Suzan DeBusk Paiva
Assistant General Counsel
Pennsylvania

1717 Arch Street, 3 East
Philadelphia, PA 19103

Tel: (215) 466-4755
Fax: (215) 563-2658
Suzan.D.Paiva@Verizon.com

April 19, 2012

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

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

and

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

Dear Secretary Chiavetta:

Enclosed please find the Verizon's Answer to Updated Petitions for Reconsideration, in the above captioned matter.

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

Very truly yours,

Suzan D. Paiva

SDP/meb
Enc.

Via E-Mail and First Class Mail
cc: Cheryl Walker Davis, Director, OSA
The Honorable Kandace F. Melillo
Certificate of Service

CERTIFICATE OF SERVICE

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

Dated at Philadelphia, Pennsylvania, this 19th day of April, 2012.

VIA E-MAIL and FIRST CLASS U.S.MAIL

Norman J. Kennard, Esquire
Regina L. Matz, Esquire
Thomas, Long, Niesen & Kennard
212 Locust Street, Suite 500
Harrisburg, PA 17108
Rural Telephone Company Coalition

Bradford M. Stern, Esquire
Rothfelder Stern, L.L.C.
625 Central Avenue
Westfield, NJ 07090
Omnipoint Communications Inc. d/b/a T-Mobile; Omnipoint Communications Inc. d/b/a T-Mobile and Voicestream Pittsburgh LP d/b/a T-Mobile Nextel Communications, Inc.

Christopher M. Arfaa, Esquire
Christopher M. Arfaa, P.C.
150 N. Radnor Chester Road, Suite F-200
Radnor, PA 19087-5245
Cingular Wireless LLC

Michael A. Gruin, Esquire
Stevens & Lee, P.C.
17 North Second Street
16th Floor
Harrisburg, PA 17101

Shaun Sparks, Esquire
Barrett Sheridan, Esquire
Christy Appleby, Esquire
Darryl Lawrence, Esquire
Office of Consumer Advocate
555 Walnut Street, 5th Floor
Harrisburg, PA 17101-1923

Steven C. Gray, Esquire
Office of Small Business Advocate
300 North 2nd St, Suite 1102
Commerce Building
Harrisburg, PA 17101

Zsuzanna Benedek, Esquire
The United Telephone Co of PA LLC
d/b/a CenturyLink
240 North Third Street, Suite 201
Harrisburg, PA 17101

Michelle Painter
Painter Law Firm, PLLC
13017 Dunhill Drive
Fairfax, VA 22030
AT&T Communications of PA, LLC, TCG Pittsburgh and TCG New Jersey

Benjamin J. Aron. Esq.
Sprint Nextel Corporation
Mailstop: VARESP0201-208
2001 Edmund Halley Drive
Reston, VA 20191

John Povilaitis, Esquire
Buchanan Ingersoll & Rooney PC
17 North Second Street, 15th Floor
Harrisburg, PA 17101-1646
Counsel for Qwest

John C. Dodge, Esquire
Davis, Wright Tremaine, LLC
1919 Pennsylvania Avenue NW
Suite 200
Washington, DC 20006
Comcast Digital Phone and Comcast Business Communications, LLC

Pamela C. Polacek, Esq.
McNees Wallace & Nurick LLC
P.O. Box 1166
100 Pine Street
Harrisburg, PA 17108-1166
Broadband Cable Association of PA

Demetrios G. Metropoulos, Esquire
Mayer Brown LLP
71 S. Wacker Drive
Chicago, IL 60606

Allison C. Kaster, Esquire
Adeolu Bakare, Esquire
Office of Trial Staff
PA Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
Harrisburg, PA 17120

Suzan D. Paiva
Pennsylvania Bar ID No. 53853
1717 Arch Street, 3rd Floor East
Philadelphia, PA 19103
(215) 466-4755

Attorney for Verizon

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

VERIZON'S ANSWER TO UPDATED PETITIONS FOR RECONSIDERATION

By Order entered March 20, 2012, this Commission "reopen[ed] the record in this proceeding for the receipt of additional information" on the impact of the Federal Communications Commission's ("FCC") November 18, 2011 intercarrier compensation order upon the access rate reductions and revenue rebalancing required by the July 18, 2011 Order in this case.[1] The Commission directed AT&T and the RLECs[2] to update their petitions for reconsideration, and provided for answers to the updated petitions. Verizon[3] hereby answers the updated petitions.

