**Price Rebuttal Exhibit 1**
**Dockets I-00040105, etc.**
**March 10, 2010**

# *Trends in Telephone Service*

***Industry Analysis and Technology Division***
***Wireline Competition Bureau***

***August 2008***

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## Table 1.2
## Interstate Per-Minute Access Charges
### (National Average in Cents per Minute) [1]

| Rates in Effect | | Interstate Charges for Switched Access Service | | | | |
|---|---|---|---|---|---|---|
| From | To | Carrier Common Line per Originating Access Minute [1] | Carrier Common Line per Terminating Access Minute [1] | Traffic Sensitive per Switched Minute | Non-Traffic Sensitive per Switched Minute [2] | Total Charge per Conversation Minute [3] |
| 05/26/84 | 01/14/85 | 5.24 ¢ | 5.24 ¢ | 3.10 ¢ | | 17.26 ¢ |
| 01/15/85 | 05/31/85 | 5.43 | 5.43 | 3.10 | | 17.66 |
| 06/01/85 | 09/30/85 | 4.71 | 4.71 | 3.10 | | 16.17 |
| 10/01/85 | 05/31/86 | 4.33 | 4.33 | 3.10 | | 15.38 |
| 06/01/86 | 12/31/86 | 3.04 | 4.33 | 3.10 | | 14.00 |
| 01/01/87 | 06/30/87 | 1.55 | 4.33 | 3.10 | | 12.41 |
| 07/01/87 | 12/31/87 | 0.69 | 4.33 | 3.10 | | 11.49 |
| 01/01/88 | 11/30/88 | 0.00 | 4.14 | 3.10 | | 10.56 |
| 12/01/88 | 02/14/89 | 0.00 | 3.39 | 3.00 | | 9.60 |
| 02/15/89 | 03/31/89 | 0.00 | 3.25 | 3.00 | | 9.46 |
| 04/01/89 | 12/31/89 | 1.00 | 1.83 | 3.00 | | 9.11 |
| 01/01/90 | 06/30/90 | 1.00 | 1.53 | 2.50 | | 7.78 |
| 07/01/90 | 12/31/90 | 1.00 | 1.23 | 2.50 | | 7.48 |
| 01/01/91 | 06/30/91 | 1.00 | 1.14 | 2.40 | | 7.18 |
| 07/01/91 | 06/30/92 | 0.88 | 1.06 | 2.40 | | 6.97 |
| 07/01/92 | 06/30/93 | 0.79 | 0.95 | 2.40 | | 6.76 |
| 07/01/93 | 06/30/94 | 0.88 | 1.16 | 2.20 | | 6.66 |
| 07/01/94 | 06/30/95 | 0.84 | 1.08 | 2.10 | 0.28 ¢ | 6.89 |
| 07/01/95 | 06/30/96 | 0.74 | 0.89 | 1.96 | 0.21 | 6.16 |
| 07/01/96 | 06/30/97 | 0.72 | 0.89 | 1.95 | 0.17 | 6.04 |
| 07/01/97 | 12/31/97 | 0.64 | 0.84 | 1.63 | 0.14 | 5.18 |
| 01/01/98 | 06/30/98 | 0.68 | 0.23 | 1.29 | 0.21 | 4.04 |
| 07/01/98 | 12/31/98 | 0.91 | 0.20 | 0.99 | 0.30 | 3.82 |
| 01/01/99 | 06/30/99 | 0.82 | 0.16 | 0.98 | 0.32 | 3.71 |
| 07/01/99 | 12/31/99 | 0.37 | 0.10 | 0.86 | 0.28 | 2.82 |
| 01/01/00 | 06/30/00 | 0.32 | 0.10 | 0.86 | 0.31 | 2.85 |
| 08/11/00 | 06/31/00 [4] | 0.23 | 0.07 | 0.52 | 0.26 | 1.91 |
| 07/01/01 | 12/31/01 | 0.15 | 0.07 | 0.48 | 0.24 | 1.71 |
| 01/01/02 | 06/30/02 | 0.15 | 0.07 | 0.47 | 0.24 | 1.69 |
| 07/01/02 | 06/30/03 | 0.02 | 0.01 | 0.48 | 0.22 | 1.46 |
| 07/01/03 | 06/30/04 | 0.00 | 0.00 | 0.48 | 0.22 | 1.44 |
| 07/01/04 | 06/30/05 | 0.00 | 0.00 | 0.50 | 0.25 | 1.53 |
| 07/01/05 | 06/30/06 | 0.00 | 0.00 | 0.52 | 0.25 | 1.59 |
| 07/01/06 | 06/30/07 | 0.01 | 0.00 | 0.54 | 0.25 | 1.63 |
| 07/01/07 | 06/30/08 | 0.01 | 0.00 | 0.56 | 0.26 | 1.71 |

[1] This table shows average rates (weighted by minutes of use) for all local exchange carriers (LECs) that file access tariffs subject to price-cap regulation and all LECs in the National Exchange Carrier Association (NECA) pool. The average rates reported here do not include the average revenue per minute from subscriber line charges (SLCs) or primary interexchange carrier charges (PICCs), both of which are reported in Table 1.1. Effective 07/01/03, the carrier common line (CCL) rates for NECA carriers were eliminated.

[2] Non-traffic-sensitive charges include charges assessed on a per-month, per-unit basis. Prior to 07/01/94, these charges were included in the average traffic-sensitive rates.

[3] The total charge per conversation minute consists of charges on the originating end of the call, which are adjusted for dialing and call setup time, plus charges on the terminating end. Originating charges per conversation minute equal the carrier common line charge per originating access minute plus the traffic-sensitive charge per switched minute, both multiplied by 1.07 to account for dialing and call setup time, plus the non-traffic-sensitive charge per switched minute. Terminating charges per conversation minute equal carrier common line charges per terminating access minute plus both traffic-sensitive and non-traffic-sensitive charges per switched minute.

[4] Although the charges took effect on July 1, 2000, some companies made adjustments to the tariffs which did not take effect until August 11, 2000.

Source: Access tariff filings.

# Table 10.2

## Telephone Calls and Billed Access Minutes of Large ILECs Reporting to the Commission

| Year | Number of Carriers | Number of Telephone Calls (Thousands) | | | | | | InterLATA Billed Access Minutes Carried by IXCs (Originating and Terminating) (Thousands) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Toll Calls Completed [1] (Originating) | | | | | | | |
| | | Local Calls Carried by the ILECs | Total [1] | IntraLATA carried by ILECs | Total InterLATA Carried by IXCs | InterLATA Interstate Carried by IXCs | InterLATA Intrastate Carried by IXCs | Total | Interstate | Intrastate |
| 1984 | 75 | 350,391,981 | NA | NA | NA | NA | NA | NA | NA | NA |
| 1985 | 55 | 365,304,830 | NA | NA | NA | NA | NA | NA | NA | NA |
| 1986 | 57 | 372,296,473 | NA | NA | NA | NA | NA | NA | NA | NA |
| 1987 | 52 | 379,864,264 | NA | NA | NA | NA | NA | NA | NA | NA |
| 1988 | 52 | 379,035,883 | 67,547,342 | 18,983,768 | 48,563,574 | 36,752,925 | 11,810,649 | NA | NA | NA |
| 1989 | 51 | 389,383,322 | 68,547,451 | 19,406,222 | 49,141,229 | 37,593,867 | 11,547,362 | NA | NA | NA |
| 1990 | 51 | 402,492,293 | 63,359,346 | 20,263,554 | 43,095,792 | 31,888,748 | 11,207,044 | NA | NA | NA |
| 1991 | 52 | 416,213,954 | 67,333,207 | 23,337,553 | 43,995,654 | 32,126,555 | 11,869,099 | 405,456,048 | 305,745,611 | 99,710,437 |
| 1992 | 54 | 434,175,743 | 71,502,090 | 22,612,572 | 48,889,518 | 36,036,032 | 12,853,486 | 432,356,515 | 327,821,281 | 104,535,234 |
| 1993 | 53 | 447,473,714 | 78,077,246 | 23,757,662 | 54,319,584 | 38,746,788 | 15,572,796 | 465,270,369 | 351,022,599 | 114,247,770 |
| 1994 | 52 | 465,207,539 | 83,441,709 | 23,796,633 | 59,645,076 | 43,244,593 | 16,400,483 | 500,297,267 | 374,996,101 | 125,301,166 |
| 1995 | 53 | 484,195,345 | 94,051,667 | 23,327,801 | 70,723,866 | 50,618,771 | 20,105,095 | 549,982,263 | 405,579,546 | 144,402,717 |
| 1996 | 51 | 504,131,507 | 94,905,927 | 21,376,847 | 73,529,080 | 52,677,037 | 20,852,043 | 598,563,946 | 438,772,880 | 159,791,066 |
| 1997 | 51 | 522,025,261 | 98,424,977 | 21,844,925 | 76,580,052 | 54,563,338 | 22,016,714 | 647,813,708 | 469,638,292 | 178,175,416 |
| 1998 | 52 | 544,288,934 | 96,934,938 | 18,469,316 | 78,465,622 | 55,974,210 | 22,491,412 | 690,523,467 | 497,138,901 | 193,384,566 |
| 1999 | 52 | 553,853,237 | 102,245,666 | 18,116,240 | 84,129,426 | 57,806,961 | 26,322,465 | 739,042,459 | 519,272,905 | 219,769,554 |
| 2000 | 52 | 536,523,081 | 105,978,596 | 16,157,912 | 89,820,684 | 59,212,055 | 30,608,629 | 792,263,836 | 535,011,649 | 257,252,187 |
| 2001 | 52 | 515,335,676 | 97,849,444 | 14,970,794 | 82,878,650 | 53,319,645 | 29,559,005 | 745,754,124 | 504,026,109 | 241,728,015 |
| 2002 | 53 | 453,603,777 | 95,709,932 | 13,324,887 | 82,385,045 | 52,905,686 | 29,479,359 | 666,477,372 | 451,602,651 | 214,874,720 |
| 2003 | 54 | 418,024,360 | 87,750,048 | 11,938,818 | 75,811,230 | 48,942,707 | 26,868,523 | 611,454,607 | 414,766,241 | 196,688,366 |
| 2004 | 56 | 380,783,208 | 82,246,587 | 10,176,082 | 72,070,505 | 47,560,862 | 24,509,643 | 600,794,362 | 406,315,068 | 194,479,294 |
| 2005 | 56 | 330,018,175 | 79,410,078 | 9,320,956 | 70,089,122 | 45,362,434 | 24,726,688 | 577,264,068 | 388,640,682 | 188,623,386 |
| 2006 | 56 | 280,182,070 | 73,065,925 | 8,619,197 | 64,446,728 | 41,993,036 | 22,453,692 | 543,163,434 | 372,044,483 | 171,118,950 |

[1] Excludes IntraLata toll carried by interexhange carriers.

NA - Not available.

Notes: Between 1987 and 1988, there were significant changes in the definitions of many of the items in this table due to the implementation of a new Uniform System of Accounts (USOA) in 1988. In 1992, some of these definitions were further refined when the reporting mechanism of the carriers was changed for the filing of 1991 data. For these reasons, there may be inconsistencies in the data reported for 1984-1987 compared to what was reported for 1988, and also between 1988 and subsequent years, as the carriers were adapting to the new USOA and automated reporting requirements.
ILEC is an abbreviation for incumbent local exhange carrier. IXC is an abbreviation for interexchange carrier.

Source: Industry Analysis and Technology Division, Wireline Competition Division, *Statistics of Communications Common Carriers*, with updates and revisions contained in the ARMIS database for the most recent five years. Totals may be understated because certain data pertaining to the carriers included in this table are not available.

