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August 16, 2011

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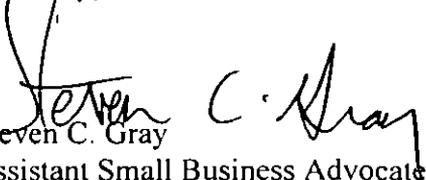
**Re: AT&T Communications of Pennsylvania, Inc. v. Verizon North, Inc. and
Verizon Pennsylvania Inc.
Docket No. C-20027195**

Dear Secretary Chiavetta:

Enclosed for filing are the original and nine (9) copies of the Main Brief, on behalf of the Office of Small Business Advocate, in the above-docketed proceeding. Please note that both Proprietary and Non-Proprietary versions of this Brief are being filed. As evidenced by the enclosed certificate of service, two copies have been served on all active parties in this case.

If you have any questions, please do not hesitate to contact me.

Sincerely,


Steven C. Gray
Assistant Small Business Advocate
Attorney ID No. 77538

Enclosures

cc: Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

AT&T Communications of Pennsylvania, LLC :
v. : **Docket No. C-20027195**
: **Verizon North, LLC and Verizon Pennsylvania, Inc.** :

**MAIN BRIEF
ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE**

NON-PROPRIETARY

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Dated: August 16, 2011

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TABLE OF CONTENTS

I.	INTRODUCTION	1
	A. Prior Proceedings	1
	B. Current Proceeding	3
II.	ARGUMENT.....	6
	A. Access charges should contribute to the cost of the loop	6
	B. Verizon’s total intrastate access charges should not be reduced	9
	C. Local exchange customers should not subsidize contract customers...	12
III.	CONCLUSION.....	18

I. Introduction

A. Prior Proceedings

On September 30, 1999, the Pennsylvania Public Utility Commission (“Commission”) entered the *Global Order*.¹ The *Global Order* required all incumbent local exchange carriers (“ILECs”) to reduce their access charges. In addition, the *Global Order* provided for an access charge proceeding to begin in January 2001 to determine whether additional access charge reductions were warranted. In January 2002, the Commission initiated a formal generic access charge investigation at Docket No. M-00021596 as required by the *Global Order*.

On March 22, 2002, AT&T Communications of Pennsylvania Inc. filed a Complaint at Docket No. C-20027195 seeking to have Verizon North’s access charges reduced to Verizon Pennsylvania’s levels pursuant to the requirements in the Bell Atlantic-GTE merger Order.

On December 24, 2002, the Commission entered an Order bifurcating the Verizon access charge issues (including the AT&T complaint) and the rural local exchange carriers’ (“RLECs”) access charge investigation into two separate dockets.

On December 30, 2002, Verizon Pennsylvania and Verizon North filed a Joint Petition in regards to the further reduction of their access charges.

On May 5, 2003, the Commission entered an Order consolidating the Verizon Pennsylvania and Verizon North Joint Petition, the AT&T Complaint, and the ongoing investigation and assigned the matter to the Office of Administrative Law Judge (“OALJ”) for the preparation of a Recommended Decision (“RD”). Subsequently, the OALJ assigned the proceeding to Administrative Law Judge (“ALJ”) Cynthia Williams Fordham.

¹ *Joint Petition of Nextlink Pennsylvania, Inc., et al.*, 196 PUR 4th 172, 93 Pa. PUC 172 (Order entered September 30, 1999) *affirmed*, *Bell Atlantic-Pennsylvania v. Pennsylvania Public Utility Commission*, 763 A.2d 440 (Pa. Cmwlth. 2000), *vacated in part*, *MCI v. Pennsylvania Public Utility Commission*, 577 Pa. 294, 844 A.2d 1239 (Pa. 2004) (colloquially known as the “*Global Order*”).

On July 18, 2003, the Office of Small Business Advocate (“OSBA”) filed the testimony of Allen G. Buckalew.

On November 18, 2003, ALJ Fordham issued her RD. ALJ Fordham recommended the adoption of a Joint Proposal submitted by Verizon Pennsylvania, Verizon North, and the Office of Consumer Advocate (“OCA”) to consolidate the access charges of the two ILECs. However, before the Commission entered an Order addressing the RD, Verizon Pennsylvania, Verizon North, the OCA, and the OSBA filed a Joint Petition for Resolution of Litigation, which addressed the recovery of lost access charge revenue.