---

1 *See Connect America Fund; a National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers; Developing a Unified Intercarrier Compensation Regime, etc.*, WC Docket No, 10-90, etc., Report and Order and Further Notice of Proposed Rulemaking (Nov. 18, 2011) ("FCC Order").

2 AT&T Communications of Pennsylvania LLC, etc. ("AT&T"), the Pennsylvania Telephone Association ("PTA") and the United Telephone Company of Pennsylvania, LLC, d/b/a CenturyLink ("Centurylink") ("PTA" and "CenturyLink"; together, the "RLECs").

3 The Verizon parties in this case are Verizon Pennsylvania Inc., Verizon North LLC, Verizon Long Distance LLC, MCImetro Access Transmission Services, LLC d/b/a Verizon Access Transmission Services and MCI Communications Services Inc. (collectively, "Verizon" or the "Verizon companies").

I. ANSWER TO UPDATED PETITIONS

Having concluded that the RLECs' intrastate access rates exceed the "just and reasonable level of intrastate switched access rates" in Pennsylvania, the Commission's July 18, 2011 Order directed the RLECs to reduce those rates.[4] The reductions still left the rates much higher than interstate levels, and were to be implemented over a period of years. But before the order was implemented, the FCC issued its long-awaited decision comprehensively reforming intercarrier compensation nationally. That decision brought terminating intrastate access charges under federal authority and directed stepped-down rate reductions on a much faster schedule than this Commission's and to a lower end point — eventually leading to elimination of those charges altogether (bill-and-keep). As AT&T puts it, "the days of waiting for the FCC have ended." (AT&T Updated PFR at 1).[5]

Terminating access. The Commission asks whether it should proceed with any portion of its July 18, 2011 Order in light of the intervening FCC Order. AT&T and the RLECs agree on one general point: the FCC Order eliminates the need for the Commission to take action on the RLECs' terminating intrastate access rates because the FCC has cared both for the rate reductions and the mechanism for revenue recovery for the RLECs. (AT&T Updated PFR at 2; RLECs' Updated PFR at 4).[6] Verizon agrees. The July 18, 2011 Order is moot with regard to

---

[4] *See* July 18, 2011 Order, III-B-5.

[5] Strangely, the RLECs complain that Verizon's intrastate access rates are not addressed in the Commission's July 18, 2018 Order and assert that Verizon "is not faced with an order to reduce its switched access rates." (RLECs' Updated PFR at 2, n. 2). But this claim makes no sense, since Verizon is subject to the FCC Order and will reduce its own terminating access charges on July 1, 2012 and match interstate rates on July 1, 2013. And due to past reductions by the Commission, Verizon's intrastate access rates are already much lower than most of the RLECs' rates. Further, Verizon asked to consolidate the two separate access investigations in 2003, which the Commission denied based on the opposition of other parties. (May 5, 2003 Order, Docket No. M-00021596). The RLECs' belated claims of a lack of "coordinated" policy ring hollow in light of these facts.

[6] AT&T also correctly points out that the Commission need not concern itself with revenue neutrality for these reductions because "the FCC has already established a recovery mechanism for the reductions required" in the FCC Order and, in any event, the revenue neutrality mandate of 66 Pa. C.S. § 3017(a) only applies to access reductions mandated by "the commission," not the FCC. (AT&T Updated PFR at 7, 19).

terminating access charges. The Commission should focus now on its role in implementing the FCC Order. Its first priority should be the timely and accurate implementation of the FCC-directed rate reductions by all carriers. The Commission has already opened a separate docket to oversee this implementation. (M-2012-2291824).