## Table 13.2
## Average Local Rates for Businesses with a Single Line in Urban Areas, 1989 - 2007
### (As of October 15)

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 [1] | 2007 [2] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Monthly Representative Service Charge [3] | $31.06 | $30.97 | $32.29 | $32.45 | $32.70 | $32.25 | $32.48 | $32.58 | $32.76 | $32.44 | $32.41 | $32.18 | $31.88 | $30.86 | $30.65 | $32.11 | $32.49 | $33.33 | $36.59 |
| Subscriber Line Charges | 3.55 | 3.57 | 3.57 | 3.56 | 3.57 | 3.57 | 3.57 | 3.54 | 3.54 | 3.54 | 3.52 | 4.39 | 4.91 | 5.63 | 5.76 | 5.71 | 5.72 | 5.91 | 5.74 |
| Extra for Touch-Tone Service [4] | 2.43 | 2.35 | 1.84 | 1.71 | 1.67 | 1.21 | 0.97 | 0.82 | 0.38 | 0.32 | 0.25 | 0.19 | 0.18 | [4] | [4] | [4] | [4] | [4] | [4] |
| Taxes, 911, and Other Charges | 4.21 | 4.32 | 4.42 | 4.57 | 4.63 | 4.61 | 4.79 | 4.87 | 4.99 | 4.97 | 5.03 | 5.04 | 5.45 | 5.47 | 5.55 | 5.67 | 5.74 | 5.82 | 5.81 |
| **Total Monthly Charge** | **$41.25** | **$41.21** | **$42.12** | **$42.29** | **$42.57** | **$41.64** | **$41.80** | **$41.81** | **$41.67** | **$41.27** | **$41.21** | **$41.80** | **$42.43** | **$41.95** | **$41.97** | **$43.49** | **$43.94** | **$45.06** | **$48.14** |
| Monthly Charge for Flat-Rate Service | $33.04 | $33.29 | $34.12 | $34.06 | $34.85 | $34.39 | $34.45 | $34.42 | $34.68 | $34.39 | $33.73 | $33.45 | $32.02 | $32.92 | $33.17 | $34.20 | $34.15 | $34.60 | $35.22 |
| Subscriber Line Charges | 3.65 | 3.69 | 3.70 | 3.70 | 3.70 | 3.70 | 3.69 | 3.61 | 3.61 | 3.56 | 3.50 | 4.35 | 4.77 | 5.77 | 6.03 | 6.01 | 6.04 | 6.15 | 6.15 |
| Extra for Touch-Tone Service [4] | 2.12 | 2.11 | 1.87 | 1.84 | 1.76 | 1.12 | 1.00 | 0.89 | 0.53 | 0.49 | 0.47 | 0.43 | 0.39 | [4] | [4] | [4] | [4] | [4] | [4] |
| Taxes, 911, and Other Charges | 4.90 | 4.98 | 5.22 | 5.34 | 5.50 | 5.36 | 5.58 | 5.55 | 5.58 | 5.63 | 5.49 | 5.68 | 5.98 | 8.16 | 7.91 | 7.53 | 7.71 | 7.69 | 7.36 |
| **Total Monthly Charge for Flat-Rate Service** | **$43.71** | **$44.07** | **$44.91** | **$44.94** | **$45.81** | **$44.57** | **$44.71** | **$44.47** | **$44.39** | **$44.07** | **$43.20** | **$43.90** | **$43.15** | **$46.85** | **$47.12** | **$47.74** | **$47.90** | **$48.45** | **$48.72** |
| Number of Sample Cities with Flat-Rate Service | 59 | 56 | 54 | 54 | 54 | 53 | 53 | 53 | 53 | 54 | 54 | 54 | 56 | 52 | 52 | 56 | 56 | 56 | 56 |
| Monthly Charge for Measured/Message Service | $16.18 | $16.17 | $16.76 | $16.55 | $16.60 | $16.74 | $17.06 | $17.26 | $17.28 | $17.16 | $17.06 | $16.92 | $17.16 | $17.56 | $17.21 | $18.49 | 18.02 | $16.56 | 18.75 |
| 200 Five-Minute Same-Zone Business-Day Calls | 16.11 | 16.19 | 16.70 | 17.23 | 17.57 | 17.38 | 17.15 | 17.10 | 17.18 | 17.15 | 17.24 | 17.63 | 17.56 | 16.78 | 17.17 | 17.86 | 17.87 | 16.67 | 17.69 |
| Subscriber Line Charges | 3.54 | 3.55 | 3.55 | 3.54 | 3.55 | 3.55 | 3.54 | 3.51 | 3.51 | 3.53 | 3.52 | 4.39 | 4.90 | 5.56 | 5.65 | 5.86 | 5.66 | 5.52 | 5.61 |
| Extra for Touch-Tone Service [4] | 2.48 | 2.39 | 1.87 | 1.73 | 1.68 | 1.22 | 0.98 | 0.83 | 0.39 | 0.33 | 0.25 | 0.20 | 0.19 | [4] | [4] | [4] | [4] | [4] | [4] |
| Taxes, Including 911 Charges | 4.41 | 4.53 | 4.56 | 4.77 | 4.86 | 4.83 | 5.01 | 5.13 | 5.22 | 5.19 | 5.28 | 5.32 | 5.76 | 4.71 | 4.78 | 5.07 | 4.72 | 4.69 | 5.02 |
| **Total Monthly Charge for Measured/Message Service** | **$42.72** | **$42.83** | **$43.44** | **$43.82** | **$44.26** | **$43.72** | **$43.75** | **$43.84** | **$43.57** | **$43.35** | **$43.35** | **$44.45** | **$45.57** | **$44.61** | **$44.82** | **$47.29** | **$46.27** | **$43.44** | **$47.06** |
| Number of Sample Cities with Measured/Message Service | 83 | 83 | 84 | 84 | 84 | 87 | 87 | 86 | 85 | 85 | 85 | 85 | 85 | 86 | 85 | 86 | 85 | 89 | 78 |
| Cost of a Five-Minute Same-Zone Business-Day Call | $0.09 | $0.09 | $0.09 | $0.09 | $0.09 | $0.09 | $0.09 | $0.09 | $0.09 | $0.09 | $0.09 | $0.10 | $0.09 | $0.09 | $0.09 | $0.10 | $0.10 | $0.09 | $0.10 |
| Basic Connection Charge | $71.05 | $71.36 | $72.75 | $72.55 | $71.41 | $69.88 | $67.87 | $68.47 | $68.67 | $65.83 | $67.87 | $67.77 | $67.04 | $67.29 | $67.23 | $67.24 | $67.35 | $62.95 | $63.07 |
| Additional Connection Charge for Touch-Tone Service [4] | 1.70 | 1.89 | 1.13 | 1.19 | 1.17 | 0.92 | 0.27 | 0.17 | 0.17 | 0.12 | 0.12 | 0.12 | 0.12 | [4] | [4] | [4] | [4] | [4] | [4] |
| Taxes, Including 911 Charges | 4.06 | 4.15 | 4.32 | 4.33 | 4.25 | 4.13 | 4.17 | 4.20 | 4.45 | 4.13 | 4.53 | 4.40 | 4.69 | 5.09 | 6.95 | 6.42 | 6.35 | 6.50 | 6.11 |
| **Total Connection Charge** | **$76.81** | **$77.40** | **$78.20** | **$78.07** | **$76.83** | **$74.93** | **$72.31** | **$72.85** | **$73.29** | **$70.09** | **$72.55** | **$72.29** | **$71.86** | **$72.39** | **$74.18** | **$74.18** | **$73.70** | **$74.18** | **$69.18** |
| Additional Charge if Drop Line and Connection Block Needed | $5.92 | $7.87 | $6.90 | $6.83 | $6.64 | $6.49 | $7.28 | $6.98 | $6.54 | $6.54 | $6.65 | $6.62 | $6.62 | $6.52 | $13.43 | $13.76 | $13.76 | $9.35 | $11.62 |
| Lowest-Cost Inside Wiring Maintenance Plan | $1.78 | $1.91 | $2.05 | $2.03 | $2.08 | $2.26 | $2.39 | $2.63 | $2.84 | $3.04 | $3.53 | $3.92 | $4.86 | $4.73 | $4.65 | $4.94 | $5.73 | $4.70 | $5.66 |

Note: Details may not add to totals due to rounding.

[1] Revised.

[2] Subject to revision

[3] Rates are based on flat-rate service where available, and measured/message service with 200 five-minute, same-zone, business-day calls elsewhere.

[4] Beginning in 2002, additional monthly charges for touch-tone service are included in the monthly charge.

Source: Industry Analysis and Technology Division, Wireline Competition Bureau, *Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service (2006)* .

**Price Rebuttal Exhibit 2**
**Dockets I-00040105, etc.**
**March 10, 2010**

# Local Telephone Competition: Status as of June 30, 2008

Industry Analysis and Technology Division
Wireline Competition Bureau
July 2009

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**Table 7**
**End-User Switched Access Lines Served by Reporting Local Exchange Carriers**
**(As of June 30, 2008)**

| State | ILECs | CLECs | Total | CLEC Share |
|---|---|---|---|---|
| Alabama | 1,860,990 | 352,315 | 2,213,305 | 16 % |
| Alaska | 294,400 | * | * | * |
| American Samoa | 10,523 | 0 | 10,523 | 0 |
| Arizona | 1,942,613 | 1,128,827 | 3,071,440 | 37 |
| Arkansas | 1,069,106 | 174,970 | 1,244,076 | 14 |
| California | 17,149,129 | 3,100,548 | 20,249,677 | 15 |
| Colorado | 1,973,364 | 448,513 | 2,421,877 | 19 |
| Connecticut | 1,632,418 | 291,481 | 1,923,899 | 15 |
| Delaware | 396,400 | 84,691 | 481,091 | 18 |
| District of Columbia | 787,537 | 136,080 | 923,617 | 15 |
| Florida | 7,932,251 | 1,276,387 | 9,208,638 | 14 |
| Georgia | 3,674,523 | 764,062 | 4,438,585 | 17 |
| Guam | 62,130 | * | * | * |
| Hawaii | 516,106 | 115,108 | 631,214 | 18 |
| Idaho | 608,538 | 78,804 | 687,342 | 11 |
| Illinois | 5,562,408 | 874,798 | 6,437,206 | 14 |
| Indiana | 2,665,296 | 313,043 | 2,978,339 | 11 |
| Iowa | 1,162,113 | 273,176 | 1,435,289 | 19 |
| Kansas | 977,368 | 375,357 | 1,352,725 | 28 |
| Kentucky | 1,542,330 | 331,113 | 1,873,443 | 18 |
| Louisiana | 1,709,563 | 449,000 | 2,158,563 | 21 |
| Maine | 578,667 | 181,045 | 759,712 | 24 |
| Maryland | 2,792,131 | 479,070 | 3,271,201 | 15 |
| Massachusetts | 2,609,427 | 870,843 | 3,480,270 | 25 |
| Michigan | 3,718,987 | 927,291 | 4,646,278 | 20 |
| Minnesota | 2,006,436 | 572,272 | 2,578,708 | 22 |
| Mississippi | 1,017,589 | 121,968 | 1,139,557 | 11 |
| Missouri | 2,567,972 | 470,523 | 3,038,495 | 15 |
| Montana | 406,450 | 96,131 | 502,581 | 19 |
| Nebraska | 606,104 | 273,966 | 880,070 | 31 |
| Nevada | 1,042,093 | 372,099 | 1,414,192 | 26 |
| New Hampshire | 507,413 | 167,073 | 674,486 | 25 |
| New Jersey | 3,936,466 | 866,469 | 4,802,935 | 18 |
| New Mexico | 783,261 | 75,038 | 858,299 | 9 |
| New York | 6,901,625 | 3,124,937 | 10,026,562 | 31 |
| North Carolina | 3,714,922 | 952,924 | 4,667,846 | 20 |
| North Dakota | 247,817 | 76,188 | 324,005 | 24 |
| Northern Mariana Isl. | 17,902 | 0 | 17,902 | 0 |
| Ohio | 4,536,900 | 1,365,001 | 5,901,901 | 23 |
| Oklahoma | 1,266,683 | 474,427 | 1,741,110 | 27 |
| Oregon | 1,358,675 | 300,482 | 1,659,157 | 18 |
| Pennsylvania | 5,493,866 | 1,423,145 | 6,917,011 | 21 |
| Puerto Rico | 785,674 | 186,449 | 972,123 | 19 |
| Rhode Island | 302,228 | 300,542 | 602,770 | 50 |
| South Carolina | 1,727,608 | 398,682 | 2,126,290 | 19 |
| South Dakota | 260,666 | 124,402 | 385,068 | 32 |
| Tennessee | 2,435,555 | 522,858 | 2,958,413 | 18 |
| Texas | 9,020,265 | 1,918,912 | 10,939,177 | 18 |
| Utah | 811,137 | 210,689 | 1,021,826 | 21 |
| Vermont | 323,463 | 46,692 | 370,155 | 13 |
| Virgin Islands | 62,446 | 0 | 62,446 | 0 |
| Virginia | 3,421,579 | 1,043,129 | 4,464,708 | 23 |
| Washington | 2,508,883 | 471,045 | 2,979,928 | 16 |
| West Virginia | 752,289 | 141,479 | 893,768 | 16 |
| Wisconsin | 2,335,642 | 744,475 | 3,080,117 | 24 |
| Wyoming | 217,615 | 50,515 | 268,130 | 19 |
| Nationwide | 124,605,542 | 30,049,305 | 154,654,847 | 19 % |

* Data withheld to maintain firm confidentiality.

