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Assistant General Counsel
Law Department



December 30, 2002

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VIA UPS OVERNIGHT DELIVERY

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

DOCUMENT
FOLDER

Re: In re the Joint Application of Bell Atlantic Corporation and GTE Corporation for Approval of Agreement and Plan of Merger, Docket Nos. A-310200F0002, A-311350F0002, A-310222F0002 and A-310291F0003; Access Charge Investigation per Global Order of September 30, 1999, Docket Nos. P-00991648, P-00991649, M-00021596; and AT&T Communications of Pennsylvania Inc. v. Verizon North Inc., Docket No. C-20027195

RECEIVED

DEC 30 2002

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Dear Secretary McNulty:

Enclosed please find the original and three copies of the proprietary version of the Joint Petition of Verizon Pennsylvania Inc. And Verizon North Inc. Regarding Access Rate Reform, filed in compliance with the Commission's merger approval order entered November 4, 1999. A public (redacted) version is also enclosed.

The proprietary version is being provided only to the Commission and the parties to the merger proceeding, subject to the terms of the Protective Order entered in that docket.

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

Very truly yours,

Suzan DeBusk Paiva

SDP/dkf
Enc.

Via UPS Overnight Delivery
cc: Elizabeth Barnes
Gary Wagner
Attached Certificate of Service

RJP

151

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BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

In re the Joint Application of : Docket Nos. A-310200F0002
Bell Atlantic Corporation and : A-311350F0002
GTE Corporation for Approval : A-310222F0002
of Agreement and Plan of Merger : A-310291F0003

Access Charge Investigation per : Docket No.s P-00991648
Global Order of September 30, 1999 : P-00991649
: M-00021596

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

JOINT PETITION OF VERIZON PENNSYLVANIA INC. AND VERIZON NORTH INC. REGARDING ACCESS RATE REFORM

DOCKETED

MAR 06 2003

PUBLIC VERSION

DATED: December 30, 2002

Julia A. Conover
Suzan DeBusk Paiva

Counsel for
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Verizon Pennsylvania Inc. (“Verizon PA”) and Verizon North Inc. (“Verizon North”) (collectively “Verizon”) hereby request that the Commission commence a proceeding for the purpose of determining statewide access rates for Verizon PA and Verizon North, in compliance with a condition of this Commission’s November 4, 1999 Order approving the Verizon merger. This Joint Petition and its attachments constitute Verizon’s proposal to resolve this proceeding and achieve statewide access rates.

Verizon’s proposal is modeled upon and virtually identical in substance to the Joint Access Proposal filed by the Rural Telephone Company Coalition (“RTCC”), the United Telephone Company of Pennsylvania, d/b/a Sprint (“Sprint”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”) and the Office of Trial Staff (“OTS”) (the “RTCC/Sprint/OCA/OSBA/OTS Settlement”). The hallmark of that settlement is the requirement that any access reductions be offset through revenue-neutral increases to basic rates. Given that the Commission has explicitly recognized that Verizon’s proposal for statewide access rates should also be revenue-neutral, Verizon submits that the Commission should adopt the same access reform mechanism for Verizon as has been proposed – and agreed to by a number of interested parties – for every other ILEC in Pennsylvania.

I. Background

A. *The Merger Approval Order*

1. By order entered November 4, 1999, this Commission approved the merger by which control of the ILEC formerly known as GTE North, Inc. passed to Bell Atlantic Corporation, the parent of the ILEC formerly known as Bell Atlantic-Pennsylvania, Inc. GTE North, Inc. is now named Verizon North and Bell Atlantic-Pennsylvania, Inc. is now named Verizon PA.

2. Merger approval was contingent upon certain conditions, including those originally set forth in a Memorandum of Understanding (“MOU”) with Pennsylvania’s Attorney General. One of the MOU conditions was that “[w]ithin thirty months after merger closing, GTE-North and BA-PA will commence a proceeding for the purpose of determining statewide rates for access charges based upon consolidated cost studies. . . . Nothing in this agreement shall prohibit BA-PA and GTE-North from arguing in this combined access rate proceeding that that any additional reductions which the PUC orders as a result of this new proceeding should be implemented *on a revenue neutral basis.*” MOU at paragraph 4 (emphasis added).

3. The Commission’s Merger Approval Order stated as follows:

We also note that there is a significant issue in the MOU regarding a proceeding to determine statewide access charges for both GTE North and BA-PA. The MOU provides, in pertinent part, that within 30 months after the merger closing, the *Joint Applicants will commence a proceeding for the purpose of developing access charge parity for both companies based on consolidated cost studies.* Nothing in the MOU purports to prohibit BA-PA and GTE North from arguing in this combined proceeding that any additional reductions that the Commission orders should be implemented *on a revenue neutral basis.* The question of achieving access charge parity between BA-PA and GTE North was not an issue in the Global Order. However, in the Global Order, we have provided for an investigation to achieve permanent solutions to access charge reform on or about January 2, 2001. Given the substantial impact a proceeding based on consolidated cost studies may have on the ratepayers for BA-PA and GTE North, we shall direct that the 30-month period provided for in the MOU be "rolled-in" and made a part of the Commission's statewide investigation pertaining to access charges.¹

4. The merger closed on June 30, 2000. Therefore, Verizon is required to “commence a proceeding” to determine statewide access rates by December 31, 2002. This filing constitutes Verizon’s compliance with this merger condition.²

¹ Merger Approval Order at 36 (emphasis added).

² The consolidated cost studies referred to in the order have been performed and will be made available to intervening parties under the terms of an appropriate proprietary order entered in this proceeding.

B. The Statewide Access Investigation and The RTCC/Sprint/OCA/ OSBA/OTS Settlement

5. On December 16, 2002 the parties to the RTCC/Sprint/OCA/OSBA/OTS settlement filed a proposal to achieve access reductions offset by revenue neutral rate increases for the ILECs involved in the settlement, which constitute most or all of the non-Verizon ILECs in the state. The proposal has been agreed to by the public advocates -- OCA, OSBA and OTS -- who filed statements in support of the proposal.

6. This proposal was submitted in response to an October 24, 2001 Secretarial Letter and provisions in the *Global Order* relating to an investigation of statewide access charges.

7. The *Global Order* required such an access investigation to be undertaken, acknowledging as a policy matter that it is not simply a question of reducing access charges, but rather “implicit subsidies” must be replaced with “‘explicit and sufficient’ support mechanisms to attain the goal of universal service in a competitive environment.”³

8. As discussed above, the Merger Order directed that the issue of Verizon’s access charges and “the 30-month period provided for in the MOU be ‘rolled-in’ and made a part of the Commission's statewide investigation pertaining to access charges.”

C. AT&T Complaint

9. On March 20, 2002 AT&T filed a formal Complaint against Verizon North, demanding that Verizon North’s access charges be reduced to a level “no higher” than Verizon PA’s.

10. Verizon answered and moved to dismiss the Complaint on April 11, 2002.

³ *Joint Petition of Nextlink Pennsylvania, Inc.*, No. P-00991648-1649 (Opinion and Order entered September 30, 1999) (“*Global Order*”) at 26-27.