Originating access. AT&T and the RLECs disagree, however, on how the Commission should proceed with respect to the RLECs' charges for originating access, for which the FCC has not yet set the transition period to bill-and-keep. AT&T asks the Commission to reduce the RLECs' originating access rates to interstate levels by July 1, 2013, the date by which terminating access rates must also go to interstate levels. The RLECs urge the Commission to close this case without addressing originating access rates at all. Such inaction would allow the RLECs to continue to charge exorbitant five and even eleven cent-a-minute rates to complete calls from customers of interexchange carriers that serve the RLECs' local service customers.

Given the record here, and the fact that the Commission has already found the RLECs' rates (including their originating access rates) to be unjust and unreasonable, the Commission should not adopt the RLECs' suggestion to do nothing about their unduly high originating access rates. The FCC has already decided that originating charges will be eliminated, subject to the same bill-and-keep framework that applies to terminating access charges. (*See, e.g.*, FCC Order ¶ 817). In the meantime, the FCC capped originating rates (inter-and intrastate) for price cap carriers and asked for comment on the appropriate transition mechanism for phasing down originating access charges. (FCC Order ¶ 818). Parties have filed comments, but the FCC has established no timetable for a decision on a transition plan.

Under the unique circumstances of this case — including that the Commission has already decided, on a complete record, that RLEC access rates must come down — Verizon

agrees with AT&T that the Commission should reduce the RLECs' originating access charges. But rather than adopting immediate reduction to interstate levels for all carriers, the Commission could rationalize the most excessive originating RLEC rates based on the existing record by moving them toward a uniform benchmark level measured by the rate that Verizon PA charges for intrastate switched access services.[7]

As Verizon explained in its testimony:

> [t]he evidence submitted by the RLECs and OCA demonstrates that most of the RLECs charge intrastate switched access rates that are multiples higher than Verizon's intrastate rates for identical functions in Pennsylvania, and that even among the RLECs themselves there is wide variation in intrastate switched access rates. In contrast to Verizon's rate of 1.7 cents per minute, (Price Direct at 19), the weighted average rate per minute charged by the PTA companies for intrastate switched access is more than 300% higher, at 5.2 cents per minute for the very same service, and several of the PTA companies charge more than 10 cents per minute. (Price Rebuttal Table One, *infra*). CenturyLink charges 5 cents per minute. (Price Rebuttal Table Two, *infra*).

(Verizon St. 1.1, Price Rebuttal at 3).

Rather than continuing to allow some carriers to charge 5 or 10 cents for the same originating access service that other carriers provide for 1.7 cents, the Commission should try to rationalize the higher rates toward a common benchmark based on the record in this case. As described by AT&T, the revenue from the originating access reductions can be rebalanced by reasonable retail rate increases in a revenue-neutral manner under state law. (AT&T Updated PFR at 4). Moving the RLECs with very high originating rates to a lower uniform originating access rate level will also reduce the revenue impact to them when the FCC reduces originating access to bill-and-keep as stated in the FCC Order.

---

[7] As explained below, in the cases in which a carrier's interstate rates are higher than the benchmark of Verizon's rate, such a carrier's originating charges could be reduced to its interstate levels.

Fifteen of the RLECs (including Windstream, CenturyLink and most of the Frontier companies) have interstate rates that are lower than the suggested 1.7-cent benchmark. (*See* AT&T Panel Surrebuttal Attachment 2, identifying 15 of the RLECs having interstate rates ranging from .52 cents to 1.7 cents per minute, while the intrastate rates for the same carriers range up to 11cents per minute). Moving toward a 1.7-cent statewide benchmark makes sense for these carriers to remove the variability in their rates and provide interexchange carriers with the predictability and pro-competitive benefit of a uniform state-wide rate for the same originating access service. For example, AT&T's Panel Surrebuttal Attachment 2 shows that if the Commission did nothing about originating rates, as the RLECs urge, then one of them would continue to charge 11 cents a minute and other individual RLECs would charge 5 cents, 3.5 cents, and 1.8 cents a minute, respectively, for the exact same originating access service.[8] It is reasonable to use the record developed in this case to move them all toward a 1.7-cent benchmark.