## Table 14
## Mobile Wireless Telephone Subscribers [1]

| State | Jun 2008 Carriers [1] | Jun 2008 Percent Resold [2] | Subscribers 2001 Jun | 2002 Jun | 2003 Jun | 2004 Jun | 2005 Jun | 2006 Jun | 2007 Jun | 2007 Dec | 2008 Jun |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Alabama | 12 | 6 % | 1,930,631 | 2,027,845 | 2,100,557 | 2,301,847 | 2,874,367 | 3,275,933 | 3,605,490 | 3,765,194 | 3,887,016 |
| Alaska | 7 | 11 | 218,424 | 242,133 | * | 307,323 | 340,507 | 397,429 | 431,653 | 459,703 | 480,069 |
| American Samoa | * | * | 0 | 0 | 0 | * | * | * | * | * | * |
| Arizona | 9 | 9 | 2,018,410 | 2,412,998 | 2,643,952 | 3,079,657 | 3,542,844 | 4,153,491 | 4,637,471 | 4,799,648 | 4,935,640 |
| Arkansas | 6 | 9 | 891,275 | 1,130,302 | 1,351,291 | 1,376,564 | 1,680,975 | 1,924,313 | 2,149,312 | 2,288,049 | 2,446,414 |
| California | 12 | 6 | 14,184,625 | 16,007,376 | 18,892,619 | 21,575,797 | 24,572,034 | 27,496,682 | 30,203,842 | 32,247,015 | 31,946,342 |
| Colorado | 9 | 10 | 1,983,405 | 2,247,166 | 2,426,929 | 2,727,910 | 3,040,589 | 3,428,381 | 3,756,215 | 3,967,902 | 4,065,993 |
| Connecticut | 4 | 6 | 1,418,367 | 1,577,873 | 1,791,944 | 2,064,204 | 2,328,966 | 2,582,367 | 2,786,594 | 2,883,780 | 2,958,633 |
| Delaware | 4 | 8 | 389,284 | 433,059 | 503,353 | 593,452 | 585,113 | 650,328 | 724,342 | 750,793 | 774,709 |
| Dist. of Columbia | 4 | 8 | 382,457 | 415,399 | 520,182 | 555,958 | 752,548 | 878,846 | 965,816 | 935,808 | 1,047,428 |
| Florida | 9 | 7 | 7,536,670 | 8,607,715 | 10,252,348 | 11,916,615 | 12,619,929 | 14,176,756 | 15,255,433 | 15,604,856 | 15,809,443 |
| Georgia | 10 | 5 | 4,076,119 | 4,300,831 | 4,709,288 | 5,332,517 | 6,001,411 | 6,865,466 | 7,598,387 | 7,940,514 | 8,142,364 |
| Guam | * | * | * | * | * | * | * | * | * | * | * |
| Hawaii | 4 | 4 | 543,283 | 640,247 | 732,262 | 819,262 | 934,405 | 1,010,341 | 1,066,608 | 1,096,181 | 1,115,274 |
| Idaho | 16 | 8 | 398,781 | 500,693 | 572,406 | 653,779 | 773,893 | 901,455 | 1,018,617 | 1,085,776 | 1,125,104 |
| Illinois | 10 | 7 | 5,621,044 | 5,409,370 | 6,834,217 | 7,529,966 | 8,227,185 | 9,147,657 | 9,949,126 | 10,330,274 | 10,633,730 |
| Indiana | 11 | 11 | 1,781,247 | 2,032,290 | 2,456,509 | 2,844,568 | 3,442,612 | 3,972,560 | 4,448,186 | 4,675,372 | 4,823,650 |
| Iowa | 61 | 9 | 861,382 | 1,157,580 | 1,250,305 | 1,445,711 | 1,633,697 | 1,867,015 | 2,058,022 | 2,165,772 | 2,244,649 |
| Kansas | 11 | 11 | 901,225 | 1,061,171 | 1,195,230 | 1,345,160 | 1,659,662 | 1,905,342 | 2,133,399 | 2,261,455 | 2,326,444 |
| Kentucky | 11 | 10 | 1,176,756 | 1,505,982 | 1,595,290 | 2,000,459 | 2,507,816 | 2,820,938 | 3,101,267 | 3,291,480 | 3,342,867 |
| Louisiana | 8 | 7 | 1,677,292 | 2,187,811 | 2,365,224 | 2,547,153 | 2,942,463 | 3,355,503 | 3,611,553 | 3,764,592 | 3,895,938 |
| Maine | 6 | 16 | 399,616 | 457,835 | 524,246 | 610,533 | 710,985 | 786,811 | 882,039 | 940,914 | 972,323 |
| Maryland | 5 | 7 | 2,446,818 | 2,684,441 | 3,108,086 | 3,575,747 | 3,967,969 | 4,470,542 | 4,818,275 | 5,023,573 | 5,124,208 |
| Massachusetts | 5 | 7 | 2,753,685 | 3,289,934 | 3,506,039 | 3,919,139 | 4,487,601 | 4,916,500 | 5,289,432 | 5,469,503 | 5,624,292 |
| Michigan | 11 | 8 | 4,071,091 | 4,758,538 | 4,889,269 | 5,430,637 | 6,229,949 | 6,862,582 | 7,333,242 | 7,608,420 | 7,820,609 |
| Minnesota | 8 | 10 | 2,014,317 | 2,254,895 | 2,564,783 | 2,823,079 | 3,132,453 | 3,542,865 | 3,833,826 | 4,048,413 | 4,164,322 |
| Mississippi | 10 | 7 | 993,781 | 1,106,700 | 1,232,750 | 1,411,277 | 1,631,331 | 1,923,365 | 2,069,897 | 2,196,392 | 2,252,244 |
| Missouri | 11 | 9 | 1,937,684 | 2,246,430 | 2,515,325 | 2,859,953 | 3,595,157 | 4,067,585 | 4,480,384 | 4,673,889 | 4,835,115 |
| Montana | 7 | 7 | * | 291,429 | 343,160 | * | 466,022 | 575,034 | 650,381 | 693,507 | 723,081 |
| Nebraska | 10 | 5 | 712,685 | 838,568 | 900,744 | 984,355 | 1,070,550 | 1,198,714 | 1,325,131 | 1,387,022 | 1,451,007 |
| Nevada | 9 | 8 | 766,581 | 895,586 | 1,077,380 | 1,319,684 | 1,604,713 | 1,883,273 | 2,092,872 | 2,166,680 | 2,249,231 |
| New Hampshire | 6 | 10 | 445,181 | 529,795 | 598,504 | 686,746 | 790,639 | 896,661 | 973,105 | 1,022,406 | 1,044,808 |
| New Jersey | 4 | 5 | 3,896,778 | 4,531,457 | 5,392,240 | 6,326,459 | 6,233,984 | 6,953,528 | 7,419,289 | 7,654,173 | 7,834,401 |
| New Mexico | 9 | 10 | 619,582 | 735,107 | 828,869 | 939,091 | 1,024,852 | 1,252,770 | 1,415,726 | 1,489,120 | 1,555,122 |
| New York | 8 | 8 | 6,749,096 | 7,915,526 | 8,829,070 | 9,939,759 | 12,995,534 | 14,573,548 | 15,901,378 | 16,395,371 | 17,259,751 |
| North Carolina | 11 | 8 | 3,377,331 | 4,610,120 | 4,305,521 | 4,875,916 | 5,503,202 | 6,209,483 | 6,961,656 | 7,305,964 | 7,427,570 |
| North Dakota | 7 | 6 | * | * | * | * | 367,850 | 456,806 | 492,101 | 513,238 | 541,042 |
| Northern Mariana Isl. | * | * | * | * | * | * | * | * | * | * | * |
| Ohio | 10 | 9 | 4,255,934 | 4,887,376 | 5,659,459 | 6,188,081 | 6,993,803 | 7,939,126 | 8,722,523 | 9,098,920 | 9,357,119 |
| Oklahoma | 15 | 8 | 1,200,234 | 1,366,475 | 1,574,588 | 1,724,505 | 2,001,835 | 2,317,197 | 2,571,878 | 2,722,901 | 2,807,607 |
| Oregon | 10 | 9 | 1,268,909 | 1,473,883 | 1,682,036 | 1,894,285 | 2,055,890 | 2,484,176 | 2,781,196 | 2,922,609 | 3,006,636 |
| Pennsylvania | 9 | 10 | 4,378,216 | 4,987,067 | 5,681,653 | 6,420,037 | 7,397,397 | 8,348,713 | 9,200,793 | 9,615,349 | 9,894,870 |
| Puerto Rico | 5 | 11 | 1,374,747 | 1,136,619 | 1,401,599 | 1,698,702 | 2,002,851 | 2,170,540 | 2,322,737 | 2,410,503 | 2,074,854 |
| Rhode Island | 4 | 8 | 401,805 | 463,636 | 527,366 | 615,398 | 689,209 | 765,355 | 828,969 | 848,249 | 873,565 |
| South Carolina | 12 | 8 | 1,502,345 | 1,830,516 | 2,041,541 | 2,337,367 | 2,606,827 | 3,000,861 | 3,339,733 | 3,500,297 | 3,572,588 |
| South Dakota | 8 | 6 | * | 292,210 | 344,825 | 382,906 | 433,927 | 513,850 | 569,513 | 596,470 | 610,945 |
| Tennessee | 10 | 7 | 2,251,208 | 2,660,068 | 2,800,735 | 3,171,487 | 4,065,964 | 4,730,704 | 4,970,756 | 5,245,513 | 5,790,638 |
| Texas | 25 | 6 | 8,294,338 | 9,650,715 | 10,776,234 | 12,091,134 | 14,424,253 | 16,927,880 | 18,792,225 | 19,677,302 | 20,389,774 |
| Utah | 11 | 8 | 833,492 | 970,854 | 1,094,563 | 1,229,029 | 1,413,756 | 1,649,265 | 1,874,345 | 1,970,501 | 2,045,870 |
| Vermont | 4 | 16 | * | * | * | * | 294,984 | 333,551 | 374,984 | 402,173 | 421,399 |
| Virgin Islands | * | * | * | * | * | * | * | * | * | * | * |
| Virginia | 8 | 8 | 3,059,420 | 3,429,450 | 3,879,582 | 4,392,319 | 4,851,206 | 5,325,173 | 6,148,261 | 6,415,881 | 6,242,155 |
| Washington | 12 | 10 | 2,493,214 | 2,849,043 | 3,102,750 | 3,567,896 | 4,062,372 | 4,494,964 | 5,034,885 | 5,292,298 | 5,460,640 |
| West Virginia | 9 | 16 | 452,036 | 549,722 | 579,983 | 713,657 | 820,838 | 964,649 | 1,095,038 | 1,172,699 | 1,235,610 |
| Wisconsin | 10 | 9 | 2,008,679 | 2,523,956 | 2,533,215 | 2,831,645 | 3,200,301 | 3,517,283 | 3,641,432 | 3,841,745 | 3,966,445 |
| Wyoming | 10 | 8 | 173,939 | 168,232 | 276,344 | 277,658 | 315,347 | 358,668 | 410,464 | 441,161 | 457,201 |
| Nationwide | 170 | 8 % | 114,028,928 | 130,751,459 | 147,623,734 | 167,313,001 | 192,053,067 | 217,418,404 | 238,315,850 | 249,331,701 | 255,301,307 |

* Data withheld to maintain firm confidentiality. Some data for December 2007 have been revised.

[1] For data through December 2004, only facilities-based wireless carriers with at least 10,000 mobile telephony subscribers per state were required to report data, and they were instructed to use billing addresses to determine subscriber counts by state. Starting with the June 2005 data, all facilities-based wireless carriers are required to report, and to use the area codes of telephone numbers provided to subscribers to determine subscriber counts by state.

[2] Percentage of mobile wireless subscribers receiving their service from a mobile wireless reseller

**Price Rebuttal Exhibit 3**
**Dockets I-00040105, etc.**
**March 10, 2010**

# High-Speed Services for Internet Access: Status as of December 31, 2008

Industry Analysis and Technology Division
Wireline Competition Bureau
February 2010

This report is available for reference in the FCC's Reference Information Center, Courtyard Level, 445 12th Street, SW, Washington, DC. Copies may be purchased by contacting Best Copy and Printing, Inc., 445 12th Street, SW, Room CY-B402, Washington, DC 20554, telephone (800) 378-3160, or via their website at www.bcpiweb.com. The report can also be downloaded from the Wireline Competition Bureau Statistical Reports Internet site at www.fcc.gov/wcb/stats.