11. At its public meeting on December 19, 2002, the Commission determined not to dismiss the Complaint, but directed the parties in the first instance to attempt to resolve the dispute by settlement.

II. Verizon's Proposal

1. Attachment A sets forth Verizon's proposal for achieving statewide access rates. The proposal is modeled upon and virtually identical in substance to the RTCC/Sprint/OCA/OSBA/OTS Settlement proposal, filed with the Commission on December 16, 2002.

2. Like that settlement, Verizon's proposal provides for phased-in increases to weighted average basic rates to offset, in a revenue neutral manner, access reductions. The principal differences in Verizon's proposal are: (a) an end date of January 1, 2004 on step 2, so that the increases could be implemented after the expiration of applicable rate caps; (b) elimination of any reference to the Universal Service Fund; and (3) a provision allowing Verizon the option of making the offsets revenue neutral within the two companies viewed as a single entity, so that any rate increases can be spread over a much larger number of lines and thereby be made smaller.

3. The first step of the proposal allows the companies to align their access rate structures. The structure of the new rates will be based predominantly on Verizon PA's current intrastate rate structure, which is much closer to the interstate structure than Verizon North's (e.g., VZ North has not yet implemented Local Transport Restructure). Concurrent with this alignment, Verizon may include aspects of the recent interstate access reform (e.g. trunk ports) that are not yet reflected in Verizon PA's intrastate rate structure. Verizon PA's and Verizon

North's access customers will experience broad, but familiar, changes to their access rate structure.

4. Steps 2 and 3 of the Verizon proposal, like the RTCC/Sprint/OCA/OSBA/OTS Settlement proposal, are triggered by the current level of the ILEC's weighted average R-1 rates. Those weighted average R-1 rates for each Verizon ILEC, calculated in the manner that Verizon understands was used for purposes of the RTCC/Sprint/OCA/OSBA/OTS settlement, are approximately \$13.50.

5. The proposal's Step 2 would allow each Verizon entity up to January 1, 2004 to raise its weighted average R-1 rates to \$15 and to make offsetting access reductions. If further access reductions are deemed necessary, Step 3 would allow the companies to raise their weighted average R-1 rates to \$17. So long as the off-setting increases are spread across both companies, Verizon does not anticipate that the weighted average R-1 rates would need to be increased to \$17.

6. *Proprietary Attachment B* shows the amount of revenue that would have to be offset, first, if Verizon North's access rates are restructured and reduced to approximately equal Verizon PA's current access rates (leaving both companies with the \$0.63 carrier charge currently applicable to Verizon PA) and second, if both companies' access rates are further reduced by complete elimination of the carrier charge.

7. *Proprietary Attachment C* shows the maximum increase to R-1 rates that would be required to offset the access reductions in each of these scenarios described in Attachment B, assuming that the revenue increases are spread evenly across the residential lines of both companies. While the proposal incorporates a great deal of flexibility in how to structure the offset, including allowing a certain level of increases on business rates at the ILEC's sole option,

the examples in Attachment C are intended to give an idea of the order of magnitude of the maximum R-1 increase under the parameters of the proposal.⁴

8. Verizon notes that the Merger Order's requirements as to what the Verizon access rates should be as a result of this proceeding are not entirely clear. While the MOU mentions "statewide" rates and the order mentions "parity," neither expressly requires the rates to match each other exactly. Moreover, even if matching were required, it would be a reasonable interpretation that such matching could be achieved by merging the companies' rate structures and raising Verizon PA's access rates to achieve revenue neutrality. Nonetheless, Verizon PA has proposed a mechanism by which the Commission could reduce Verizon North's rates to the current level of Verizon PA's rates, and could further reduce both companies' rates by entirely eliminating the carrier charge. It is an absolute condition of Verizon's agreement to such reductions that they be offset by revenue neutral rate increases. By making this proposal in the interest of resolving this matter and allowing for a uniform mechanism of ILEC access reform, Verizon does not waive its right to oppose access reductions should any of the material conditions of Verizon's proposal not be accepted.

III. Conclusion

For the foregoing reasons, Verizon requests that the Commission open a proceeding to address statewide access rates for Verizon PA and Verizon North, and resolve that proceeding by adopting the proposal contained in Attachment A.

⁴ Estimated revenue impacts are based on annualized volumes during the 2002 time period and the interstate rates effective July 2, 2002. Access line counts are also based on current data. Verizon reserves the right to update the amount of the proposed rate changes in steps 2 and 3 based on the volumes, line counts and the interstate rates current at the time of implementation. In addition, if, based on Verizon's consolidated cost studies, the resulting access rates are determined to be below cost, Verizon reserves the right to change access rates such that rates exceed costs, plus provide a reasonable level of contribution.

In keeping with the Commission's handling of such issues in the past (including its direction for negotiation of the AT&T Complaint), Verizon suggests that the Commission set a short schedule for interested parties to intervene in the proceeding and then set a 60 day time period for the parties to discuss settlement before submitting this matter to the Office of Administrative Law Judge for formal resolution.

DATED: December 30, 2002

Respectfully submitted,

Julia A. Conover
Suzan DeBusk Paiva

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ATTACHMENT A

VERIZON'S ACCESS PROPOSAL IN RESPONSE TO A MERGER REQUIREMENT AND THE COMMISSION'S ACCESS CHARGE INVESTIGATION – PHASE II

Defined Terms

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

- “ILEC” means Verizon Pennsylvania Inc. (“Verizon PA”) or Verizon North Inc. (“Verizon North”) (collectively “Verizon”).

Elements of Proposal

- 1) **Step 1:** If an ILEC's intrastate traffic sensitive (TS) rates exceed its interstate TS rates, the ILEC may, at its sole discretion, lower its intrastate TS rates to match or move closer to its interstate TS rates, and simultaneously increase its Carrier Charge (CC) by a corresponding revenue neutral amount using the 12 months ended August 31, 2002, or the most current 12 month period, thereby creating a revised CC. An ILEC may, at its sole discretion, lower its intrastate TS rates to match or move closer to its interstate TS rates, and simultaneously increase its Carrier Charge (CC) by a corresponding revenue-neutral amount, again in 2004, using a recent 12 month period, thereby creating a further revised CC. All references to CC herein shall be to the then current revised CC if the ILEC has chosen to implement this element of the proposal. Concurrent with this TS rate reduction, the ILECs will align their intrastate switched access rate structure with the current interstate switched access rate structure.⁵
- 2) **Step 2:** Pursuant to an Order entered adopting this access proposal without modification, and after notice through bill insert, bill message or separately mailed notice to all customers at least 30 days prior to the date of any rate change, each ILEC will increase local rates, based upon a one-day tariff compliance filing, to be effective on a date between January 1, 2003 and January 1, 2004 (as to be determined at the sole discretion of the individual ILEC) as follows:
 - (a) Each ILEC with a weighted average R-1 rate below \$10.83 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of \$11. If the increase results in R-1 rates greater than 150% of the current rate, then the increase shall be implemented in two steps, the second of which shall become effective no later than January 1, 2004. This increase shall be

⁵ The restructure will include the implementation of Local Transport Restructure by Verizon North and the introduction by both Verizon PA and Verizon North of items, such as trunk ports, currently found in the interstate rate structure.

subject to the Company's Chapter 30 Plan rate rebalancing limitation with respect to the limitation on calendar year per line increases, i.e. not more than \$3.50 per line per month in rate increases in any one year, but shall not be subject to any other Chapter 30 process or requirements. To the extent that any ILEC shall not be able to complete the required rate increase within any year, such rate increase may be deferred to the following year subject to the Company's Chapter 30 Plan rate rebalancing limitations. Any rate rebalancing in excess of that specifically referenced in Paragraph 2 shall be subject to the Chapter 30 Plan rate rebalancing process and requirements.