On July 28, 2004, the Commission approved the RD subject to the Petition for Resolution of Litigation. In addition, the Commission remanded the case to the OALJ for the further development of the record, and issuance of an RD, on issues that were not decided in the July 28, 2004, Opinion and Order. The issues on remand were to include (but not be limited to) the consideration of specific access charge reduction proposals, the removal of implicit subsidies from access charges, and the reduction or elimination of the carrier charge.

Subsequent to prehearing conferences held before ALJ Fordham, the OSBA submitted the direct and rebuttal testimony of Mr. Buckalew on June 8, 2005, and June 29, 2005, respectively. The OSBA also submitted a main brief and a reply brief on August 17, 2005, and August 31, 2005, respectively.

On December 7, 2005, ALJ Fordham issued her RD (“2005 RD”). In summary, the ALJ recommended that the carrier charge be eliminated and that traffic sensitive access charges be reduced to match interstate levels.

On January 9, 2006, the OSBA submitted exceptions in response to that RD. On January 25, 2006, the OSBA submitted reply exceptions.

The Commission never ruled on the December 7, 2005, RD or on the exceptions submitted by the OSBA and other parties. Instead, on January 8, 2007, the Commission modified the ALJ's RD and stayed the proceeding pending the outcome of the *Unified Intercarrier Compensation* proceeding before the Federal Communications Commission ("FCC").

B. Current Proceeding

On August 12, 2009, Verizon Pennsylvania Inc., Verizon North Inc., and MCImetro Access Transmission Services, LLC d/b/a Verizon Access Transmission Services (collectively "Verizon") filed a Status Report and Motion to Extend the Stay for an additional twelve months.

On May 11, 2010, the Commission denied Verizon's Motion to Extend the Stay, and remanded this case to the OALJ for further proceedings. The Commission provided direction on the scope of this remanded proceeding, as follows:

[I]t is apparent that the record in this investigation needs to be updated. As such, in addition to our specific directives, *infra*, we will direct the ALJ and the Parties to consider those issues that still need to be resolved in the reopened investigation and whether any parts of the developed record in the investigation can be used or whether they need to be refreshed.

With regard to our specific directives for matters to be addressed in this investigation, we shall afford the participating parties due process opportunities to supplement the evidentiary record including any issues that were not adjudicated at the time of the Remand before the ALJ. In addition to the supplemental issues that will be raised by the parties, the participating parties shall address and provide record evidence on the legal, ratemaking and regulatory accounting linkages between (a) any FCC ruling that may have an impact on intrastate switched access charges; (b) the intrastate access charge reform for ILECs in view of the new Chapter 30 law and its relevant provision at 66 Pa. C.S. §§ 3015(g), pertaining to 'Rate change limitations,' and 3017, pertaining to 'Access charges;' and (c) the potential effects on rates

for Verizon's basic local exchange services. In addition, should the resulting rate changes from this investigation occur within the context of the Verizon Companies' subsequent Price Change Opportunity filing, the ALJ shall address the potential implications of the resulting rate changes in the calculations associated with the relevant PCO filing and why those resulting rate changes would be considered lawful, just and reasonable pursuant to the Chapter 30 law.

Opinion and Order, Docket No. C-20027195 (Order entered May 11, 2010), at 21-22 (“*Remand Order*”).

On December 8, 2010, a prehearing conference was held before ALJ Fordham.

On February 1, 2011, Verizon served its direct testimony.

On March 29, 2011, the OSBA served the direct testimony of Dr. John W. Wilson.

On May 10, 2011, the OSBA served the rebuttal testimony of Dr. Wilson.

On June 3, 2011, the OSBA served the surrebuttal testimony of Dr. Wilson.

On June 14 and 15, 2011, evidentiary hearings were held before ALJ Fordham.

On July 11, 2011, Verizon filed a Petition to Reopen the Record, arguing that the forthcoming rural local exchange carrier (“RLEC”) access charge order would materially affect the outcome of this proceeding.

On July 14, 2011, upon request of Verizon, ALJ Fordham extended the schedule for the filing of main and reply briefs.

On July 18, 2011, the Commission entered an Order in *Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers and the Pennsylvania Universal Service Fund* at Docket Nos. I-00040105 and C-2009-2098380, *et al.* (“*July 18th Order*”).

On August 12, 2011, ALJ Fordham informed the parties of her intent to deny Verizon's Petition to Reopen the Record.

The OSBA submits this main brief according to the revised procedural schedule ordered by ALJ Fordham.