# Table 17
## Cable Modem High-Speed Connections by State 2005-2008
**(Connections over 200 kbps in at least one direction, in thousands)**

| | 2005 | | 2006 | | 2007 | | 2008 | |
|---|---|---|---|---|---|---|---|---|
| *State* | *Jun* | *Dec* | *Jun* | *Dec* | *Jun* | *Dec* | *Jun* | *Dec* |
| Alabama | 257 | 285 | 311 | 342 | 374 | 399 | 417 | **460** |
| Alaska | * | * | * | * | * | * | * | ***** |
| American Samoa | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Arizona | 584 | 679 | 761 | 838 | 850 | 897 | 992 | **987** |
| Arkansas | 118 | 137 | 149 | 184 | 205 | 214 | 236 | **248** |
| California | 2,467 | 2,735 | 2,957 | 3,156 | 3,411 | 3,603 | 3,799 | **3,994** |
| Colorado | 383 | 433 | 476 | 523 | 561 | 604 | 626 | **659** |
| Connecticut | 372 | 404 | 441 | 454 | 513 | 550 | 576 | **615** |
| Delaware | * | * | * | * | * | * | * | ***** |
| District of Columbia | * | * | * | * | * | * | * | ***** |
| Florida | 1,560 | 1,758 | 1,939 | 2,178 | 2,344 | 2,543 | 2,631 | **2,825** |
| Georgia | 523 | 584 | 650 | 743 | 802 | 862 | 904 | **973** |
| Guam | 0 | 0 | 0 | 0 | 0 | * | * | ***** |
| Hawaii | * | * | * | * | * | * | * | ***** |
| Idaho | 78 | 74 | 75 | 109 | 116 | 123 | 127 | **121** |
| Illinois | 842 | 956 | 1,042 | 1,332 | 1,466 | 1,570 | 1,625 | **1,591** |
| Indiana | 397 | 445 | 490 | 370 | 410 | 439 | 456 | **626** |
| Iowa | 187 | 220 | 225 | 234 | 268 | 287 | 309 | **330** |
| Kansas | 259 | 273 | 317 | 321 | 351 | 369 | 380 | **425** |
| Kentucky | 217 | 269 | 306 | 333 | 384 | 435 | 482 | **452** |
| Louisiana | 329 | 255 | 379 | 420 | 446 | 485 | 481 | **518** |
| Maine | 116 | 132 | 146 | 152 | 169 | 179 | 197 | **288** |
| Maryland | 547 | 592 | 637 | 781 | 829 | 865 | 871 | **799** |
| Massachusetts | 826 | 886 | 955 | 1,044 | 1,088 | 1,130 | 1,159 | **1,307** |
| Michigan | 892 | 954 | 1,019 | 1,103 | 1,197 | 1,265 | 1,307 | **1,411** |
| Minnesota | 441 | 494 | 517 | 541 | 571 | 608 | 622 | **666** |
| Mississippi | 96 | 104 | 114 | 136 | 152 | 166 | 188 | **216** |
| Missouri | 323 | 353 | 401 | 444 | 473 | 498 | 517 | **553** |
| Montana | 36 | 45 | 54 | 65 | 74 | 83 | 90 | **92** |
| Nebraska | 177 | 201 | 218 | 239 | 236 | 252 | 262 | **278** |

## Table 17 - Continued
## Cable Modem High-Speed Connections by State 2005-2008
**(Connections over 200 kbps in at least one direction, in thousands)**

| State | 2005 Jun | 2005 Dec | 2006 Jun | 2006 Dec | 2007 Jun | 2007 Dec | 2008 Jun | 2008 Dec |
|---|---|---|---|---|---|---|---|---|
| Nevada | * | * | * | * | * | * | * | ***** |
| New Hampshire | 176 | 188 | 202 | 210 | 230 | 240 | 250 | **298** |
| New Jersey | 1,108 | 1,205 | 1,312 | 1,386 | 1,474 | 1,538 | 1,586 | **1,637** |
| New Mexico | 78 | 89 | 100 | 109 | 117 | 127 | 137 | **146** |
| New York | 2,216 | 2,445 | 2,765 | 2,967 | 3,164 | 3,342 | 3,548 | **4,139** |
| North Carolina | 762 | 862 | 964 | 1,041 | 1,134 | 1,196 | 1,266 | **1,551** |
| North Dakota | 51 | 55 | 52 | 71 | 75 | 80 | 83 | **85** |
| Northern Mariana Isl | 0 | 0 | 0 | 0 | 0 | * | * | ***** |
| Ohio | 961 | 1,065 | 1,165 | 1,303 | 1,406 | 1,498 | 1,627 | **1,943** |
| Oklahoma | 234 | 262 | 284 | 313 | 348 | 373 | 382 | **408** |
| Oregon | 336 | 375 | 407 | 453 | 490 | 531 | 554 | **516** |
| Pennsylvania | 962 | 1,075 | 1,164 | 1,256 | 1,271 | 1,399 | 1,492 | **1,807** |
| Puerto Rico | * | * | * | * | * | * | * | ***** |
| Rhode Island | * | * | * | * | * | * | * | ***** |
| South Carolina | 290 | 326 | 368 | 418 | 459 | 496 | 517 | **752** |
| South Dakota | 84 | 89 | 93 | 100 | 101 | 111 | 115 | **122** |
| Tennessee | 422 | 460 | 506 | 502 | 663 | 703 | 715 | **717** |
| Texas | 1,468 | 1,518 | 1,692 | 1,944 | 2,082 | 2,133 | 2,214 | **2,081** |
| Utah | * | * | * | * | * | * | 212 | ***** |
| Vermont | * | * | * | * | * | * | * | **71** |
| Virgin Islands | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Virginia | 749 | 817 | 893 | 877 | 906 | 921 | 941 | **1,096** |
| Washington | 585 | 660 | 726 | 806 | 862 | 909 | 944 | **980** |
| West Virginia | 118 | 128 | 145 | 145 | 156 | 150 | 167 | **205** |
| Wisconsin | 447 | 497 | 543 | 592 | 637 | 676 | 711 | **810** |
| Wyoming | * | * | * | * | * | * | * | **64** |
| Total | 24,017 | 26,558 | 29,173 | 31,982 | 34,404 | 36,507 | 38,190 | **41,468** |

# = Rounds to Zero.
* = Data withheld to maintain firm confidentiality.
Figures may not sum to totals due to rounding.
Source: FCC Form 477, Part I.

**Price Rebuttal Exhibit 4**
**Dockets I-00040105, etc.**
**March 10, 2010**

## Industry Data

| | |
|---|---|
| **Operating Metrics (as of September 2009)** | |
| Basic Video Customers [1] | 62.6 M |
| Digital Video Customers [1] | 42.1 M |
| High Speed Internet Customers (includes commercial) [1] | 41.2 M |
| Cable Phone Customers [1] | 21.7 M |
| **Availability (as of September 2009)** | |
| Homes Passed by Cable Video Service [2] | 125.7 M |
| Basic Cable Video Penetration of Homes Passed | 49.8% |
| Digital Penetration (% of Basic Video Customers) | 67.0% |
| Homes Passed by Cable High-Speed Internet Service [3] | 121.4 M |
| Cable High Speed Internet Availability to U.S. Households [4] | 92% |
| Homes Passed by Cable HDTV Service | 100+ M |
| **Investments in Infrastructure** | |
| Cable Industry Capital Expenditures (year ended Dec. 2009) | $14.4 B |
| Cable Industry Capital Expenditures (1996 - 2009) [1] | $161.2 B |
| **Value** | |
| Price Per Viewing Hour (of digital video service) (2007) | 33.0¢ |
| Primetime Emmy Awards Won by Cable (2008) | 55% |
| **Other Industry Data** | |
| Cable Advertising Revenue (year ended December 2009) | $24.3 B |
| Cable Industry Revenue (year ended December 2009) [1] | $90.2 B |
| Number of Cable Operating Companies (December 2009) [5] | 1,179 |
| National Cable Programming Networks (2006) | 565 |
| Number of Cable Systems (December 2009) [5] | 7,677 |
| Schools Served by Cable in the Classroom (November 2007) | 81,775 |
| Franchise Fees Paid by Cable Operators (in 2008 - est.) | $3.0 B |
| Non-Incumbent Cable Multichannel Video Service Customers (Sept. 2009) | 38.8 M |
| Top 25 Multichannel Video Programming Distributors [6] | |
| Top 25 Cable Programming Networks (2009) | |

[1] SNL Kagan
[2] SNL Kagan, excludes estimate of overlap coming from cable overbuilders
[3] Total housing units passed figures have been adjusted to avoid double counting of estimated housing units passed by both incumbent cable operators and overbuilders.
[4] NCTA analysis of SNL Kagan and Census Bureau estimates
[5] Nielsen Focus
[6] As of Sept. 2009

National Cable & Telecommunications Association | 25 Massachusetts Avenue, NW - Suite 100 | Washington, DC 20001
Phone: (202) 222-2300 | Email: webmaster@ncta.com 

VERIZON
STATEMENT NO. 1.2

INVESTIGATION REGARDING INTRASTATE ACCESS CHARGES AND INTRALATA TOLL RATES OF RURAL CARRIERS, AND THE PENNSYLVANIA UNIVERSAL SERVICE FUND

DOCKET NO.
I-00040105

RECEIVED
APR 2 0 2010
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

AT&T COMMUNICATIONS OF PENNSYLVANIA, LLC, ETC.
v.
ARMSTRONG TELEPHONE COMPANY – PENNSYLVANIA, ETC.

DOCKET NOS.
C-2009-2098380, etc.

VERIZON

STATEMENT NO. 1.2

(SURREBUTTAL TESTIMONY)

WITNESS: Don Price

DATED: April 1, 2010

**EXPURGATED VERSION**

**TABLE OF CONTENTS**

## I. INTRODUCTION AND WITNESS IDENTIFICATION

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Don Price. My business address is 701 Brazos, Suite 600, Austin, TX, 78701.

**Q. ARE YOU THE SAME DON PRICE WHO SUBMITTED DIRECT TESTIMONY ON JULY 2, 2009 AND REBUTTAL TESTIMONY ON MARCH 10, 2010, 0N BEHALF OF THE VERIZON COMPANIES?**

A. Yes.

## II. PURPOSE AND SUMMARY OF TESTIMONY

**Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

A. The purpose of this testimony is to respond to certain portions of the rebuttal testimony submitted by other parties on March 10, 2010. In particular, I respond to the testimony regarding the proposed use of a state universal service fund ("USF") to replace rural incumbent local exchange carrier ("RLEC") access revenue submitted by E. Christopher Nurse and Dr. Ola Oyefusi on behalf of AT&T Communications of Pennsylvania, LLC, TCG Pittsburgh and TCG New Jersey, Inc. ("AT&T").

**Q. PLEASE SUMMARIZE YOUR RESPONSE TO THIS TESTIMONY.**

A. I agree with AT&T and other parties that the RLECs' intrastate access rates should be reduced, although as I explain in my own rebuttal testimony, I agree with Qwest that those rates should be reduced to a uniform benchmark level of 1.7 cents per minute, which is the rate Verizon PA and other carriers charge for the same service, rather than being set at varying levels based on each carrier's interstate rates as AT&T proposes. (Price Direct at 19; Price Rebuttal at 23x; Easton Rebuttal at 3). I also agree with

AT&T and other parties that the RLECs should be provided the opportunity to rebalance this revenue to their regulated retail rates, although I demonstrate that the record evidence would support a larger immediate rebalancing than AT&T proposes.

However, I do not agree with AT&T's proposal to increase the carrier-funded state USF to replace any portion of the RLECs' access revenue in lieu of having the RLECs rebalance that revenue to retail rates. First, the evidentiary record shows that AT&T's proposal unduly limits the revenue that the RLECs should be expected to recover from their own retail end users, with the effect of allocating too much money to be collected from another source (the USF under AT&T's proposal). This is unnecessary because the RLECs can reasonably be given the opportunity to immediately rebalance *all* of the access revenue – or certainly a larger portion than AT&T depicts – to retail rates. But even if the Commission were to conclude that a transition period is needed for some of the RLECs to complete a rebalancing of their access revenue to retail rates, this does not mean that increasing the state USF – which is not even mentioned in Chapter 30 as a source of RLEC revenue – is the only (or even a reasonable) alternative revenue source.

I strongly disagree with AT&T's proposal to expand the already seriously flawed state USF, creating a substantial additional access-replacement revenue source, as an expedient way to more quickly reduce the RLECs' access rates. While Verizon shares the same goal of reducing RLEC access rates, we have significant disagreements about how to accomplish the goal. Any expansion of the existing USF for this purpose would be a serious mistake because it would harm consumers: (1) by siphoning off substantial revenue from other Pennsylvania carriers that is essential to properly serve these carriers' own customers in today's competitive market, (2) by perpetuating the anti-competitive system of carrier-funded subsidies that this proceeding is intended to reduce, and (3) by wrongly insulating the RLECs from the risks of the competitive marketplace. Expanding the USF also is not the simplest solution to the problem of excessive RLEC access charges. If a transition period is needed at all, then considerable litigation and debate can be avoided simply by reducing the RLECs' rates, phased-in over a few steps, which would avoid even implicating the state USF (and all that would entail). The Commission should always prefer the simpler answer over the more complicated one.

But because AT&T and OCA have offered proposals in the spirit of compromise, I am offering an alteration to AT&T's proposal that is amply supported by the record and that will not require any carrier to increase its current state USF contribution. Specifically, the current USF contains approximately $8.4 million in excess funds that are today providing a windfall to the RLECs and that should be removed from the current USF immediately. (Price Rebuttal at 47). If it is found that a transition period *is* needed to support the next phase of access reductions, a conclusion with which I disagree, then the Commission could use those excess USF funds toward the new access reductions to help achieve revenue neutrality rather than reducing the current USF at this time. If the $8.4 million in excess current USF funds combined with retail increases still is not sufficient to achieve revenue neutrality, then the Commission should phase in further access reductions more gradually for the affected carriers. Under no circumstances, however, should the current state USF be increased as proposed by AT&T.