- (b) Each ILEC with a weighted average R-1 rate between \$10.83 - \$12 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of \$13.50.
 - (c) Each ILEC with a weighted average R-1 rate between \$12.01 - \$14 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of \$15.
 - (d) Each ILEC with a weighted average R-1 rate between \$14.01-\$16 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of \$16.
 - (e) Each ILEC may, at its sole option, increase its weighted average Business line rate by up to the same amount on a dollar basis that its weighted average R-1 rate is increased, but in no event may the B-1 rate be less than the R-1 rate.
- 3) **Step 3:** Pursuant to an Order entered adopting this access proposal without modification, and after notice through bill insert, bill message or separately mailed notice to all customers at least 30 days prior to the date of any rate change, each ILEC may increase local rates, based upon a one-day tariff compliance filing, to be effective on a date between January 2, 2004 and December 31, 2004 (as to be determined at the sole discretion of the individual ILEC) as follows:
- (a) Each ILEC with a weighted average R-1 rate of \$11 (or less) as of January 1, 2004 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a weighted average R-1 rate of \$13.50.
 - (b) Each ILEC with a weighted average R-1 rate of \$13.50 as of January 1, 2004 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a weighted average R-1 rate of \$15.
 - (c) Each ILEC with a weighted average R-1 rate of \$15 as of January 1, 2004 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a weighted average R-1 rate of \$17.
 - (d) Each ILEC with a weighted average R-1 rate of \$16 as of January 1, 2004 (as

described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a maximum weighted average R- 1 rate of \$18.

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

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

- 4) The monthly \$16.00 cap on R-1 average rates established in the Global Order and any ILEC-specific weighted average rate cap which may have been established in any individual ILEC's Chapter 30 Plan will be increased for all ILECs to the weighted average \$18.00 cap for a minimum three (3) year period January 1, 2004 through December 31, 2006.
- 5) Pursuant to an Order entered adopting this access proposal without modification, each ILEC shall have the right, in whole or in part, in lieu of raising local service rates as provided in Paragraphs 2 and 3 hereof to raise rates on other services by an equivalent amount, based on a one-day tariff compliance filing.
- 6) To offset the increase to local rates described above in Paragraphs 2 and 3, each ILEC will file a compliance tariff(s) to reduce its CC or TS rates, or any combination thereof, by a revenue-neutral amount (depending upon changes undertaken in Paragraph 1, above), effective on dates consistent with the increases in Paragraphs 2 and 3. For purposes of this revenue neutrality requirement, the ILECs shall be considered as one entity and the implementation of this proposal may be revenue neutral within the combined Verizon entity as a whole or within each individual Verizon ILEC, at the ILECs' sole discretion. The implementation of the local service rate increases as provided in Paragraphs 1, 2 and 3 would allow Verizon to achieve access charge parity between the two companies.
- 7) On/or after January 1 of each year beginning in 2005 each ILEC may request such rate changes or rate rebalancing as are permitted by any Chapter 30 Plans and/or applicable statutory and regulatory provisions.

Conditions of Proposal

- 1) Each ILEC reserves the right, subject to Chapter 30 Plan requirements, to change its access rates to ensure that each access rate element at least recovers its cost and the ILEC's service price index continues to be equal to or less than the ILEC's price stability index, in the event the ILEC's access rates are determined to be below cost based upon the development of a cost study.
- 2) This proposal is made in its entirety and no part hereof is valid or binding unless all components are accepted. Should any part be specifically modified or otherwise

adversely impacted at any later date as to any ILEC, the ILEC shall have full unilateral rights to withdraw the proposal or revisit the proposal at its sole discretion. This proposal is put forward by Verizon to meet a merger requirement and to settle the instant controversy and is made without any admission against or use that is intended to prejudice any positions which the ILECs might adopt during subsequent litigation, including further litigation in related proceedings. This proposal is conditioned upon the Commission's approval of all terms and conditions contained herein, except for the terms of this paragraph. If the Commission should fail to grant such approval or should modify the terms and conditions herein, this proposal may be withdrawn upon written notice to the Commission within five business days and, in such event, shall be of no force and effect. In the event that the Commission does not approve the Proposal or Verizon elects to withdraw as provided above and any proceeding continues, Verizon reserves the right to submit testimony or other pleadings and briefs in this or a related proceeding.

- 3) Elements of this Proposal shall constitute rate rebalancings or rate filings as defined and allowed under each ILEC's Chapter 30 Plan only to the extent of determining the maximum amount of an increase allowed per year, but shall not preclude the filing of one additional rate restructuring/rebalancing filing in the calendar year so long as the total rate rebalancing rate increases do not exceed the maximum annual increase allowed and comply with other Chapter 30 Plan limitations and requirements. That is, implementation of proposed Paragraphs 2, 3 and 5 under Elements of Proposal are not considered rate rebalancings under the Chapter 30 Plans except in determining the maximum limitation on per year line rate increases to monthly dial tone rates. The ILECs retain all other rights under the approved Chapter 30 Plan to implement or oppose all rate rebalancings and other rate filings permitted under its Chapter 30 Plan. The ILECs reserve all rights in any proceedings relative to Chapter 30.
- 4) Increases to weighted average business rates on a dollar basis will be less than or equal to the increases to weighted average residential rates on a dollar basis.
- 5) This access proposal will be revenue neutral relative to the ILECs implementing a rate change. Absolutely no changes shall be required which are not revenue-neutral. Other access reductions that are not revenue neutral are permissible at the ILEC's sole option, but not required. For purposes of this revenue neutrality requirement, Verizon PA and Verizon North shall be considered as one entity and the implementation of this access proposal may be revenue neutral within the combined Verizon entity as a whole, or within the individual Verizon ILEC, at the ILECs' sole discretion.

CERTIFICATE OF SERVICE

I, Suzan DeBusk Paiva, Esquire, hereby certify that I have this day served a copy of the Joint Petition of Verizon Pennsylvania Inc. And Verizon North Inc. Regarding Access Rate Reform, upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant) and 1.55 (relating to service upon attorneys).

Dated at Philadelphia, Pennsylvania, this 30th day of December, 2002.

VIA UPS OVERNIGHT DELIVERY

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

NOTICE TO BE PUBLISHED

**A-310200F0002; A-311350F0002; A-310222F0002; A-310291F0003;
M-00021596; P-00991648; P-00991649; C-20027195. Joint Petition of Verizon Pa,
Inc., and Verizon North, Inc., Regarding Access Rate Reform.**

On December 30, 2002, Verizon Pa, Inc., and Verizon North, Inc., filed a Joint Petition regarding Access Rate Reform.