The record also shows that some of the smaller carriers' interstate access rates are still higher than Verizon's 1.7-cent intrastate rate. (*See* AT&T Panel Surrebuttal Attachment 2, identifying 16 of the RLECs with interstate rates ranging from 2 cents to 4.7 cents per minute, while the intrastate rates for the same carriers range up to 11cents per minute). For those companies, the Commission could rationalize their originating access rates toward a lower and more uniform level by moving the excessive rates toward the carrier's own interstate levels, rather than the benchmark. This would result in one carrier, for example, charging 3 cents instead of 11 cents for originating access and similar reductions for the others – still an

[8] Names have been omitted to protect proprietary information but can be viewed on AT&T's Panel Surrebuttal Attachment 2.

improvement in the direction of uniformity. Again, the revenue can be rebalanced to retail rates under state law as described by AT&T.

As AT&T points out, since this process will now only have to accommodate originating access reductions (the FCC having already cared for the process and the recovery vehicles for terminating access) the amount of revenue to be rebalanced is much smaller and these reductions should be able to be accommodated while keeping basic residential rates well within the Commission's $23-per-month affordability level. The record already shows, as AT&T has demonstrated, that originating access can be reduced by rebalancing revenue to retail rates so that the RLECs collect these revenues from their end-users, as both this Commission and the FCC have found they should do.

Basic rate "caps". In the underlying case, the RLECs hid behind the claimed need for very low retail rate caps and demanded contribution from other carriers in lieu of raising rates above those levels.[9] However, now the RLECs ask the Commission to free them from any retail rate caps so that they can maximize their revenue recovery under the FCC process, requesting "the removal of any retail local rate caps residential and small business) which may still be lingering." (RLEC Updated PFR at 15). The RLECs maintain that this will "afford [them] the flexibility to address their local rates in a manner that maximizes their federal support." (RLEC Updated PFR at 17).

To the extent there is still any limit on the RLECs' ability to increase residential or business rates (such as an $18 rate cap), Verizon agrees that the Commission should remove such

[9] *See, e.g.*, July 18, 2011 Order at 61 ("We agree with the ALJ, the OSBA, AT&T and Verizon that the evidence in this proceeding does not support a finding that RLECs are entitled to funding from the PaUSF for local rate increases above the $18.00/month rate cap.")

limits.[10] The record evidence overwhelmingly refuted such low limitations, as the Commission agreed when it held that "based on the record constructed in this investigation that a $23.00/month benchmark, exclusive of federal SLC, 911/TRS and taxes, for local service rates is affordable, and is thus, reasonable and appropriate." (July 18, 2011 Order at 157). In general, Verizon does not support unnecessary limitations on any carrier's ability to increase retail rates; carriers expected to recover their costs from their own end users should be provided maximum flexibility to do so. The RLECs correctly note that, even in the absence of any cap or ceiling, they "will, of course, still be required to file and seek Commission approval for any local rate changes under the just and reasonable standard of state law." (RLEC Answer to Updated PFR at 18). Therefore, to the extent any carrier actually approaches the $23 level for residential rates the Commission will still be able to consider the carrier-specific evidence before approving such rates. This is sufficient protection for the RLECs' customers and no individual rate cap is necessary.

As AT&T explains, the FCC also set a benchmark basic residential rate level that translates to the equivalent of $22 when stated on the same basis as the Commission's benchmark. (AT&T Updated PFR at 13). But even if an RLEC increases its rates to or above the FCC limit, this simply means "this ILEC would be ineligible to implement an ARC and, instead, would rely upon the CAF support mechanism to recover the remaining displaced intercarrier compensation revenue." (RLECs' Updated PFR, Declaration at 3). Accordingly, the Commission should grant the RLECs' request to remove any caps on their regulated rates.