## III. THE COMMISSION SHOULD NOT EXPAND THE USF TO REPLACE RLEC ACCESS REVENUE

**Q. WHAT DOES AT&T RECOMMEND WITH REGARD TO A STATE USF?**

A. AT&T recommends that the Commission immediately reduce the RLECs' intrastate access rates to their interstate levels and rebalance the revenue to retail rate increases up to a benchmark of $22 for residential rates and an equal increase to business rates. According to AT&T, this would leave $19.6 million in revenue unaccounted for. AT&T proposes to expand the state USF to generate this additional $19.6 million in revenue to the RLECs, requiring other carriers to increase their USF payments to cover these additional revenues. AT&T envisions that, after the initial rebalancing, the RLECs' retail rates would increase by $1 each year over a period of four years and the revenues from those increases would be used to reduce the additional USF subsidies in subsequent years. (AT&T Panel Rebuttal at 14-16 and Attachment 5).

**Q. DO AT&T'S WITNESSES INDICATE HOW MUCH ADDITIONAL MONEY THEY WOULD PERMIT THE RLECS TO COLLECT FROM THE STATE USF?**

A. Yes. They state that the USF would be increased by $19.6 million in the first year, and then would decrease each subsequent year as RLECs recover more revenue through retail rate increases. (AT&T Panel Rebuttal at 14). AT&T estimates the additional revenue the RLECs would gain by increasing residential and business rates by $1 each year, based on assumptions made using historical line information. (AT&T Panel Rebuttal Attachment 5). If AT&T's predictions of revenue from future rate increases hold true, then in the second year the USF would provide an additional $9.8 million to the RLECs, in the third year the USF would provide an additional $4.2 million to the RLECs and in the fourth year the USF would provide an additional $958,000. (AT&T Panel Rebuttal Attachment 5). It is not clear under AT&T's proposal how long the USF subsidies would continue after the fourth year, or if they would ever completely cease.

**Q DO YOU AGREE WITH AT&T'S PROPOSAL WITH RESPECT TO A "BENCHMARK" ON RLEC RESIDENTIAL RATES?**

A. No. Most fundamentally, I disagree with any so-called "benchmark" that is designed to mark the point at which the RLECs can collect money from the state USF in lieu of increasing their own retail rates. For the reasons I discuss in my rebuttal testimony and again below, the anti-competitive and anti-consumer problem that is presented by allowing the RLECs to collect too much revenue from other carriers through their high switched access rates is not remedied by allowing them to collect the same revenue from other carriers in a different way through the USF. As Sprint's Mr. Appleby explained, "[a]ny 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 recovery." (Appleby Rebuttal at 10; *see also id* at 19 (recognizing that replacing RLEC access revenue with USF would still constitute a "hidden tax.")). Shifting the revenue to the USF would only change "the way these overcharges are collected from competitors' customers." (Appleby Rebuttal at 47). Even the AT&T witnesses acknowledge that the USF "is not a free lunch; while it may look like local service rates are lower, the money is just coming from somewhere else," and that "responsibility for RLEC cost recovery" belongs with the RLECs own retail customers. (AT&T Panel Rebuttal at 13).

**Q. YOU MENTIONED THAT SPRINT'S MR. APPLEBY OPPOSED A DOLLAR-FOR-DOLLAR TRANSFER OF ACCESS REVENUE TO SUBSIDIES FROM THE STATE USF. DO OTHER PARTIES OPPOSE THE USE OF THE USF FOR THIS PURPOSE?**

A. Yes. According to OSBA's Mr. Wilson, "there is no justifiable economic reason to provide a general PAUSF subsidy to all RLECs" and "indiscriminate PAUSF funding could be having the unintended consequence of keeping lower cost competitors out of subsidized rural markets rather than promoting competition." (Wilson Rebuttal at 17). Comcast's Dr. Pelcovits explains that "[i]t would be counterproductive . . . to offset reductions in access revenue with a dollar-for-dollar increase in the Pennsylvania USF. This would constitute corporate welfare and would obviate the public policy benefit from targeting subsidies to the highest cost geographic area and limiting the size of the subsidy to the minimum necessary to achieve social objectives." (Pelcovits Rebuttal at 23).[1]

**Q. IF THE COMMISSION WISHES TO USE SOME SORT OF BENCHMARK FOR RLEC RESIDENTIAL RATES, HOW SHOULD THE BENCHMARK BE USED?**

A. If the Commission wishes to use some sort of benchmark to control the pace of RLEC revenue rebalancing, then any such benchmark should expressly be divorced from the

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[1] Qwest has not made any specific proposal to use the USF in this rebalancing, but Mr. Easton accepts the general premise that local rate increases could be limited by a benchmark that marks the point where the revenue could be replaced by an expanded state USF. (Easton Rebuttal at 5-6).

concept of an entitlement to subsidies from the USF. For example, if the evidentiary record supports it, the Commission could adopt an annually increasing benchmark of the type suggested by AT&T to design a phased-in or step-by-step reduction in a particular RLEC's access rates. As discussed in more detail below, such a benchmark should not serve as a starting point for new USF subsidies.

**Q. DO YOU AGREE THAT $22 IS AN APPROPRIATE LIMIT ON RLEC STAND-ALONE BASIC RESIDENTIAL SERVICE RATES BASED ON THE RECORD HERE?**

A. No. If the Commission were to limit RLEC retail rate increases using some sort of benchmark (without tying it to automatic USF subsidies, for the reasons discussed above), then AT&T's proposal of a $22 benchmark would unduly constrain the RLECs' revenue rebalancing. As I discussed at length in my rebuttal testimony, the record evidence regarding affordability submitted by the OCA itself shows that the RLECs could currently charge as much as $23, and likely higher, for residential service. (Price Rebuttal at 33). Further, there is no evidentiary support for limiting RLEC business rate increases to the dollar amount of the residential rate increases, particularly since the RLECs' business rates are comparatively low. (*Id.* at 37-38). As I explained, with a more flexible rate design, the individual RLECs can be expected to rebalance more revenue to retail rates then they, the OCA or AT&T have depicted in the worksheets attached to their testimony, even if the RLECs keep residential rates no higher than $23. (*Id.* at 39).

AT&T's own calculations show that if the RLECs increase their residential rates to $23 instead of $22 in the first step (even with the unsupported limitation on business rate increases that AT&T assumes), then the revenue left unrecovered from retail rate increases under AT&T's scenario would be cut by more than half. (AT&T Attachment 5). In that case (AT&T's Step 2), 19 of the RLECs would be able to rebalance their access rates to match their interstate rates if they increased their residential rates to $23 and made an equal increase to business rates. Given these facts, I recommend that each RLEC should be required to submit a rebalancing plan in the form of a compliance filing that assumes a $23 residential rate and reasonably maximizes the revenue allocated to other rates for noncompetitive services, and reduces their access rates uniformly to the Verizon PA level. (Price Rebuttal at 39). The Commission can then address whether it is reasonable for any RLEC to implement a transition plan reducing their access rates in steps and/or to use the excess funds from the current USF, as I discuss in more detail below. But in no event should these compliance filings cause carriers to increase their contributions to the USF.

**Q. THE AT&T PANEL CONTENDS THAT "THE COMMISSION FOUND THAT $18 WAS A REASONABLE RATE IN 2003" FOR STAND-ALONE BASIC RESIDENTIAL SERVICE. (AT&T PANEL REBUTTAL AT 5). IS THAT A CORRECT STATEMENT?**

A. No. That seven-year-old rate level was the product of a settlement and was not based on any analysis of a reasonable level for basic residential rates.

**Q. WHY DO YOU DISAGREE WITH AT&T'S PROPOSAL TO INCREASE THE STATE USF BY $19.6 MILLION TO REPLACE A PORTION OF THE RLECS' REVENUE THAT THEY CURRENTLY OBTAIN FROM ACCESS RATES?**

A. As a practical matter, increasing the assessments to the state USF will bring in unnecessary administrative complexity to this case and the potential for continued litigation, appeals and delay, particularly if the Commission attempts to expand the contributing base. Further, increasing USF assessments may provide a shock to smaller carriers who are not participating in this case and who do not realize that their USF assessments could substantially increase under AT&T's plan. Moreover, as I discuss below, shifting the revenue away from access rates to the USF unfairly skews the burden away from the IXCs and toward other LECs, which would be harmful to consumers. By far the simpler approach, if it is concluded that a transition period is needed, is to leave the revenue in access rates and take those rates down in defined steps over a period of time. There is no reason to add the complexity and extra step of first transferring the revenue to the state USF.

As a substantive matter, moreover, there is no benefit to be gained by shifting this revenue to the USF to secure a larger immediate access reduction, as opposed to the more administratively simple stepping down of the RLECs' access rates if a transition is found to be necessary. As discussed above, the RLECs should be reducing their dependence on revenue from other carriers, not simply shifting that burden from access rates to another carrier-funded source such as the state USF. Adding the extra step of first shifting the revenue burden to the USF would not provide any additional benefit over a stepped-down access decrease, and in fact has negative consequences, as discussed below. Shifting the revenue to another carrier-funded source does nothing to alter the adverse impact on customers both of the contributing carriers (because those carriers have less money to spend serving their own customers) and of the RLEC (because their customers still face diminished opportunities for competitive alternatives and the RLECs will continue to have diminished incentives to engage in service, product and network innovation). (Price Rebuttal at 48-49). Increasing the state USF – even on a purportedly "temporary" basis – is not good policy and is bad for consumers. Pennsylvania's telephone carriers already provide over $33 million each year in a direct revenue transfer to the RLECs through the current USF, which as I discussed in my rebuttal testimony provides a windfall to the RLECs: they have been guaranteed a constant amount of revenue since 2000 notwithstanding declines in access lines and access minutes. (Price Rebuttal at 47). The Verizon family of companies alone provides nearly $20 million to the RLECs each year through their USF assessments, without even considering the additional revenue they are forced to contribute by paying the RLECs' excessive intrastate access rates. ALJ Colwell concluded that this current fund is a "hidden tax" that should be revisited and reconstituted. The Commission should not exacerbate this "hidden tax" by increasing the USF.

Not only is there no benefit to be gained by shifting this revenue to the USF, but increasing the USF could in fact be harmful to consumers and competition in Pennsylvania. Because the USF contributions are calculated based on the carriers' intrastate revenue, communications companies that might otherwise have chosen to invest in Pennsylvania could choose to take their business elsewhere because of the investment disincentives provided by this tax burden to support the RLECs, leaving Pennsylvanians with fewer competitive options.

**Q. WOULD THERE BE A CHANGE IN THE ALLOCATION OF THE BURDEN OF SUBSIDIZING THE RLECS AMONG THE DIFFERENT TELEPHONE CARRIERS UNDER AT&T'S PROPOSAL TO TRANSFER REVENUE FROM ACCESS RATES TO THE STATE USF?**

A. Yes. As discussed, AT&T's proposal would increase the size of the current USF to provide additional access replacement revenue to the RLECs, instead of allowing the RLECs simply to transition by reducing their access rates in steps. The effect of that proposal would be to substantially increase the funding burden on Verizon, and particularly on Verizon's ILECs. AT&T's proposal would force Verizon, and ultimately its customers, to bear a higher portion of the burden of subsidizing the RLECs' operations through an increased USF than if the revenue continued to be collected through (slightly higher) access rates during the transition period. But AT&T has not even attempted to justify skewing the burden in this manner.

Based on data produced in discovery on the volume of interexchange traffic originated and terminated to the RLECs' networks, the Verizon companies as a group (IXCs, ILECs and CLECs) pay **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** of the total RLECs' intrastate access revenue. **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** is paid by other carriers. The Verizon ILECs alone pay **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** of that total. Based on those percentages, it is reasonable to conclude that of the $19.6 million in access revenue that AT&T would shift to the USF, the Verizon companies are currently paying about **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** through access rates, and of that **[BEGIN**

**PROPRIETARY]** **[END PROPRIETARY]** the Verizon ILECs are paying about **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** The remainder **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** is being paid by other carriers, including other IXCs and LECs, through access rates.

Assuming that the $19.6 million were instead to be paid out by increasing the current USF with no change in its contributing base or methodology, as AT&T proposes, the Verizon share of the burden would be much higher. The Verizon companies as a group currently pay about 57% of the assessments to the USF each year.[2] The Verizon ILECs pay 51%. Therefore, if the same $19.6 million in RLEC access revenue were replaced by increasing revenue from the current USF, and if the same assessment ratios continued, the Verizon companies as a group would be assessed an additional $11.2 million on top of what they already pay to the USF, and the Verizon ILECs alone would have to provide $10 million of that amount.

In short, by having $19.6 million of revenue shifted to the USF instead of allowing a transition that gradually reduces access rates, AT&T's proposal would shift over $7 million in annual RLEC support obligations to Verizon and away from the carriers that currently support the RLECs through access rates. And each year that the state USF continues to replace this revenue, the disproportionate burden on Verizon would continue.