Written Comments are due to be filed within 30 days after publication of this notice in the Pennsylvania Bulletin. Reply comments are due 45 days after publication of this notice. One original plus 9 copies of comments must be filed with the Secretary of the Pennsylvania Public Utility Commission, P. O. Box 3265, Harrisburg, PA 17105-3265. A copy of the Comments may be filed electronically to Elizabeth Barnes of the Public Utility Commission's Law Bureau at Ebarnes@state.pa.us. Copies of the entire filing are available for full inspection and copying at the Office of the Secretary between the hours of 8:00 a.m. and 4:30 p.m., Monday through Friday.

BY THE COMMISSION

James J. McNulty
Secretary

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

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January 13, 2003

Mr. James J. McNulty
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, Second Floor
Harrisburg, PA 17120

Re: Service List Changes

Dear Ms. Hand:

On the service lists for Docket No.s A-310200F0002, A-311350F0002, A-310222F0002, A-310291F0003, P-00991648, P-00991649, M-0021596, C-20027195, please change William Fishman's name to Russ Blau. William Fishman is no longer with the firm. Please only add Russ Blau's name to those service lists William Fishman was on.

Thank you.

Sincerely,



Erica Hudson Carden
Telecommunications Administrative
Coordinator

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DOCKETS
FEB 12 2003

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SECRETARY'S BUREAU
PA PUC



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

IN REPLY PLEASE
REFER TO OUR FILE

January 17, 2003

JAMES J. MC NULTY, SECRETARY
PA PUBLIC UTILITY COMMISSION
P O BOX 3265
HARRISBURG PA 17105-3265

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PA.P.U.C.
SECRETARY'S BUREAU

Access Charge Investigation per	:	Docket Nos. P-00991648
Global Order of September 30, 1999	:	P-00991649
	:	M-00021596
AT&T Communications of	:	
Pennsylvania, Inc.,	:	
	:	
v.	:	Docket No. C-20027195
	:	
Verizon North Inc.	:	

Dear Secretary McNulty:

Enclosed please find an original and three (3) copies of the **Answer In Opposition** of the Office of Trial Staff for filing in the above-captioned proceeding.

Copies are being served upon all active parties of record.

Very truly yours,

Kenneth L. Mickens
Senior Prosecutor
Office of Trial Staff
Pa. Public Utility Commission

KLM:pae
c: Parties of Record
Enclosures

RJP

original

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Access Charge Investigation Per :
Global Order of September 30, 1999

Docket Nos. P-00991648
P-00991649
M-00021596
C-20027195

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ANSWER OF OFFICE OF TRIAL STAFF
IN OPPOSITION TO
JOINT PETITION OF VERIZON PENNSYLVANIA INC.
AND VERIZON NORTH INC. REGARDING ACCESS RATE REFORM

PA.P.U.C.
SECRETARY'S BUREAU

03 JAN 17 AM 8:13

RECEIVED

The Office of Trial Staff ("OTS") of the Pennsylvania Public Utility Commission ("Commission"), by and through its Senior Prosecutor, pursuant to 52 Pa. Code §5.61, hereby respectfully Answers the Joint Petition of Verizon Pennsylvania Inc. ("Verizon PA") and Verizon North Inc. ("Verizon North") (jointly referred to as "Verizon") Regarding Access Rate Reform ("Verizon Petition") filed with the Commission on December 30, 2002.

I. OTS Answer And Factual Restatement

1. Admitted. By order entered November 4, 1999, the Commission approved the merger by which control of the incumbent local exchange carrier formerly known as GTE North, Inc. passed to Bell Atlantic Corporation,

the parent of the incumbent local exchange carrier formerly known as Bell Atlantic-Pennsylvania, Inc. GTE North, Inc. and Bell Atlantic-Pennsylvania, Inc. are now known as Verizon North and Verizon PA, respectively.

2. Admitted. Merger approval was contingent upon certain conditions, including the requirements originally set forth in a Memorandum of Understanding (“MOU”) with Pennsylvania’s Attorney General. One of the MOU conditions was that “[w]ithin thirty months after closing, [Verizon North] and [Verizon-PA] will commence a proceeding for the purpose of determining statewide rates for access charges based upon consolidated cost studies....” MOU, paragraph 4.

3. Admitted.

4. Admitted. The merger closed on June 30, 2000. Therefore, Verizon is required to “commence a proceeding” to determine statewide access rates by December 31, 2002. Verizon made the instant filing in compliance with that requirement.

5. Admitted in part. On December 16, 2002, the parties to the Rural Telephone Company Coalition and The United Telephone Company of Pennsylvania d/b/a Sprint (“Sprint”) (“RTCC/Sprint/OCA/OTS/OSBA”) settlement at Docket No. M-00021596, filed a proposal to achieve access reductions offset by revenue neutral rate increases for the Incumbent Local Exchange Carriers (“ILECs”) involved in the settlement. Verizon Petition, p. 3.

6. Admitted. The settlement proposal was submitted in response to an October 24, 2001, Secretarial Letter and provisions in the Global Order relating to an investigation of statewide access charges.

7. Admitted.

8. Admitted. The Merger Order directed that the issue of Verizon's access charges and the "30-month period" provided for in the MOU be made a part of the Commission's statewide investigation concerning access charges.

II. Verizon's Proposal

9. Verizon alleges that similar to the RTCC/Sprint/OCA/OTS/OSBA settlement proposal, Verizon's instant proposal provides for phased-in increases to weighted average basic rates to offset, in a revenue neutral manner, access reductions. Verizon identifies the principal differences in Verizon's proposal and the RTCC/Sprint/OCA/OTS/OSBA proposal as follows: (a) an end date of January 1, 2004 on step 2, so that the increases can be implemented after the expiration of applicable rate caps; (b) elimination of any reference to the Universal Service Fund; and, (c) a provision allowing Verizon the option of making the offsets revenue neutral within the two companies viewed as a single entity, so that any rate increases can be spread over a much larger number of lines and thereby be made smaller. Verizon Petition, p. 4.

10. The first step of the Verizon proposal allows the companies to align their access rate structures. Steps 2 and 3 of the Verizon proposal are triggered by the current level of the ILEC's weighted average R-1 rates. The weighted average

R-1 rates for each Verizon ILEC are approximately \$13.50. Verizon's Step 2 would allow each Verizon entity up to January 1, 2004, to raise its weighted average R-1 rates to \$15 and to make offsetting access reductions. If further access reductions are deemed necessary, Step 3 would allow the companies to raise their weighted average R-1 rates to \$17. Verizon Petition, Proprietary Attachment A.

11. Proprietary Attachment B shows the amount of revenue that would have to be offset, first, if Verizon North's access rates are restructured and reduced to approximately equal Verizon PA's current access rates (leaving both companies with the \$0.63 carrier charge currently applicable to Verizon PA) and second, if both companies are further reduced by the complete elimination of the carrier charge. Proprietary Attachment C shows the maximum increase to R-1 rates that would be required to offset the access reductions in each of the scenarios identified in Attachment B, assuming that the revenue increases are spread evenly across the residential lines of both companies. Verizon Petition, pp. 5-6.