State USF: The Commission should reject RLEC suggestions that the Commission should authorize additional state funding to offset federal access rate reductions. AT&T

[10] There is no limit on business rate increases, and there should not be. (*See* Verizon St. 1.1, Price Rebuttal, at 37-38).

correctly notes that "the Commission cannot give carriers some mechanism for recovering federally-mandated access reductions outside of the mechanisms specified by the FCC." (AT&T Updated PFR at 16). The RLECs articulate no reason why they should have the benefit of an additional subsidy mechanism to recover the same access revenues the FCC's recovery mechanism addresses. In fact, the FCC Order is expressly intended to obviate any need for such additional state funding. By "adopting a uniform federal transition and recovery mechanism," the FCC made clear that "states will not be required to bear the burden of establishing and funding state recovery mechanisms for intrastate access reductions." (FCC Order ¶ 795).

The Commission should continue to act consistent with its decision in the July 18, 2011 Order that it would "not expand the PaUSF nor permit its use for purposes of intrastate access charge rate rebalancing at this time." (July 18, 2011 Order at 180). As AT&T correctly noted, "the FCC expressly repudiated" any scheme by which other carriers "contribute" to the RLECs' costs. (AT&T Updated PFR at 3).

II. ANSWERS TO COMMISSION QUESTIONS

1. Whether the substance and the time frame of the FCC's intercarrier compensation reforms should totally or partially replace the Commission's intrastate carrier access charge reform directives contained in our *July 2011 Order*.

Verizon Response: With respect to terminating access charges, the FCC Order replaces and renders moot the Commission's July 11, 2011 Order. The FCC's Order did not set a schedule for reducing originating access charges and accordingly it does not replace the Commission's order for those rates.

2. Will there be cross-effects on various regulated telecommunications carriers with intrastate operations in Pennsylvania and their end-user consumers if the Commission proceeds with the implementation of its *July 2011 Order* while the

FCC's directives in the *CAF Order* also are coming into effect? The interested Parties should address at a minimum the following relevant areas, with appropriate technical evidentiary quantification to the extent possible:

a. Can or will the implementation of the *July 2011 Order* have cross-effects with the FCC's mechanisms of Eligible Recovery and potentially available federal CAF support and over what time frame?

b. Can or will the implementation of the July 18, 2011 Order in conjunction with the FCC Order directives have potential cross-effects for end-user consumers of intrastate regulated retail telecommunications services and over what time frame?

Verizon Response: The FCC's Order supersedes the July 18, 2011 Order with respect to reducing terminating access and establishing a mechanism to recover the Eligible Recovery. The Commission should not attempt to implement its own order with respect to terminating access rates and accordingly there should be no "cross-effects." As discussed above, the Commission should continue to implement reductions for RLEC originating access rates toward a reasonable uniform state-wide level equivalent to Verizon's current per-minute intrastate rate. But it may do so consistently with the FCC's Order by providing for offsetting increases to the RLECs' regulated retail rates under state law.

3. Will the FCC's adoption of a Residential Rate Ceiling for purposes of the federal Eligible Recovery mechanism and associated CAF support distributions have any cross-effects on the Commission's findings regarding the adopted $23 per month benchmark rate in the *July 2011 Order*?

Response: No. See AT&T Updated PFR at 12-13.

4. How will the Pennsylvania ILECs that have alternative regulation and network modernization plans (NMPs) in place under Chapter 30 of the Public Utility Code, 66 Pa. C.S. §§ 3011 *et seq.*, be affected by the implementation of the FCC's intercarrier

compensation reforms? Will they be able to seek intrastate rate relief of any type beyond the levels provided under the FCC's Eligible Recovery mechanism and associated federal CAF support?

Verizon Response: No. The FCC has assumed jurisdiction over the revenue recovery for terminating access charges and that revenue is no longer part of the Chapter 30 "price stability mechanism" process.