The same inequity holds true if the Commission were to accept OCA's plan to increase the USF by $63 million. In that case, Verizon would pay $36 million more in

2 This calculation is based on the 2009 assessments. The total USF assessment was $33.8. The sum of the Verizon companies' share was $19.4 million. The Verizon ILECs' share was $17.2 million.

USF assessments if the current base and methodology remained constant, where its share of $63 million in access revenue, based on the percentages discussed above, is only $13.2 million. There has been no evidence presented to the Commission that even attempts to justify such a massive transfer of wealth from Verizon to AT&T and the other carriers.

**Q. FROM A POLICY AND CONSUMER PERSPECTIVE, SHOULD THE COMMISSION INCREASE THE BURDEN ON VERIZON, AND PARTICULARLY THE VERIZON ILECS, BY SHIFTING THE REVENUE BURDEN FROM RLEC ACCESS RATES TO THE USF IN THIS MANNER?**

A. No. As I discussed in my rebuttal testimony, the Verizon ILECs are under even greater competitive pressure than the RLECs, facing considerable line losses from the rapid expansion of intermodal competition. (Price Rebuttal at 19-20). The Verizon ILECs provide a broad array of services throughout their territories, including service to a larger number of rural access lines than all of the RLECs put together, and they continue to meet and/or exceed their own broadband availability commitments. All of these obligations come with costs, and the Verizon ILECs receive no state USF subsidies and charge much lower access rates than the RLECs. Further, many of their services are competitive and subject to pricing constraints by the market, and their rates for noncompetitive services are capped by the inflation-based Chapter 30 formula.

If the Verizon ILECs are required to increase their already substantial transfer of revenue to the RLECs through the state USF, this new unfunded revenue drain would divert revenue from Verizon's operations that would otherwise be used to serve

Verizon's customers and support its own business, such as by investing in the network, maintaining or improving products and services or through meeting competition on rates. It would be a disservice to the consumers in Verizon's territory to force Verizon to bear a larger burden of subsidizing the RLECs' operations. The purpose of this case is to decrease the burden Verizon and other carriers have borne over the years through a combination of USF contributions and excessive access rates, and to have the RLECs secure more of their revenue from their own end-users.

**Q. IS THERE A WAY THAT THE CURRENT USF COULD BE USED TO ASSIST IN TRANSITIONING THE RLECS' ACCESS RATE REBALANCING WITHOUT INCREASING ANY CARRIER'S CONTRIBUTION TO THE USF?**

A. Yes. The current USF provides approximately $33.6 million in annual revenue to the RLECs, under the theory that it is replacing that amount of revenue that was removed from the RLECs' access rates in 2000, following the *Global Order*.[3] As I explained in my rebuttal testimony, because this amount has remained constant each year, the RLECs are actually gaining a substantial windfall from the current USF. The record shows that if the revenue had been left in access rates back in 2000, access minutes of use have declined by 31.6% since the inception of the fund. (Price Rebuttal at 47). Similarly, if the revenue had been rebalanced to retail rates back in 2000, the RLECs have experienced from 20% to 28% line loss since that time. (*Id.*) Thus, the RLECs

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[3] See Letter dated October 21, 2009 from USF administrator Solix to Secretary McNulty at Docket M-00001337, projecting the 2010 USF annual support due to recipient carriers at $33,599,005. I have generally used an estimate of $30 million in previous testimony by netting out the RLECs' annual contributions to the USF.

receive more revenues on an annual basis from the state USF today than they would be receiving if their access rates had not been lowered or if the revenues had been replaced through retail rate increases. Based on that evidence, to fulfill the purpose of replacing access revenue without providing a windfall, the current USF should be reduced by approximately 25%. That reduction would reduce the current annual USF contribution to the RLECs by $8.4 million.[4]

Without increasing the size of the current USF at all, the Commission could reduce the current distributions based on the record evidence of a windfall and redirect that $8.4 million to achieve a revenue-neutral transition for the RLECs for this phase of access reductions. While I realize that as a result of Phase One the Commission may open a long overdue rulemaking to radically alter or even eliminate the current USF, I expect such a proceeding will take several years to conclude, during which time the $8.4 million will remain available for use for the transition.

Redirecting the current USF windfall to this purpose is consistent with AT&T's testimony, which recognizes that "[t]his case should not be about putting the RLECs in a better position than they would otherwise be, or about protecting them from losses they would have otherwise incurred. It would simply be a windfall to guarantee the RLECs a fixed stream of revenue in perpetuity." (AT&T Panel Rebuttal at 16; *id* at 18). By first putting the RLECs' current USF draw in the position it would have been had those access revenue been subject to the real-world decline in access minutes and line loss, which would have reduced the revenue stream the USF was

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[4] Reducing the current USF by 25% would reduce the present $33.6 million contribution to $25.2 million. The difference is $8.4 million.

intended to replace, the RLECs will start the next phase of reductions where they should have been. Instead of immediately reducing the contributing carriers' USF burden, the excess revenue from the current USF can be redirected to provide revenue-neutral support for the RLECs access reductions on a temporary and transitional basis in the manner suggested by AT&T without creating an additional burden on any carrier and its customers by increasing its current USF contributions.

**Q. COULD YOU EXPLAIN IN MORE DETAIL HOW THE EXCESS FUNDS IN THE CURRENT USF COULD BE USED IN A MODIFIED VERSION OF AT&T'S PROPOSAL SO THAT NO INCREASE TO THE SIZE OF THE CURRENT USF IS REQUIRED?**

A. Yes. This explanation is based on the first page of AT&T's Attachment 5, and I am accepting AT&T's figures as correct for purposes of this illustration.

The first change I would make to AT&T's proposal is to skip AT&T's Step 1 and proceed directly to Step 2. AT&T's Step 1 limits RLEC residential rates to $22, while Step 2 limits them to $23. For the reasons I discuss above, the RLECs can immediately increase their residential rates to $23 rather than AT&T's proposed first step of $22. Accepting AT&T's numbers as correct, at Step 2 the RLECs would be able to rebalance $71.5 million to retail rates (the sum of $62.99 million rebalanced in Step 1 and $8.505 million rebalanced in Step 2). Under AT&T's analysis, this leaves $9.8 million in revenue that was eliminated from RLEC access rates but not replaced with retail rates following the rebalancing Step 2.

The second change I would make to AT&T's proposal is to allow CenturyLink to match Verizon's access rate of 1.7 cents per minute, instead of its own lower interstate rates. According to CenturyLink's own testimony, this would require it to rebalance $2.8 million less in revenue than what AT&T depicts in its chart, which assumes CenturyLink would be matching its lower interstate rate.[5] Accordingly, adjusting for the $2.8 million that CenturyLink would not have to rebalance under this change, instead of $9.8 million remaining there would remain a total of $7 million to be off-set with USF funds in the first year. The $8.4 million USF excess discussed above is more than sufficient to cover this gap to provide revenue neutrality without increasing the overall size of the current USF.[6]

In the table below I have modified the summary portion of AT&T's chart at the first page of its Attachment 5 to depict the changes I discuss above.

| | Revenue to Rebalance | Step 1 (increasing res. to $23) | | Step 2 (increasing res. to $24) | | Step 3 (increasing res. to $25) | |
|---|---|---|---|---|---|---|---|
| | | Offset with USF Excess | Add'l Rev. from Retail (sum of AT&T Steps 1 and 2) | Offset with USF Excess | Add'l Rev. from Retail | Offset with USF Excess | Add'l Rev. from Retail |
| CenturyLink | $20,601 | $3,754 | $16,087 | $1,695 | $2,819 | $0 | $2,592 |
| PTA | $59, 203 | $3,268 | $55,410 | $897 | $2,179 | $477 | $374 |
| Total PA RLECs | $79,804 | $7,782 | $71,497 | $2,784 | $4,998 | $477 | $2,966 |

I should note that this is simply a general illustration of how my changes would work, using AT&T's numbers and assumptions. In the final compliance filings (discussed in

[5] CenturyLink reports that it would need to rebalance **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** to match Verizon PA's rates. AT&T's analysis has CenturyLink rebalancing **[BEGIN PROPRIETARY]** **[END PROPRIETARY]**

[6] By accepting AT&T's numbers for illustrative purposes for the PTA companies the underlying assumption is that they will match their interstate rates. My overall recommendation is still that the rates should be brought down to a uniform benchmark of 1.7 cents. If the Commission agrees with my position, then the resulting revenue figures can be revised in the compliance filings.

more detail below) the RLECs should perform the calculations with the additional assumptions that: 1) their access rates would be reduced to the uniform Verizon level, and 2) they should maximize retail increases to noncompetitive services other than basic residential service. Also, following Step 3, any remainder ($477,000 in the above example) should not continue to be collected from the excess USF funds in perpetuity. Rather, the Commission should revisit the matter of those RLECs' rates either to undertake further retail rebalancing or otherwise wean them off of this USF subsidy.

**Q. IF THE COMMISSION DOES NOT ACCEPT YOUR PROPOSAL TO USE THE $8.4 MILLION USF EXCESS TOWARD THE ACCESS REBALANCING, OR IF A RECALCULATION OF THE NUMBERS LEAVES MORE THAN $8.4 MILLION UNRECOVERED FROM RETAIL RATES, WHAT COURSE OF ACTION DO YOU PROPOSE?**

A. In either case, I do not agree that the size of the current USF should be increased at all, for the reasons I discussed above. Rather, the Commission could either rebalance more revenue to retail rates or, if it believes a transition period is necessary for any particular RLEC, it should simply take that carrier's access rates down in steps rather than in one flash cut.

**Q. MR. APPLEBY SUGGESTS A REFORMULATION OF THE STATE USF TO PROVIDE SUPPORT ONLY FOR RESIDENTIAL CUSTOMERS WHO PURCHASE STAND ALONE BASIC SERVICE WITHOUT ANY FEATURES, BROADBAND OR LONG DISTANCE SERVICE FROM ANY CARRIER**

**THAT OFFERS SUCH SERVICE. (APPLEBY REBUTTAL AT 50-51). WHAT IS YOUR RESPONSE TO THIS PROPOSAL?**

A. I agree with the premise behind his suggestion, which is that the proposals for a dollar-for-dollar replacement of RLEC access revenue with the carrier-funded USF are unsupportable. I believe Mr. Appleby is attempting to devise a way to reform the USF in order to direct the support to customers with some need, rather than simply providing an unquestioning revenue replacement mechanism for the RLECs. If it is ultimately concluded that a state USF continues to be necessary, then Mr. Appleby's suggestion to change the focus to the end-user customer has merit. But in the end his suggestions appear to be beyond the scope of this phase and should be addressed in the proceedings coming out of Phase One of this investigation. *See* Colwell RD at 66 ("the PA USF should be reformed to provide monetary assistance to only those RLECs for service in high-cost service areas and for assistance to low-income customers.")

**Q. GIVEN THE CONFLICTING PROPOSALS AND VARYING FINANCIAL ESTIMATES, HOW DO YOU PROPOSE THAT THE COMMISSION SHOULD RESOLVE THIS PHASE OF THE CASE?**

A. I have used the various parties' financial estimates in my testimony, but I recognize that there is some variance among the parties in their estimates of how much revenue must be rebalanced to achieve the proposed access reductions. AT&T explains it as being "due to the fact that the parties have used different data sources, such as a different date for line counts and access minute volumes." (AT&T Panel Rebuttal at 23). This may very well explain the difference, and it is almost certain that by the time the RLECs make their compliance filing the line counts and access minute volume information will have changed again. Therefore, rather than simply copying any of the tables provided by the parties, I suggest that the Commission require a compliance filing, subject to comment, as follows:

1. Assume that access rates must be reduced to a benchmark equivalent to the Verizon PA access rate on a per-minute-of-use basis, which is currently about 1.7 cents, as depicted in my direct testimony. (Price Direct at 19).

2. Assume that the revenue from the reduced access rates will be rebalanced to retail rates to the maximum extent possible, where basic residential rates will be increased to at least $23 and business rates increased to a reasonable level no less than the per-line increase to residential rates. Each RLEC should have the flexibility to distribute the revenue among rates so long as the total amount of revenue needed to rebalance the access decrease is accounted for either in retail rates or revenue voluntarily foregone by the RLEC.

3. If it is not possible to rebalance all of the particular RLEC's revenues under these parameters, then reasonable consideration must be given to additional increases to business and other noncompetitive rates.

4. Where an RLEC is able to rebalance all of its access revenues under the above parameters, it will be dismissed from the investigation at that point.

5. If a particular RLEC is not able to rebalance all of its access revenue under the above parameters, then the remainder of the rebalancing will be phased in under one or more of the following alternatives:

a. Reducing current USF support by $8.4 million to reflect reasonably expected revenue declines, and using that $8.4 million in excess funds from the current

USF to provide a revenue-neutral source for access rebalancing, where appropriate, under a three year transition beyond the initial implementation that assumes $1 per line per month retail increase each year to reduce the USF contributions. The compliance filing stage will determine how that $8.4 million is allocated among the RLECs for which a transition is being considered.

b. Not decreasing access rates immediately, but rather phasing in the additional access reductions each year as retail rates are able to accommodate more access revenue offsets with a $1 per month per year increase.