III. OTS Response To The Verizon Proposal

12. OTS asserts that Verizon's proposal should be rejected for several reasons. First, Verizon argues that its proposal "is modeled upon and virtually identical in substance" to the RTCC settlement. Verizon Petition, p. 4. However, unlike Verizon, none of the rural companies are subject to a local rate freeze until December 31, 2003. Moreover, Verizon has provided no cost studies to support

the proposed increases in local rates. The studies have not been provided even though Verizon North's Chapter 30 Plan states that it will provide cost studies to ensure that it is in compliance with pricing safeguards. Final Alternative Regulation Plan of Verizon North Inc., p. 9. In contrast, Sprint provided cost studies in the RTCC proceeding demonstrating that its costs exceeded local rates.

13. Second, Verizon states that "the Commission explicitly recognized that Verizon's proposal for statewide access rates should...be revenue neutral...." Verizon Petition, p. 1. However, Verizon has misrepresented the statement by the Commission in the Merger Approval Order. In fact, the Commission states that "[n]othing in the MOU purports to prohibit [Verizon-PA] and [Verizon North] from arguing in this combined proceeding that any additional reductions that the Commission orders should be implemented on a revenue neutral basis." Merger Approval Order at p. 36. Consequently, Verizon is in error when it states that the Commission has required the companies to implement any proposed reductions on a revenue neutral basis. In fact, Verizon's Petition and attachments are devoid of vital spreadsheet data which would allow for a comprehensive review of how all services would be treated under its proposal. Moreover, Verizon has proposed to only increase residential local rates. However, OTS asserts that there are other rates that could be increased (such as the local business rates and optional services) or other sources of revenue that could be used to offset access charge reductions (such as the Price Stability Mechanism) to ensure that the proposal is revenue neutral.

14. Third, Verizon proposes to eliminate any reference to the Universal Service Fund. OTS is not sure why such a proposal has been made. Verizon should be required to fully explain why it believes all references to the Fund should be eliminated.

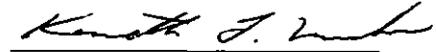
15. Fourth, Verizon has proposed to eliminate the carrier charge. This charge is designed to recover a portion of the cost of the local loop. Since the Commission has determined that local loop costs should be recovered from services that use the loop, Verizon's proposal to eliminate this charge should be rejected. See, Pennsylvania Public Utility Commission v. Bell Atlantic-Pennsylvania, Inc., Docket No. R-00963550 (entered December 16, 1996), Order at p. 23.

16. Finally, Verizon's proposal only includes the ultimate rates. OTS would need to review the supporting information before a specific recommendation can be made regarding the changes in rates proposed by Verizon.

IV. Conclusion

WHEREFORE, for the reasons stated herein, OTS respectfully requests that the Commission deny the Verizon Petition. Instead, any proceeding designed to determine the appropriate level of access charges, should be conducted in consideration of the factors identified by OTS in this Answer.

Respectfully submitted,



Kenneth L. Mickens
Senior Prosecutor
Office of Trial Staff
Pennsylvania Public
Utility Commission

Date: January 17, 2003

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Access Charge Investigation per	:	Docket Nos. P-00991648
Global Order of September 30, 1999	:	P-00991649
	:	M-00021596
AT&T Communications of	:	
Pennsylvania, Inc.,	:	
	:	
v.	:	Docket No. C-20027195
	:	
Verizon North Inc.	:	

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Answer of OTS in Opposition to Petition of Verizon Pennsylvania, Inc., and Verizon North, Inc. Regarding Access Rate Reform** dated January 17, 2003 either personally, by first class mail, electronic mail, or by fax upon the persons listed below:

Julia A. Conover, Esquire
Suzan DeBusk Paiva, Esquire
Verizon Pennsylvania, Inc.
1717 Arch Street, 32NW
Philadelphia, PA 19103

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Tracy W. Wertz, Esquire
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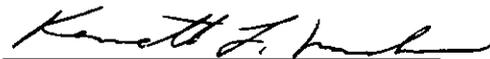
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Kenneth L. Mickens
Senior Prosecutor
Office of Trial Staff

Dated: January 17, 2003
Docket Nos.: P-00991648
P-00991649
M-00021596
C-20027195

Suzan DeBusk Paiva
Assistant General Counsel
Law Department

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JAN 21 2003



PA PUBLIC UTILITY COMMISSION
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January 21, 2003

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VIA E-MAIL AND UPS OVERNIGHT DELIVERY

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Re: In re the Joint Application of Bell Atlantic Corporation and
GTE Corporation for Approval of Agreement and Plan of Merger,
Docket Nos. A-310200F0002, A-311350F0002, A-310222F0002
and A-310291F0003;
Access Charge Investigation per Global Order of September 30, 1999,
Docket Nos. P-00991648, P-00991649, M-00021596;
and AT&T Communications of Pennsylvania, Inc. v. Verizon North Inc.,
Docket No. C-20027195

Dear Mr. Mickens,

Enclosed please find the Responses of Verizon Pennsylvania Inc. and Verizon North Inc. ("Verizon") to the Office of Trial Staff's Interrogatories relating to Verizon's December 30, 2002 merger compliance access filing.

In response to OTS-3, all parties who are subject to the proprietary order in the merger docket are receiving an attachment that contains the cost study results, a detailed explanation of the assumptions of the study and other information. In addition, you, Ms. Sheridan (OCA), Mr. Barber (AT&T), Ms. Barnes and Mr. Marinko (Commission Staff) are receiving a set of three CD's containing further back-up material for the cost studies. The contents of the CDs are explained in more detail in the attachment to OTS-3. The CDs will be made available to other parties upon request, subject to the proprietary order. Also, as explained in the response, Verizon will arrange for on-line access to our VZCost system upon request and subject to the proprietary order.

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

Very truly yours,

Suzan DeBusk Paiva

SDP/dkf
Enc.

Via UPS Overnight Delivery
cc: James J. McNulty (cover letter and certificate of service only)
Elizabeth Barnes
Robert Marinko

Via E-Mail and UPS Overnight Delivery
Attached Certificate of Service

DOCUMENT
FOLDER

CERTIFICATE OF SERVICE

I, Suzan DeBusk Paiva, hereby certify that I have this day served a copy of the Responses of Verizon Pennsylvania Inc. to Set I Interrogatories of the Office of Trial Staff, 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 21st day of January, 2003.