Interested parties at a minimum should address the following areas:

a. The continuous applicability of the Commission's directives that the mandated intrastate switched carrier access charge reform and the associated "revenue neutral rate rebalancing called for in this Opinion and Order does not implicate the RLECs' various Chapter 30 exogenous event provisions." *July 2011 Order*, at 141.

Verizon Response: The RLECs contend that the FCC-mandated categorization of these services as reciprocal compensation under 47 U.S.C. § 251(b)(5) constitutes an "exogenous event" under their state alternative regulation plans and entitles them to recover the revenue "shifted" to the interstate jurisdiction through the mechanism of their alternative regulation plans. Verizon has not reviewed all of the RLECs' alternative regulation plans, but it believes they refer to language similar to that contained in Verizon North's plan, stating that "[n]otwithstanding any other limitations specified herein, the Company, or any other party, may request that the Commission make special revenue adjustments within the scope of the PSM to recognize significant exogenous events that are outside the Company's control" such as "[j]urisdictional shifts in cost recovery when interstate revenues actually change." (VZN Alt Reg Plan at Part 3(A)(9)). AT&T concludes that "this Commission should not allow any RLEC to claim that its business decision to eschew the available federal recovery mechanism leads to an exogenous event under Chapter

30 plans." (AT&T Updated PFR at 18). AT&T is correct. Given that the "jurisdictional shift" is accompanied by a mechanism for revenue recovery, it is not the sort of unexpected and uncompensated cost that qualifies as an "exogenous event" under the plans. Further, the FCC intended its recovery mechanism to control. Notably, although the plan language says parties "may request" exogenous event treatment, it does not say the Commission must grant such treatment and it should not do so here.

b. The legal and technical interaction between the FCC's intercarrier compensation reforms, the "revenue neutrality" mandated for ILEC intrastate carrier access reforms under Section 3017(a) of Chapter 30, 66 Pa. C.S. § 3017(a), the rural ILEC Chapter 30 NMPs, and Section 3019(h) of Chapter 30, 66 Pa. C.S. § 3019(h).

Verizon Response: Section 3017(a) states that "*the commission* may not require a local exchange telecommunications company to reduce access rates except on a revenue-neutral basis." (emphasis added). It does not apply to rate reductions required by the FCC. Section 3019(h) does not affect federal law because it only applies to conflicting provisions of state law.

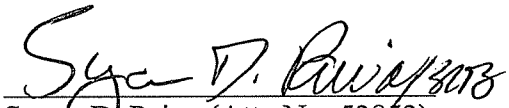
c. Whether implementation of the contemplated federal ARC by any Pennsylvania Chapter 30 rural ILEC could lead to the permissible creation of revenues that would become part of the intrastate regulated services revenue pool that is utilized in the ILECs' annual price stability mechanism and price cap formula submissions under Section 3015 of Chapter 30, 66 Pa. C.S. § 3015(a)(1)(iii).

Verizon Response: AT&T posits that revenue recovered from "[t]he ARC cannot be part of any intrastate regulated services revenue pool. It is a jurisdictionally federal charge, like the federal Subscriber Line Charge." (AT&T Updated PFR at 31). This is a reasonable conclusion.

5. The need, if any, of appropriate recordkeeping requirements for affected carriers in the event that the FCC's *CAF Order* is overturned in whole or in part on appeal, and intrastate intercarrier compensation amounts that have been paid or received in the interim need to be adjusted in accordance with the relevant provisions of the Public Utility Code. *See generally* 66 Pa. C.S. § 1312.

Response: As the RLECs point out, carriers can be expected to keep such records in the course of business and re-rate bills if necessary. (RLEC Updated PFR Declaration at 6). No special record-keeping requirements are necessary.

Respectfully submitted,



Suzan D. Paiva (Atty No. 53853)
Verizon
1717 Arch Street, 3rd Floor
Philadelphia, PA 19103
(215) 466-4755
Suzan.d.paiva@verizon.com

Counsel for Verizon

Dated: April 19, 2012