6. Make clear that the current USF will not be increased to serve as a source of revenue to off-set RLEC access rate decreases, but rather any transition will be accomplished by provisions 5(a) and (b) above, or a combination of the two.

7. Require each RLEC to submit compliance filings complying with the above parameters within 30 days of order entry (including all work-papers in their native format and all underlying assumptions), with comments due 30 days thereafter and reply comments due 15 days after comments.

**Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

A. Yes.

VERIZON
STATEMENT NO. 1.3

INVESTIGATION REGARDING INTRASTATE ACCESS CHARGES AND INTRALATA TOLL RATES OF RURAL CARRIERS, AND THE PENNSYLVANIA UNIVERSAL SERVICE FUND

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AT&T COMMUNICATIONS OF PENNSYLVANIA, LLC, ETC.
v.
ARMSTRONG TELEPHONE COMPANY – PENNSYLVANIA, ETC.

DOCKET NOS.
C-2009-2098380, etc.

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VERIZON

STATEMENT NO. 1.3

(REJOINDER TESTIMONY)

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WITNESS: Don Price

DATED: April 8, 2010

## TABLE OF CONTENTS

## I. INTRODUCTION AND WITNESS IDENTIFICATION

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Don Price. My business address is 701 Brazos, Suite 600, Austin, TX, 78701.

**Q. ARE YOU THE SAME DON PRICE WHO SUBMITTED DIRECT TESTIMONY ON JULY 2, 2009, REBUTTAL TESTIMONY ON MARCH 10, 2010, AND SURREBUTTAL TESTIMONY ON APRIL 1, 2010 ON BEHALF OF THE VERIZON COMPANIES?**

A. Yes.

## II. PURPOSE AND SUMMARY OF TESTIMONY

**Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

A. The purpose of this testimony is to respond to certain portions of the surrebuttal testimony submitted by other parties on April 1, 2010. Having already addressed these arguments in previous rounds of testimony, I am not responding to every contention raised in the surrebuttal filings, and I have already noted my areas of disagreement in previous submissions.

## III. CUSTOMERS WILL BENEFIT FROM RLEC ACCESS REDUCTIONS

**Q. THE RLECS DENY THAT ACCESS REDUCTIONS WILL HAVE ANY BENEFIT TO CONSUMERS THAT WOULD IMPROVE MATTERS OVER SIMPLY LEAVING THE RLECS' ACCESS RATES AT CURRENT LEVELS. (SEE BONSICK SURREBUTTAL AT 1, 23; ZINGARETTI SURREBUTTAL AT 50). DO YOU AGREE?**

A. No. I explained the benefits of a more efficient rate structure at length in my rebuttal testimony at 13-15. The RLECs claim, incorrectly, that only a recitation of specific prospective rate decreases can demonstrate that consumers will be better off by reducing the RLECs' excessive switched access rates. But their argument fails to recognize how competitive markets function. Participants in competitive markets seek to distinguish their product offerings from the other providers so as to gain market share relative to their competitors. But no one can predict exactly how a given provider will respond to a decision lowering its costs, because the provider could respond by product innovation, reduced retail prices, improved customer service, or some other creative response.

**Q. DR. LOUBE CONTENDS THAT YOUR "INSISTENCE" THAT THE RLECS SHOULD RECOVER ACCESS REVENUE REDUCTIONS FROM END USER CUSTOMERS "IS BASED ON THE FALSE PREMISE THAT CARRIERS SHOULD OBTAIN ALL OF THEIR REVENUE FROM THEIR RETAIL CUSTOMERS" AND NONE FROM THEIR "WHOLESALE CUSTOMERS." (LOUBE SURREBUTTAL AT 5). SIMILARLY, MR. ZINGARTETTI CONTENDS THAT YOU ARE ADVOCATING A "COST-BASED STANDARD" FOR PRICING ACCESS. (ZINGARETTI SURREBUTTAL AT 2). ARE THESE ACCURATE DESCRIPTIONS OF YOUR POSITION?**

A. No. As I explained in my rebuttal testimony, Verizon is not advocating in this proceeding that the RLECs' access rates should be reduced to incremental cost or that intrastate access rates should be priced to provide no contribution to operating (or loop) costs. (Price Rebuttal at 28). To the contrary, Verizon's own access rates (which I advocate as the benchmark level) are above the incremental cost of providing access service, thus providing a contribution to overall operating costs (or loop costs, if that terminology is preferred). Therefore, the RLECs would continue to receive a contribution to operating costs from access rates even if they reduce their access rates as I recommend. I am simply advocating that RLEC access rates be reduced below their currently excessive levels and that the RLECs instead should recover more of their operating costs – not ***all*** of their costs – from their own retail end users. If my proposal were adopted, the RLECs would still be recovering revenue and a contribution to overall operating costs from their "wholesale" switched access customers. Contrary to Dr. Loube's contention that wholesale customers would be "provided with a free-ride on [the RLECs'] facilities and equipment," (Loube Surrebuttal at 5), access customer would continue to contribute to the cost of those facilities, albeit at a lower level. Again contrary to Dr. Loube's suggestion, Verizon is not asking the Commission to "require the basic local exchange rate to recover all network costs." (Loube Surrebuttal at 8). Verizon is simply arguing that the Commission should move the RLECs to a more efficient rate structure where they recover *more* of their operating costs from retail end users – not that they must recover *all* of their costs in this manner.

**Q. DO YOU HAVE ADDITIONAL COMMENTS ON DR. LOUBE'S "FREE-RIDE" REFERENCE?**

A. Yes. The "free-ride" reference evidences a fundamental misunderstanding of the changes in the structure of the industry over the past few decades. When access charges were created in the mid-1980s, the industry was made up of two distinct categories of communications companies: local exchange carriers (LECs) and interexchange carriers. Interexchange carriers provided long distance services, LECs operated with exclusive legal franchises to provide local services, and there was no competition between these two types of carriers. This industry structure facilitated regulatory decisions that continued the subsidy flow from toll services to local services, through the mechanism of access charges.

Today, those categorical distinctions no longer exist, and the LECs provide both local and interexchange services. For example, PTA's response to AT&T Set V, #17 contains a list of long distance affiliates for the PTA member companies. In this industry structure, the regulatory distinctions that regulators relied on to allocate large portions of local loop costs to access services no longer exist, and, as has been stated by a number of witnesses, excessive access rates are unstable and are being undermined by various types of arbitrage. As one author put it, "the current intercarrier compensation regime is a sinking ship—with technology and competition creating new holes faster than regulatory responses can plug the old ones."[1] For these reasons, the "best if used by" date for Dr. Loube's "free-ride" comment expired more than a decade ago.

**Q. MR. BONSICK CONTENDS THAT THERE IS NO NEED TO REDUCE RLEC ACCESS CHARGES TO ENHANCE THE DEVELOPMENT OF COMPETITION BECAUSE COMPETITION IS ALREADY "THRIVING" IN PENNSYLVANIA. (BONSICK SURREBUTTAL AT 5). WHAT IS YOUR RESPONSE?**

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[1] *See*, Nuechterlein, Jonathan E., and Weiser, Philip J., "Digital Crossroads," The MIT Press (2007) at 309.

A. The RLECs' testimony on competition is internally inconsistent. While Mr. Bonsick claims that markets are already so competitive that access reductions would have no impact, this contention is directly contradicted by Mr. Zingaretti's testimony, which suggests that the only thing holding back an onslaught of competition and customer alternatives is the fact that the RLECs are allowed to charge fairly low retail rates because of the revenue support provided by high access rates. (Zingaretti Surrebuttal at 49) (asserting that if RLECs increase their retail rates they will face "massive customer attraction campaigns" from competitors and "massive migrations" by customers pursuing "attractive offers" from competitors). The Commission should not be protecting the RLECs from competition. If competitors stand ready to serve customers in the RLECs' territory at "attractive" rates, as Mr. Zingaretti asserts, then this Commission should not stop them – which is what the RLECs are really asking. Because the RLECs concede that their customers have competitive alternatives, the competitive market is already ensuring universal service at affordable rates in RLEC territory and there is no reason to allow the RLECs to continue to depend unduly on other carriers for their revenue through high access rates or the state USF. Instead, the Commission should move the RLECs to a more efficient rate structure that secures more of that revenue from their own end users and should focus on reducing the RLECs' costs by alleviating regulatory burdens that are no longer needed in a competitive market.

**Q. DR. LOUBE ARGUES THAT RATHER THAN DECREASING INTRASTATE ACCESS RATES, ONE COULD ACHIEVE THE SAME BENEFITS BY INCREASING THE INTERSTATE RATES TO A HIGHER LEVEL. (LOUBE**

**SURREBUTTAL AT 5). WOULD INCREASING INTERSTATE RATES ADDRESS THE PROBLEM?**

A. No. First, this Commission does not have the authority to increase interstate rates, as OCA has conceded, (Loube Direct at 8), and the FCC intends to move access rates lower, not higher.[2] But even if this Commission did have authority over interstate access rates, any restructuring that continues to require other carriers to provide a disproportionate share of the RLECs' revenue instead of having the RLECs collect that revenue from their own end users fails to address the harms to consumers and competition that I discussed in my rebuttal testimony, and in fact furthers the economic distortions and their harmful effects on consumers. (Price Rebuttal at 48-49).

## IV. RLEC ACCESS RATES SHOULD BE REDUCED TOWARD A UNIFORM STATEWIDE LEVEL

**Q. AT&T'S WITNESSES ARGUE THAT AT&T'S PROPOSAL TO REDUCE THE RLECS' RATES TO THEIR INTERSTATE LEVELS IS SUPERIOR TO THE PROPOSAL TO REDUCE THEM TO A UNIFORM BENCHMARK OF 1.7 CENTS PER MINUTE, AS ADVOCATED BY VERIZON AND QWEST. (AT&T PANEL SURREBUTTAL AT 15-17). WHAT IS YOUR RESPONSE?**

A. The primary reason that the Verizon/Qwest proposal for a uniform rate is superior to the proposal to match interstate rates is because of the variation among the RLECs' interstate rates. As AT&T's own witnesses concede, some RLECs are still charging in the range of 4 cents a minute for interstate access, and thus their intrastate rates would remain comparatively high if they simply matched their still high interstate rates.

2 FCC, *Connecting America: The National Broadband Plan*, at 148 (released March 16, 2010) (AT&T Panel Surrebuttal Attachment 1).

Conversely, mirroring interstate rates would cause some carriers, such as CenturyLink and Windstream, to charge lower access rates than Verizon, a result I am not advocating. A much more fair result is to require all carriers to meet a uniform rate level, which the Commission can then address on an equitable industry-wide basis in the future. Moreover, Qwest's Mr. Easton explained very clearly how a uniform intrastate rate level among the various carriers would be more effective at deterring "traffic pumping" than allowing some RLECs to match interstate rates that are still considerably higher than the rates charged by Verizon and other carriers for intrastate access. (Easton Surrebuttal at 4).

That being said, I am not insensitive to the fact that for some of the smaller carriers, such as the two examples mentioned by AT&T, it may be difficult to match Verizon's access rates and rebalance the revenue to retail rates all at once. That is why I suggested that if the Commission is reluctant to move those particular carriers all the way down to Verizon's benchmark rate, it could, as an interim measure, move them to their own higher interstate rates as AT&T has recommended. (Price Direct at 22). I also suggested that for some RLECs the Commission might determine that a phased-in reduction is appropriate. (Price Surrebuttal at 20-21). But the longer term objective should be a common benchmark rate that puts all carriers on equal competitive footing, and that common benchmark should be Verizon PA's intrastate access rates.

**Q. DR. LOUBE SIMILARLY CLAIMS THAT REDUCING THE RLECS' ACCESS RATES TO THE VERIZON LEVEL, AS OPPOSED TO HAVING THEM MATCH THEIR OWN INTERSTATE RATES, WILL CAUSE SOME**

**RLECS TO PRICE ACCESS "BELOW COST." (LOUBE SURREBUTTAL AT 4-5). DO YOU AGREE?**

A. No. The term "cost" has been loosely used in the various parties' testimony. Dr. Loube is assuming that each RLEC's interstate access rate is the definition of the "cost" of providing switched access. But that is not a correct assumption. Dr. Loube's blanket conclusion is unsupported for at least two reasons. One, many of the RLECs are "average schedule" companies and thus have never provided any cost information to the FCC in support of their interstate access rates. For these companies, it is simply conjecture to relate these companies' interstate rates with any reference to "cost." Second, for those few RLECs who have furnished cost information to NECA (the National Exchange Carrier Association), the data those companies provide in support of their interstate rates is embedded (or accounting) cost information. Surely Dr. Loube is aware that such information has virtually no relevance to any indicia of economic cost. For these reasons, Dr. Loube's conclusion is both baseless and wrong.