VIA UPS OVERNIGHT DELIVERY

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February 18, 2003

VIA E-MAIL AND UPS OVERNIGHT DELIVERY

Barrett Sheridan, Esquire
Office of Consumer Advocate
555 Walnut Street, 5th Floor
Harrisburg, PA 17101-1923

DOCUMENT

Re: In re the Joint Application of Bell Atlantic Corporation and
GTE Corporation for Approval of Agreement and Plan of Merger,
Docket Nos. A-310200F0002, A-311350F0002, A-310222F0002
and A-310291F0003;
Access Charge Investigation per Global Order of September 30, 1999,
Docket Nos. P-00991648, P-00991649, M-00021596;
and AT&T Communications of Pennsylvania, Inc. v. Verizon North Inc.,
Docket No. C-20027195

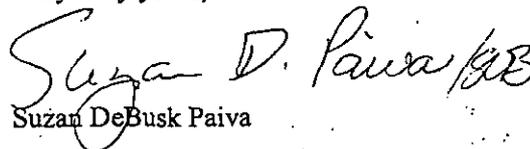
Dear Ms. Sheridan,

Enclosed please find the Responses of Verizon Pennsylvania Inc. and Verizon North Inc.
respectively to the Office of Consumer Advocate's Set I and Set II Interrogatories relating to Verizon's
December 30, 2002 merger compliance access filing.

As requested in Shaun Sparks's January 31, 2003 cover letter we are providing the Office of
Consumer Advocate with two copies of these Responses. Please note that the Responses contain
certain proprietary information, and that the attachments are proprietary as well.

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

Very truly yours,


Suzan DeBusk Paiva

SDP/dkf
Enc.

Via UPS Overnight Delivery
cc: James J. McNulty (cover letter and certificate of service only)
Elizabeth Barnes
Robert Marinko
William W. Dunkel

Via E-Mail and UPS Overnight Delivery
Attached Certificate of Service

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FEB 18 2003
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

CERTIFICATE OF SERVICE

DOCKETED

MAY 15 2003

I, Suzan DeBusk Paiva, hereby certify that I have this day served a copy of the Responses of Verizon Pennsylvania Inc. to Set I Interrogatories of the Office of Consumer Advocate, and to Set II Interrogatories of the Office of Consumer Advocate, 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 18th day of February, 2003.

DOCUMENT

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RECEIVED

FEB 18 2003

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Re: Joint Petition of Verizon Pennsylvania Inc.
And Verizon North Inc. Regarding Access Rate Reform
Docket Nos. M-00021596, P-00001048 and P-00001649, C-20027195

Dear Mr. McNulty:

Enclosed for filing in the above-referenced proceeding are the original and nine (9) copies of the Initial Comments of AT&T Communications of Pennsylvania, Inc. Concerning the Joint Petition of Verizon Pennsylvania Inc. And Verizon North Inc. Regarding Access Rate Reform.

Please contact me if you have any questions regarding the enclosures.

Very truly yours,

Robert C. Barber
Robert C. Barber

Enclosures

cc: (w/ encl)
Elizabeth Barnes, Esq.
Mr. Robert A. Marinko
Service List

Certificate of Service
Docket Nos. M-00021596, P-00991648, P-00991649

The undersigned hereby certifies that true and correct copies of the Initial Comments of AT&T Communications of Pennsylvania, Inc. were caused to be served on the persons named below by electronic and overnight or regular mail in accordance with the requirements of 52 Pa. Code §§1.52 and 1.54:

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Robert C. Barber

Dated: February 18, 2003

* By overnight mail

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In re the Joint Application of	:	Docket Nos. A-310200F0002
Bell Atlantic Corporation and	:	A-311350F0002
GTE Corporation for Approval	:	A-310222F0002
of Agreement and Plan of Merger	:	A-310291F0003

Access Charge Investigation per	:	Docket Nos. P-00991648
Global Order of September 30, 1999	:	P-00991649
	:	M-00021596

AT&T Communications of
Pennsylvania, Inc.,

v.

Verizon North Inc.

DOCUMENT
FOLDER

DOCKETED

MAR 06 2003

Docket No. C-20027195

**INITIAL COMMENTS OF
AT&T COMMUNICATIONS OF PENNSYLVANIA, INC. CONCERNING
THE JOINT PETITION OF VERIZON PENNSYLVANIA INC. AND
VERIZON NORTH INC. REGARDING ACCESS RATE REFORM**

On December 30, 2002, Verizon Pennsylvania, Inc. and Verizon North Inc. (together, "Verizon"), filed a Joint Petition Regarding Access Rate Reform. In that petition, Verizon requests that the Commission commence a proceeding for the purpose of determining statewide access rates, and offers a proposal to "resolve" that same proceeding "and achieve statewide access rates."¹ In

¹ Joint Petition at 1. Verizon notes that the filing has been made in compliance with one of the conditions set forth in the Commission's November 4, 1999 Order approving the merger of Bell Atlantic Corp. and GTE. AT&T disagrees that this filing is timely. To the contrary, and as AT&T described in its complaint against Verizon, docketed at Docket No. C-20027195, the proceeding which Verizon is requesting here should have been commenced in January 2001.

response to the Commission's request, AT&T offers the following initial comments regarding Verizon's filing.

Need for A Commission Investigation – AT&T supports Verizon's request to commence a new access proceeding. However, and perhaps contrary to Verizon's vision of the scope of such a case, that is not a proceeding that should be limited to consideration of Verizon's access charges alone. In fact, it is a proceeding that should be initiated regardless of the Commission's resolution of Verizon's specific access proposal, and one that should address the comprehensive and final resolution of access reform in the Commonwealth.

As AT&T described in its initial comments regarding the access proposal submitted by the RTCC/Sprint and the public advocates, a formal investigation will assist the Commission in assessing the various proposals for reform that have been advanced by Verizon and other parties. Perhaps more importantly, it will establish a record for addressing a number of issues that otherwise escape mention in these proposals. Chief among these is the need to eliminate the discriminatory cost advantage currently enjoyed by wireless carriers in the provision of intrastate toll services. One way this advantage has manifested itself, of course, is in the omission of wireless carriers from the contribution mechanisms for the Pennsylvania Universal Service Fund.

When the Commission first set the parameters for a state USF over six years ago, it determined that because wireless providers "are 'telecommunications carriers' under the Federal Act, they are required to

contribute to the Pennsylvania state funding mechanism."² Of course, wireless carriers pay absolutely nothing to the interim USF that the Commission established in the Global Order. If the state USF is to continue, this loophole must be closed. Indeed, to the extent that the Commission determines that universal support to any company is necessary, it must ensure that contributions to any support mechanism are both explicit and nondiscriminatory.

Similarly, the Commission must recognize and eliminate the enormous advantage that wireless providers enjoy as a result of paying what amounts to reciprocal compensation for terminating toll calls within their large MTAs. In contrast, interexchange carriers must pay inflated access charges for completing the same toll calls. The point here is not that the compensation arrangements for wireless carriers are wrong – it is that the costs of terminating all of these calls, which involve the same functionality, should be set at the same low cost-based rate. This is an issue that the Commission must confront, and confront quickly, to eliminate the distortions that are afflicting the Pennsylvania telecommunications market.

Issues Regarding Verizon's Proposal -- In accordance with the Commission's directive of December 24, 2002 in Docket No. C-20027195, AT&T

² See *Formal Investigation to Examine and Establish Updated Universal Service Principles and Policies for Telecommunications Services in the Commonwealth*, Opinion and Order, Docket No. I-00940035, Jan. 28, 1997, at 10 (citing Final Form Rulemaking order at Docket No. L-00950105).

and Verizon have been engaged in discussions regarding Verizon's proposal.³ Those discussions are continuing. Nevertheless, in an effort to be responsive to the Commission's request for comments, certain aspects of Verizon's proposal that raise some concerns are noted below.