II. Argument

A. **Access charges should contribute to the cost of the loop.**

The basic question in this proceeding is how much interexchange carriers (“IXCs”) should pay for access to Verizon’s network. In summary, the IXCs have argued that the access charge they pay Verizon for the traffic sensitive costs of intrastate calls should be reduced to the access charge they pay Verizon for the traffic sensitive costs of interstate calls. *See, e.g.*, AT&T Statement No. 1.0, at 18-19.

The IXCs have also argued that Verizon’s non-traffic sensitive carrier charge should be eliminated. *Id.*

In contrast, the OSBA has opposed further reductions in Verizon’s access charges because IXCs are already paying less than their fair share of the cost of Verizon’s network, *e.g.*, loop costs. As evidence of the IXCs’ failure to pay their fair share, OSBA witness Dr. Wilson summarized the OSBA’s testimony in the previous Verizon proceedings at this docket, as follows:

The OSBA filed the testimony of my colleague, Mr. Buckalew, in July of 2003 and June of 2005 in the two earlier proceedings addressing Verizon’s access charges at this docket number. In the first proceeding, Mr. Buckalew was asked to analyze Verizon’s access charge costs and proposed rates. As a general proposition, Mr. Buckalew agreed with the consolidation of the Verizon PA and Verizon North access charges on a revenue neutral basis. However, Mr. Buckalew recommended a consolidated carrier charge rate of [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] per line per month. Ultimately, the Parties in the first proceeding agreed to a compromise carrier charge rate of [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] per line per month. That rate, which was implemented in February of 2005, resulted in toll carriers’ providing less than [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] of what Verizon claimed was the cost of the loop at the time.

In the second proceeding, Mr. Buckalew testified that, because local loops are part of the integrated telecommunications network, charging a portion of loop costs to toll carriers and allowing them to innovate and experiment in recovering these costs through their own competitive pricing arrangements is reasonable. Mr. Buckalew also testified that including a portion of access costs in local service rates is reasonable.

OSBA Statement No. 1, at 5-6.

Dr. Wilson defined the loop, as follows:

The loop is the wire pair that runs from a Verizon central office near the customer to the customer's location. In the case of small business and residential customers, the wire pair runs from the central office to a network interface device on the customer's premises. The network interface device connects to the customer's inside wiring and telephones.

OSBA Statement No. 1, at 8-9.

He then explained, as follows, why IXCs should contribute to the cost of the loop:

Loops are designed to enable customers to make toll calls as well as local calls. And, the loop is designed to a higher standard to handle toll or long distance calls. Toll carriers need the loops in order to complete toll calls. ***Therefore, toll carriers should contribute their fair share toward the cost of the loop.*** However, any additional reduction in Verizon's access charges would essentially push all, or virtually all, of the cost of the loop onto local exchange ratepayers. This would be unfair to both residential and business local exchange ratepayers.

Id., at 9 (emphasis added).

The Commission has agreed in the past with the principle articulated by Dr. Wilson in this proceeding, *i.e.*, that the IXCs must pay their fair share of the cost of the ILECs' facilities.

For example, the Commission stated as follows:

We reaffirm our findings in our September 5, 1995 Order at Docket No. L-00950105 that the local loop is a 'joint cost', not a direct cost of providing only those services included in the definition of BUS [Basic Universal Service]. It is used for a variety of services other than BUS and must be allocated among

the services which utilize it. For universal service funding purposes, not allocating a portion of the local loop to all the services which utilize it fails to give recognition to the fact that the loop is used to provide many services in addition to BUS.

This finding is consistent with our earlier rulings including *Pennsylvania Public Utility Commission v. Breezewood Telephone Company*, 74 Pa P.U.C. 431 (1991) wherein we stated:

...[W]e consider the costs associated with the loop from the central office to the customers premises a non-traffic sensitive joint cost.

* * *

We reject the ILECs' arguments that the local loop is not a joint cost because other services which use the loop do not result in any additional cost. We do not find the arguments of Bell's expert witness Dr. Kahn persuasive on this point. In particular, we do not accept the basis of Dr. Kahn's argument that because the loop is needed for local service and the incremental cost of the loop does not increase to provide other services, that its full cost must be attributed to local services. This same argument could be made with respect to toll service. Since the loop is necessary to provide toll service, it could at the same time be argued that the full cost should be allocated to toll, and in so doing the incremental cost to provide local service would be zero. Moreover, since the installation of an additional subscriber loop increases the capacity available for placing and receiving all three types of calls, the telephone company cannot increase the capacity for local calls without concurrently increasing the capacity for toll calls.

In re: Formal Investigation to Examine and Establish Updated Universal Service Principles and Policies for Telecommunications Services in the Commonwealth, Docket No. I-00940035 (Order entered January 28, 1997), at 82-83.