## V. THE RLECS SHOULD BE PROVIDED THE OPPORTUNITY TO INCREASE THEIR RETAIL RATES TO PROVIDE REVENUE NEUTRALITY

**Q. WHAT IS YOUR RESPONSE TO DR. LOUBE'S ARGUMENT THAT RLEC RESIDENTIAL BASIC SERVICE RATES ARE NOT "SUBSIDIZED" AND SHOULD NOT BE INCREASED TO REBALANCE ACCESS REVENUE? (LOUBE SURREBUTTAL AT 7).**

A. Dr. Loube argues that the RLECs' basic residential services are not receiving a "subsidy" because they are not priced below "incremental cost," which is the additional cost of providing a service presuming that the company is already providing all other services and is the price floor below which a service should not be priced. (Price Rebuttal at 28). From this premise, he concludes that the rates are already set at "just and reasonable" levels and should not be increased. (Loube Surrebuttal at 7).

Dr. Loube presumes that the "incremental cost" of basic exchange service does not include the cost of the loop. But Dr. Loube is missing the point. No one can reasonably contest that – whether or not the loop is technically considered part of the incremental cost of basic service – as a matter of rate setting policy, basic residential rates must recover some portion of the cost of the loop. If the loop costs were not recovered through rates, the company could not stay in business. Verizon argues that revenue should be rebalanced away from access rates to basic service rates, which would mean that local service rates would recover a larger portion of loop costs than they are recovering today. But as I explained above, the proposals before the Commission in this case would not result in residential rates recovering ***all*** loop costs.

When parties refer to local rates being "subsidized," this generally means that local rates are not recovering a sufficient portion of loop costs. This is the sense in which the Commission stated in the *Global Order* that "local exchange rates throughout the United States have been subsidized by access charges which are well in excess of their costs. The other elements that contribute to the subsidization of local exchange rates are toll and local vertical services. The combined subsidies from these services [are] what have kept basic local exchange service rates in Pennsylvania at an affordable level over the years. It could be said that the sum of the subsidies from access, local and optional local exchange services has performed the duty of an implicit 'universal service fund' in Pennsylvania."[3]

**Q. WHAT IS THE POINT OF DR. LOUBE'S ARGUMENTS REGARDING "COMPARABILITY" TO VERIZON'S LOCAL RATES? (LOUBE SURREBUTTAL AT 9-14; 27-28).**

A. Dr. Loube is attempting to justify establishing a "benchmark" limiting RLEC residential basic service rates, and advocates limiting RLEC rates based on a comparison to Verizon's rates.

**Q. DO YOU AGREE WITH SETTING A BENCHMARK TO LIMIT RLEC LOCAL RESIDENTIAL RATES?**

A. No. As I explained in my surrebuttal testimony, I disagree with any so-called "benchmark" that is designed to mark the point at which the RLECs can collect money from the state USF in lieu of increasing their own retail rates. The only sound policy basis for using a residential rate "benchmark" – if the evidentiary record supports it – would be to control the pace of rate rebalancing. For example, the Commission could adopt an annually increasing benchmark of the type suggested by AT&T to design a phased-in or step-by-step reduction in a particular RLEC's access rates. (Price Surrebuttal at 6-7).

**Q. DOES THE RECORD SUPPORT USING "COMPARABILITY" TO VERIZON'S BASIC RESIDENTIAL LOCAL SERVICE RATES AS A BASIS FOR A BENCHMARK?**

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[3] *Joint Petition of Nextlink Pennsylvania, Inc.*, Docket Nos. P-00991648; P-00991649, 196 P.U.R.4th 172 (Opinion and Order entered September 30, 1999) ("*Global Order*"), slip op at 23, n. 8.

A. No. As I explained in my rebuttal testimony, OCA originally argued in the first phase of this case for a "comparability" component to the RLEC rate benchmark based on a federal statute listing governing "principles" for the FCC and the Federal-State Joint Board on Universal Service that rates should be "reasonably comparable to rates charged for similar services in urban areas." 47 U.S.C. § 254(b)(3). But the Public Utility Code does not mandate that RLEC rates must be "reasonably comparable" to any other carrier's rates, and the Commonwealth Court recently agreed that Section 254(b)(3) is not a mandate to ***state*** commissions constraining the level of intrastate retail rates.[4] In short, there is no reason to depress RLEC rates to keep them "comparable" to Verizon's. (Price Rebuttal at 34).

The only possible basis to limit RLEC residential rates is OCA's testimony regarding the "affordability" of residential service. But OCA's own witness admitted that, even under his most conservative analysis, the "affordability" level in Pennsylvania would equate to a benchmark no lower than $23, and likely higher. (Price Rebuttal at 33).

**Q. IN AN ATTEMPT TO REBUT YOUR ARGUMENTS AGAINST HIS "COMPARABILITY" ANALYSIS, DR. LOUBE CONTENDS THAT VERIZON'S OWN URBAN RETAIL RATES FOR STAND-ALONE BASIC SERVICE ARE "TOO HIGH." (LOUBE SURREBUTTAL AT 9-10). WHAT IS YOUR RESPONSE?**

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[4] *Buffalo Valley Tel. Co. v. PUC*, No. 847 C.D. 2008 (Commw. Ct., December 15, 2009), slip op. at 34 (accepting this Commission's argument that Section 254(b) pertains to federal universal service and is not a mandate to state commissions).

A. My first response is that there is no basis even to consider comparability to Verizon's retail rates, for the reasons described above. But I also argued in my rebuttal testimony that even if Verizon's rates were relevant, OCA's comparability calculation is flawed because Dr. Loube does not look to Verizon's "urban" rates – which is the only possible point of reference under 47 U.S.C. § 254(b)(3) (referring to rates that are "reasonably comparable to rates charged for similar services in ***urban*** areas.") The record shows that Verizon's urban rates are higher than the statewide average that Dr. Loube uses; and depending on the other assumptions, using Verizon's urban rate for comparison could yield a "comparable" rate of nearly $25. (Price Rebuttal at 35-36). Dr. Loube counters in his surrebuttal that Verizon's urban rates are purportedly "too high," and concludes that it was therefore "reasonable" for him to depress the Verizon rate used for comparison by averaging in lower rates from rural areas. (Loube Surrebuttal at 11, 14).

**Q. WHAT IS YOUR RESPONSE TO DR. LOUBE'S ARGUMENT THAT VERIZON'S RESIDENTIAL RATES "MAY BE TOO HIGH" BECAUSE THE COMMISSION HAS NOT CONDUCTED A COST STUDY? (LOUBE SURREBUTTAL AT 11).**

A. Dr. Loube's conjecture is baseless and pure speculation. (Loube Surrebuttal at 11-12). Verizon is regulated under Chapter 30 and its rates are not set based on cost, and have not been regulated based on costs since the early 1990s. Moreover, Dr. Loube himself admits that "[t]o determine comparable rates, it is necessary to review the *rates* of other carriers in Pennsylvania," not those carriers' underlying *costs*. (Loube Surrebuttal at 28) (emphasis added). In any event, if it were relevant to consider underlying costs to determine a reasonable RLEC rate, then OCA should be looking to the RLECs' costs, not Verizon's.

**Q. DO YOU HAVE ANY RESPONSE TO DR. LOUBE'S ATTEMPT TO COMPARE VERIZON'S RATES FOR STAND-ALONE BASIC SERVICE IN ITS URBAN DENSITY CELLS TO ITS UNBUNDLED NETWORK ELEMENT ("UNE") RATES IN THE SAME CELLS? (LOUBE SURREBUTTAL AT 14).**

A. Dr. Loube attempts to argue that Verizon's urban stand alone residential basic service rates exceed Verizon's costs. But UNE rates do not provide a valid basis to estimate Verizon's retail residential service costs. Binding Federal Communications Commission ("FCC") regulations establish a methodology, known as "total-element-long-run-incremental-cost" or "TELRIC," to calculate UNE costs.[5] TELRIC costs are not Verizon's actual, or even expected future, costs of providing a particular network element, but are the costs of a hypothetical network using "the most efficient telecommunications technology currently available and the lowest cost network configuration, given the existing location of the incumbent LEC's wire centers."[6] The TELRIC methodology is unique to UNEs and is neither legally required to be used, nor appropriate to be used, to establish retail service costs or rates. Further, Dr. Loube's use of Verizon PA's Density Cell 1 and 2 UNE loop rates as a proxy for the cost of providing a residential local loop in those areas is not valid because the UNE loop rates average in the costs of all loops, including business and special services.

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[5] 47 C.F.R. § 51.501, et seq. *See also AT&T Corp. v. Iowa Utilities Bd.*, 525 U.S. 366 (1999); *Verizon Communications, Inc. v. FCC*, 535 U.S. 467 (2002).

[6] 47 C.F.R. § 51.501(b)(1), (d)(1).

The residential subset of loops would typically be longer and therefore more costly to provide and the average is brought down by inclusion of other types of loops. Additionally, Dr. Loube simply cobbles together the individual network element costs, but does not account for the retail overhead that would be included in a retail cost study.[7] The effect of all of these errors is an invalid underestimation of Verizon's urban residential retail service costs.

But aside from these fundamental flaws, if Dr. Loube wished to compare Verizon's UNE rates to the RLECs' basic service rates, then it would be more reasonable to look to UNE rates in Verizon's rural Density Cell 4, which would likely be more comparable to RLEC territory. The loop rate in Cell 4 is $22.39, which is nearly 300% higher than the average loop rate from Density Cells 1 and 2.

**Q. WHAT IS YOUR GENERAL CONCLUSION FOLLOWING REVIEW OF DR. LOUBE'S TESTIMONY?**

A. I conclude that RLEC retail rates should be increased to recover more of the RLECs' revenue from their own end users, that there is no evidentiary basis for a residential rate benchmark lower than $23, and no basis to use any benchmark as a stating point to entitle an RLEC to collect money from the state USF. I explained in my surrebuttal testimony that each RLEC should be required to submit a rebalancing plan in the form of a compliance filing that assumes a $23 residential rate and reasonably maximizes the revenue allocated to other rates for noncompetitive services, and reduces their access rates uniformly to the Verizon PA level. The Commission can then address

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[7] The Commission has established a resale discount of 18.34% to 22% for Verizon PA, which is indicative of the retail overhead that is not included in a wholesale rate.

whether it is reasonable for any RLEC to implement a transition plan reducing their access rates in steps and/or to use the excess funds from the current USF, as I discussed in more detail in my surrebuttal testimony. But in no event should these compliance filings cause carriers to increase their contributions to the USF. (Price Surrebuttal at 8).

**Q. MR. ZINGARETTI FOR THE PTA CONTENDS THAT IT IS NOT ENOUGH SIMPLY TO ALLOW THE RLECS TO INCREASE RETAIL RATES BY AN AMOUNT THAT WOULD REPLACE ACCESS REVENUE, BUT THE COMMISSION MUST ENSURE THE "ACTUAL RECOVERABILITY" OF THE REVENUE. (ZINGARETTI SURREBUTTAL AT 42). WHAT IS YOUR RESPONSE?**

A. Mr. Zingaretti points to nothing in the Chapter 30 statute that requires the Commission to ensure that the exact amount of revenue is actually recovered if it is rebalanced to retail rates. Indeed, given the trend of access minute decreases that I described in my rebuttal testimony, (Price Rebuttal at 47-48) the RLECs would not be guaranteed "actual recoverability" of the same amount of revenue each year even if they left their access rates the same. With regard to the retail rates, the Commission must simply ensure that the rates are just and reasonable. 66 Pa. C.S. § 3015(g). I do not suggest that any company should be forced by regulation to operate its business at a loss and if an RLEC came forward with specific evidence to show that it is indeed operating at a loss – which no RLEC has done here – the Commission would have to take appropriate action. (Price Rebuttal at 40). But the record does not show any RLECs to be operating their regulated business at a loss and the Commission has the authority to rebalance revenue from access to retail rates. 66 Pa. C.S. § 3017(a).

**Q. CENTURYLINK'S MR. BONSIK CONTENDS THAT "AS PART OF THE OUTCOME OF THIS PROCEEDING, ADDITIONAL STEPS TO ACHIEVE REAL REGULATORY PARITY BETWEEN INCUMBENT CARRIERS AND THEIR INTERMODAL COMPETITORS SHOULD BE TAKEN." (BONSICK SURREBUTTAL AT 8). DO YOU AGREE?**

A. I do not disagree with the premise behind Mr. Bonsick's argument, which is that in today's competitive market there is no longer any justification to impose costly regulatory burdens on ILECs that do not apply to their direct competitors, particularly their unregulated intermodal competitors. I agree that the Commission should look to effectuate the legislative policy of "recognize[ing] that the regulatory obligations imposed upon the incumbent local exchange telecommunications companies should be reduced to levels more consistent with those imposed upon competing alternative service providers." 66 Pa. C.S. § 3011(13). To the extent such a lightening of outdated regulatory burdens would allow the RLECs to operate more efficiently and reduce their own underlying costs, that result would be beneficial for the RLECs, for consumers and for the competitive market. But I do not agree that RLEC access reductions and rate rebalancing should be delayed while the Commission works toward regulatory parity.

**Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

A. Yes.