As a general matter, AT&T certainly supports Verizon's plan insofar as it contemplates the complete elimination of the Carrier Charge ("CC") for both Verizon companies. Although the timing of those reductions remains a topic for discussion, eliminating the CC is in keeping with the access reform objectives established by the Commission in the *Global Order*.

At the same time, AT&T does not share in Verizon's view that the *Global Order* requires that the access reductions embodied in its proposal must be offset, dollar-for-dollar, by increases in other rates. This is simply another version of Verizon's argument, which had been trotted out unsuccessfully in the *Global* proceeding itself, that the Commission's authority over Verizon's access rates is limited by the terms of Verizon's Chapter 30 plan.

There is no basis in either Pennsylvania law or Verizon's Chapter 30 plan for this position. To the contrary, the Commission has clear statutory authority under 66 Pa. C.S. Section 1309(a) to investigate Verizon's access rates, on its own motion, to determine if the rates are just, reasonable and otherwise compliant with the law. It was exercise of this authority which resulted in the *Generic Access Investigation*, which in turn led to the *Global* proceedings.

³ See *AT&T Communications of Pennsylvania, Inc. v. Verizon North, Inc.*, Opinion and Order, Docket No. C-20027195, Dec. 24, 2002, at 15 (holding proceedings in abeyance for a period of 45 days for purposes of settlement discussions).

Nowhere in Bell's Chapter 30 Plan is the Commission's authority under Section 1309 superceded - - nor could it be since clearly a regulatory plan can not supercede a binding statute.⁴

Similarly, careful review of Verizon's Chapter 30 Plan reveals that the only applicable provision governing rate charges outside the context of the annual revenue adjustments through Verizon's Price Strategy Mechanism is Part 1.C of the Plan, which allows Verizon to propose revenue neutral changes in prices to the Commission under certain circumstances established in that provision of the Plan. *However, although that provision places certain restrictions on Verizon, it has no application to what the Commission may (or may not) do on its own motion.*

Finally, Verizon's position is based on the demonstrably incorrect premise that the revenues it obtains from its above-cost carrier access charges are required to support "below-cost" rates for local exchange service. This plainly is not the case. As the Commission found in its January 1997 Universal Service Order, the cost studies submitted in that proceeding – including the study submitted in that case by Verizon's predecessor Bell Atlantic-Pennsylvania, Inc. – "indicate that the revenues for [basic universal service] exceed its costs; and

⁴ The only exception to this rule of law is for "streamlined" LECs, since 66 Pa.C.S. §3006(e) expressly provides that the provisions of a streamlined form of regulation "supercede any conflicting provisions of this title or other laws of this Commonwealth." No such provision is applicable to Verizon's Chapter 30 Plan.

therefore, that there is no subsidy in the aggregate."⁵ And there has been no evidentiary showing since that time, in what the Commission has characterized as a "declining cost industry,"⁶ contradicting this determination.

That is not to say, of course, that local rates in certain areas of Verizon's territory are covering the cost of providing service. In that regard, the rate rebalancing proposal in Verizon's petition, if properly applied, may provide a mechanism for bringing rates in these areas more in line with cost, while at the same time eliminating the inefficiencies and anti-competitive effects of above-cost access charges. The point is that it simply is not the case that Verizon must be made "whole" as a matter of law for any access reductions the Commission directs. Nevertheless, this issue is the subject of the ongoing discussions between Verizon and AT&T.

Another problem with Verizon's proposal is its failure to eliminate the bloat that currently exists in Verizon's traffic sensitive local switching rates. According to the petition, it appears that, rather than reducing intrastate traffic sensitive rates to interstate levels -- as "Step 1" of the proposal authorizes⁷ -- Verizon would instead adopt a common weighted average traffic sensitive local switching rates that is based on the existing traffic sensitive rates of VZ-PA and VZ North.

⁵ *Formal Investigation to Examine and Establish Updated Universal Service Principles and Policies for Telecommunications Services in the Commonwealth*, Docket No. I-00940035, January 28, 1997, at 12.

⁶ *Joint Petition of Nextlink et al.*, Opinion and Order, Docket Nos. P-00991648 and P-00991649, Sept. 30, 1999, at 70.

⁷ See Joint Petition, Attachment A, at 1.

The result would be a local switching rate of approximately 0.88 cents per minute – an increase from VZ North's current rate of 0.6 cents per minute, and a slight decrease from VZ-PA's current TS local switching rate of 0.9 cents.

This weighted average rate is substantially above Verizon's forward-looking incremental cost of providing call termination. This is obvious from the call termination rates that are at issue in the pending UNE rates proceeding at Docket No. R-00016683.⁸ In that case Verizon itself proposed an end office reciprocal compensation rate of about 0.25 cents per minute – higher than the currently effective rate, but over 70 percent lower than the TS local switching rate that Verizon is proposing to establish for access users. The reciprocal compensation rates that would result from the Commission's November 2002 Tentative Order show an even greater disparity – just over 0.1 cents per minute, just about 11 percent of Verizon's proposed TS local switching rate here.

It is critical that this excess be eliminated as part of a comprehensive access reform proposal. Reducing carrier access to the TELRIC-based levels of Verizon's unbundled switching elements is simply a logical extension of the Commission's pricing policies for local call termination. Keeping these rates above cost, on the other hand, is not only inconsistent with the Commission's

⁸ The validity of this comparison was supported by Bell Atlantic in the Universal Service investigation, where, in testimony submitted in 1996, its chief policy witness agreed that both carrier access and local interconnection provided the same function and thus should be priced at the same level. See Rebuttal Testimony of Catherine Eichenlaub, Docket No. I-00940035, BA-PA Stmt. 5.1, at 14, 16. In that case, BA-PA was arguing that the proper way of reflecting that convergence was to price interconnection up to the level of carrier access. However, the Commission properly rejected that position.

reform efforts, it will unjustly preserve Verizon's artificial competitive advantage in the toll market, to the detriment of all consumers.

Another point of concern with Verizon's proposal involves the mechanics of the companies' plan to "align their access rates structure."⁹ Part of this plan involves the adoption by Verizon PA of a separate rate element for trunk ports.¹⁰ This type of structural realignment, in and of itself, does not appear to be objectionable. What is problematic, however, is the fact that, as reflected in the attachments to the petition, this restructuring would initially result in an increase in Verizon's access rates.¹¹

This result appears to be based on assumption that Verizon's current rates do not already capture the costs for this element. This assumption, however, is questionable. Even though Verizon's current access rates structure does not include a separate line item for a "trunk port" rate element, charges for that element are presumably already captured in Verizon's existing access rates. Thus, the creation of this "new" rate element should not result in access rate increase. Rather, the charge should be offset by a decrease in the traffic sensitive local switching rate. Once again, this is another issue that the parties are addressing in their on-going discussions.