The Commission recently confirmed that it continues to adhere to the position that IXCs should contribute to the cost of the loop. Specifically, the Commission stated, as follows:

[W]e are guided by the long-established principle and regulatory policy of this Commission, which has been upheld upon appellate review, that the RLECs' intrastate carrier switched access service ***NTS [non-traffic sensitive] joint and common costs primarily***

associated with the RLECs' local loop plant must be recovered from all users of the RLECs' network. In this respect, our conclusion differs materially from those that have been adopted by the FCC in the past. The FCC has shifted the burden of NTS joint and common network costs in the interstate intercarrier compensation mechanism for switched access services totally and exclusively upon the end-user through the initial imposition and subsequent increases to the federal SLC [subscriber line charge].

July 18th Order, at 118 (emphasis added).

The IXCs have repeatedly criticized the OSBA for advocating the Commission precedent that IXCs should contribute to the cost of the loop. *See, e.g.*, AT&T Statement No. 2.0, at 5-11. However, consistent with the OSBA's position, the *July 18th Order* unequivocally reaffirms the Commission's precedent requiring IXC contribution toward the cost of the loop. Therefore, the OSBA submits that the IXCs should not be relieved of contributing to Verizon's recovery of loop costs.

B. Verizon's total intrastate access charges should not be reduced.

One rate element used to recover the cost of the loop is the non-traffic sensitive carrier charge ("CC"). Dr. Wilson observed that the "carrier charge recovers a small portion of the loop's total cost." OSBA Statement No. 1, at 9.

When questioned regarding the magnitude of the IXCs' contribution toward Verizon's loop costs, Dr. Wilson responded, as follows:

In the 2005 proceeding, Mr. Buckalew observed that Verizon claimed the cost of a loop to be about [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY]. Even if the Commission eventually finds that the real cost of the loop is lower than [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] the fact is that the current intrastate carrier access charge of [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] is only [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] of the

cost of a [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] loop.

Id., at 9-10.

Significantly, the Commission addressed both the traffic sensitive and non-traffic sensitive intrastate access charges in regards to the RLECs in the *July 18th Order*:

Because existing precedent and policies mandate the sharing of the NTS joint and common costs by all the users of the RLECs' intrastate access services, the complete elimination of the per access line intrastate CC rate element for the RLECs cannot be condoned. Such an approach would lead to the inequitable, discriminatory, and unlawful result of potentially 'loading' 100% of the recovery of the RLECs' joint and common NTS costs associated with intrastate access upon end-user consumers alone. However, the totality of the evidentiary record strongly suggests that the existing high levels of the intrastate CC rate element for certain RLECs are clearly unsustainable. Therefore, we find that it is appropriate to gradually reduce these intrastate CC rate levels to \$2.50 per access line per month (for those RLECs that currently have a CC intrastate carrier access rate element above the level of \$2.50 per access line per month) while also gradually moving the RLECs' intrastate TS [traffic sensitive] switched access rate elements to their interstate equivalent levels to the extent necessary and in an integrated fashion.

July 18th Order, at 119-120 (emphasis added).

In the instant proceeding, the IXCs have advocated that Verizon's intrastate non-traffic sensitive CC should be reduced from \$0.58 to zero, and Verizon's intrastate traffic sensitive rate elements should be reduced so that they mirror Verizon's interstate access charges. *See, e.g.*, AT&T Statement No. 1.0, at 5.

Based upon the reasoning in the *July 18th Order*, the Commission should reject the IXCs' proposal to reduce Verizon's CC from \$0.58 to zero. First, the Commission stated that not only should IXCs contribute to the cost of the loop, but that eliminating the CC "would lead to the inequitable, discriminatory, and unlawful result" of placing the ILEC's loop costs entirely

upon its “end-user consumers alone.” Second, the OSBA is unaware of any record evidence which would demonstrate that the cost of the loop in Verizon’s service territory is drastically less than the cost of the loop in an RLEC service territory. Absent such evidence, there would be no basis to further reduce Verizon’s \$0.58 CC.

In the *July 18th Order*, the Commission did conclude that each RLEC should set its intrastate traffic sensitive access charge elements to match that RLEC’s traffic sensitive interstate access charges. Thus, the OSBA assumes that the Commission will order Verizon to do the same. However, the OSBA respectfully submits that Verizon’s *total* intrastate access charges should not be reduced in this proceeding.

