: *National Health Interview Survey, July-December 2008*. Data are based on household interviews of a sample of the civilian, noninstitutionalized population.