OSBA witness Dr. Wilson recommended that there be no further reductions in Verizon’s intrastate access charges. OSBA Statement No. 1, at 17. Consistent with that recommendation, the OSBA recommends that the Commission increase Verizon’s CC to recover the lost traffic sensitive intrastate access revenue.

Verizon testified that it would have to rebalance [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] in order to recover the revenue lost if its intrastate traffic sensitive rates were reduced to interstate levels. *See* Verizon Statement No.1.0, at 58. Furthermore, Verizon’s intrastate CC is currently set at \$0.58, which allows Verizon to recover [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] of intrastate non-traffic sensitive revenue. *Id.* Therefore, adding the [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] to the existing CC would require Verizon to recover [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] through its CC. Recovering [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] through the CC would

66 Pa. C.S. § 3017(a). Thus, if the Commission orders a reduction in Verizon's total access rates, Verizon will have the option to increase its noncompetitive service revenue, including the local exchange rates of residential and business customers, to recover the lost access charge revenue. Dr. Wilson summarized the OSBA position, as follows:

Any local exchange rate increase for the non-contract customers of Verizon must be strictly limited to the decrease in Verizon's access revenue attributable to the lines serving non-contract customers. Those local exchange rate increases must not include any recovery of the access charge revenue loss that is attributable to the lines serving contract customers.

Specifically, Verizon must spread the recovery of any lost access revenue over all of the retail switched lines in the Commonwealth, not just the retail switched lines that are used to serve Verizon's non-contract residential and business customers.

OSBA Statement No. 1, at 19.

A significant number of Verizon's customers receive local exchange service under a contract which also includes toll and other services. When local exchange service is provided as part of a package under a contract, local exchange service is a competitive service rather than a noncompetitive service. Therefore, if the Commission orders a reduction in Verizon's total access charges, part of the lost revenue will be attributable to intrastate toll service provided as part of a contract. OSBA Statement No. 1, at 18. It is the OSBA's position that non-contract customers should not be required to contribute to Verizon's recovery of lost access revenues attributable to contract customers. Specifically, Dr. Wilson testified, as follows:

The Commission should not require any customer that uses a non-competitive service to pay any additional local exchange service rates to make up for a reduction in access charges on toll calls by Verizon's competitive contract and bundled package customers. Not only is this classic monopoly behavior by segmenting the market using demand elasticity, but counsel advises me that such a

result would violate the prohibition on subsidization set forth in Section 3016(f) of the Public Utility Code.

OSBA Statement No. 1, at 18.

Section 3016(e)(1) of the Public Utility Code, 66 Pa. C.S. § 3016(e)(1), allows an ILEC to set rates for its competitive services without Commission approval. However, as noted by Dr. Wilson, the Public Utility Code requires the Commission to prohibit Verizon from charging noncompetitive customers for any lost access charge revenue attributable to Verizon's contract customers.

First, Section 3016(f)(1) prohibits cross-subsidization, as follows:

A local exchange telecommunications company shall be prohibited from using revenues earned or expenses incurred in conjunction with noncompetitive services to subsidize competitive services.

66 Pa. C.S. § 3016(f)(1). Under Section 3002 of the Public Utility Code, 66 Pa. C.S. § 3002, a "protected telephone service" such as local exchange service is not "competitive" unless so determined by the Commission after notice and hearing. Therefore, Section 3016(f)(1) requires that any local exchange rate increase for the non-contract customers of Verizon be strictly limited to recovering the decrease in access revenue attributable to the lines serving those non-contract customers. The local exchange rate increases must not include any recovery of the access charge revenue loss that is attributable to the lines serving contract customers.

Specifically, Verizon must spread the recovery of any lost access revenue over its [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] retail switched lines in the Commonwealth, not the [BEGIN PROPRIETARY] [REDACTED] [END PROPRIETARY] lines that are used to serve Verizon's non-contract residential and business customers. Verizon Statement No. 1.1, at 45-46. *See also*, OSBA Statement No. 1, at 18-19.

The Commission has recently held that “revenue neutral rebalancing may be accomplished only through allowed increases in noncompetitive services to offset reductions to access charges, rather than through consideration of non-jurisdictional or competitive revenues.”

July 18th Order, at 127. Furthermore, the Commission also concluded, as follows:

Regarding the arguments that the RLECs believe they are entitled to a guarantee of recovering lost revenues from access charge reform, we agree with AT&T that the ALJ properly ruled that Section 3017(a) of the Code gives the RLECs the *opportunity* to recover lost access revenues on a revenue neutral basis, but that each RLEC’s response to access reform is left to the RLEC’s discretion. Section 3017(a) states: ‘[t]he commission may not require a local exchange telecommunications company to reduce access rates except on a revenue neutral basis.’ Nothing in this provision guarantees that all access revenue reductions will be revenue neutral. Such a definition that guarantees revenue recovery would be illogical under Act 183, especially in the existing telecommunications markets, which are becoming more competitive each year.

July 18th Order, at 140-141 (footnotes omitted).

Although Verizon must be afforded the opportunity to recover its lost access revenue from its noncompetitive services, it would be a violation of Section 3016(f)(1) for Verizon to assign recovery of all of that lost access revenue to the local exchange rates of its noncompetitive service customers. In fact, an effort by Verizon to charge noncompetitive service customers for the lost access revenue attributable to competitive service customers would appear, on its face, to be a not so subtle attempt by Verizon to encourage those noncompetitive service customers to move to Verizon’s competitive plans by keeping competitive service rates artificially low.

Second, permitting Verizon to raise rates for non-contract customers to recover lost access revenue attributable to contract customers would also be a violation of Section 1304 of the Public Utility Code, 66 Pa. C.S. § 1304 (“No public utility shall, as to rates, make or grant any unreasonable preference or advantage to any person, corporation, or municipal corporation,

or subject any person, corporation, or municipal corporation to any unreasonable prejudice or disadvantage”).

Verizon has argued against increasing the rates to contract customers. *See, e.g.,* Verizon Statement No. 1.1, at 48-51. In that regard, Verizon has argued that it can not recover from contract customers all of the lost access charge revenue attributable to them because Verizon can not increase rates for those customers during their existing contract terms. *2005 RD*, at 66-67. However, the Commission made clear in the *July 18th Order* that an ILEC must be afforded the *opportunity* to recover its lost intrastate access revenues, but that the ILEC is not entitled to a *guarantee* of such recovery. Thus, Verizon will simply have to raise the local exchange piece of its contract customers’ rates as those customers renew their contracts.

Third, Verizon will face a different legal hurdle when deciding how to allocate its lost intrastate access revenue across its rates for competitive and noncompetitive services. Dr. Wilson summarized this hurdle, as follows:

[C]ounsel advises that Section 3016(d)(1) prohibits Verizon from charging its contract customers less than the cost to provide those contracted services. Thus, Verizon could not lawfully escape local exchange rate increases for its contract customers if the Commission were to order further access charge reductions.

OSBA Statement No. 1, at 18-19.

Specifically, Section 3016(d)(1) of the Public Utility Code, 66 Pa. C.S. § 3016(d)(1), provides as follows:

The prices which a local exchange telecommunications company charges for competitive services shall not be less than the costs to provide the services.

Section 3016(d)(1).

Therefore, if recovering the lost intrastate access revenue requires Verizon to increase its local exchange rates, it would be a violation of Section 3016(d)(1) if Verizon did not commensurately raise the rates of its contract customers. By implementing such an increase in contract rates, Verizon would satisfy Section 3016(d)(1) because contract rates would not be set below cost.

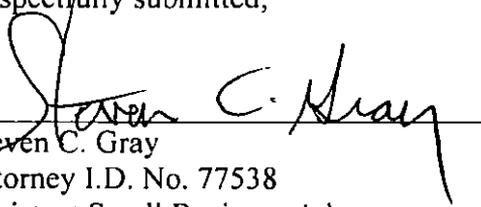
III. Conclusion

The OSBA respectfully requests that the Commission:

1. Decline to further reduce Verizon's total intrastate access charges; or
2. If the Commission orders a reduction in Verizon's total intrastate access charges,

prohibit Verizon from raising rates for noncompetitive services to recover the lost intrastate access revenue attributable to toll service for contract customers.

Respectfully submitted,



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Dated: August 16, 2011

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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Verizon North, LLC and Verizon Pennsylvania, Inc. :

Docket No. C-20027195

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CERTIFICATE OF SERVICE

I certify that I am serving two copies of the Main Brief, in both Proprietary and Non-Proprietary versions, on behalf of the Office of Small Business Advocate, by e-mail and first-class mail (unless otherwise noted) upon the persons and in the manner addressed below:

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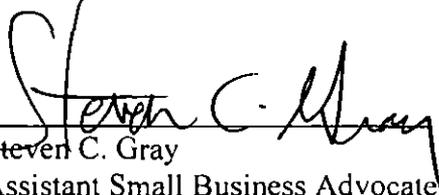
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