⁹ Joint Petition at 5.

¹⁰ Joint Petition at 5.

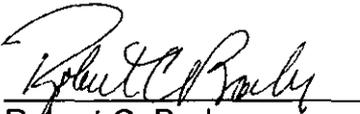
¹¹ See Attachment B to Joint Petition (showing, under "Scenario 1", an increase in Verizon Pa's ARPM).

These comments reflect the issues that AT&T has identified based on its initial review of the proposal. AT&T reserves the right to address the proposal further as additional information becomes available and as discussions between the parties continue.

Respectfully submitted,

**AT&T COMMUNICATIONS
OF PENNSYLVANIA, INC.**

By its Attorneys,


Robert C. Barber
3033 Chain Bridge Road
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Of Counsel:
Mark A. Keffer

Dated: February 18, 2003

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February 18, 2003

HAND DELIVERED

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
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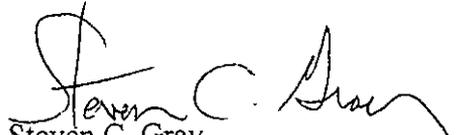
**Re: Joint Petition of Verizon Pa, Inc. And Verizon North, Inc.
Regarding Access Rate Reform
Docket Nos. A-310200F0002; A-310350F0002; A-310222F0002;
A-310291F0003; A-00021596; P-00991648; P-00991649; C-20027195**

Dear Secretary McNulty:

I am delivering for filing today the original plus nine copies of the Comments on behalf of the Office of Small Business Advocate in the above-captioned matter.

If you have any questions, please contact me.

Sincerely,


Steven C. Gray
Assistant Small Business Advocate

Enclosures

- cc: Elizabeth Barnes, Law Bureau
- Julia A. Conover, Verizon Pennsylvania, inc.
- Phillip McClelland, Office of Consumer Advocate
- Kandace F. Mellillo, Office of Trial Staff

28

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Joint Application of Bell Atlantic Corporation and GTE Corporation for Approval of Agreement and Plan of Merger	:	Docket Nos. A-310200F0002, A-310350F0002 A-310222F0002, A-310291F0003
Access Charge Investigation per Global Order of September 30, 1999	:	Docket Nos. P-00991648 P-00991649, M-00021596
AT&T Communications of Pennsylvania, Inc.	:	Docket No. C-20027195
v.	:	
Verizon North Inc.	:	

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OFFICE OF SMALL BUSINESS ADVOCATE
COMMENTS

On December 30, 2002, Verizon Pennsylvania Inc. and Verizon North Inc. ("Verizon") filed the Joint Petition of Verizon Pennsylvania Inc. and Verizon North Inc. Regarding Access Rate Reform ("Petition"). On January 18, 2003, the Pennsylvania Public Utility Commission ("PUC") published the Petition for comment, and ordered that any comments be filed within 30 days of the publication. The Office of Small Business Advocate ("OSBA") submits the following comments on Verizon's Petition.

Verizon explicitly states that the Petition "is modeled upon and virtually identical in substance to the Joint Access proposal filed by the Rural Telephone Company Coalition, the United Telephone Company of Pennsylvania, d/b/a Sprint, the Office of Consumer Advocate, the Office of Small Business Advocate and the Office of Trial Staff." Petition, at 1 (abbreviations omitted). The OSBA agrees with Verizon's characterization of the Petition, in that it closely resembles the Joint Access Proposal In Response To Access Charge Investigation - Phase II ("Joint Proposal") filed by

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Sprint, the RTCC, the OCA, the OTS, and the OSBA on December 16, 2002. In the December 16th filing, the OSBA submitted a Statement in Support for the Joint Proposal. However, even though Verizon's Petition is similar to the Joint Proposal that the OSBA has already supported, the OSBA requests that the PUC deny the Verizon Petition for the following reasons.

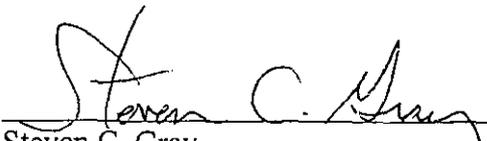
First, the underlying premise of Verizon's Petition is faulty, in that Verizon is so similar to the Sprint and RTCC companies that Verizon should be allowed to adopt a "virtually identical" plan to reduce access charges on a revenue neutral basis. Or, as Verizon puts it, "Verizon submits that the Commission should adopt the same access reform mechanism for Verizon as has been proposed . . . for every other ILEC in Pennsylvania." Petition, at 1. It is hard to imagine upon what basis Verizon considers itself similar to any of the rural telephone companies, either in number of customers served, demographic profile of those customers, or annual gross corporate income. The PUC should not adopt a "one size fits all" solution for access charge reform, and should deny the Verizon Petition on this basis alone.

Furthermore, the "revenue neutral basis" of the Verizon Petition is not the foregone conclusion that Verizon believes it to be. Verizon plainly states that "the Commission has explicitly recognized that Verizon's proposal for statewide access rates should also be revenue-neutral." Petition, at 1. Apparently, in an attempt to support this statement, Verizon dramatically highlights the phrase "on a revenue neutral basis" twice on the next page of its Petition. Id., at 2. However, a full reading of the two passages quoted by Verizon (and not just the highlighted catch phrase) reveals an entirely different story. Far from ensuring that Verizon is allowed to implement access charge reform on a revenue neutral basis, the Memorandum of Understanding and the PUC's Merger Approval Order simply allow Verizon to *argue* for an implementation of access reform on a revenue

neutral basis. See Petition, at 2. Therefore, assuming that the PUC has pre- approved access charge reductions on a revenue neutral basis is a critical error in Verizon's Petition. Verizon's misinterpretation provides yet another basis upon which the PUC should deny the Petition.

Therefore, the Office of Small Business Advocate requests that the Pennsylvania Public Utility Commission deny the Joint Petition of Verizon Pennsylvania Inc. and Verizon North Inc. Regarding Access Rate Reform.

Respectfully submitted,



Steven C. Gray
Assistant Small Business Advocate

Dated: February 18, 2003

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Thomas, Thomas, Armstrong & Niesen
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(1913 - 1998)

February 18, 2003

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Re: Docket Nos. A-310200F0002; A-311350F0002; A-310222F0002 and
A-310291F0003
Joint Application of Bell Atlantic and GTE Corporation for Approval of
Agreement and Plan of Merger

Docket Nos. P-00991648, P-00991649 and M-00021596
Access Charge Investigation Per Global Order of September 30, 1999

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

Dear Secretary McNulty:

Enclosed for filing on behalf of the Rural Telephone Company Coalition are an original and nine (9) copies of its Comments Concerning Verizon's Access Proposal in the above referenced proceedings. Copies have been served upon the persons and in the manner indicated on the Certificate of Service attached to the Comments.

Very truly yours,

THOMAS, THOMAS, ARMSTRONG & NIESEN

By


Patricia Armstrong

Encl.

cc: Certificate of Service

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ORIGINAL

Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In re the Joint Application of Bell Atlantic and GTE Corporation for Approval of Agreement and Plan of Merger	: Docket Nos. A-310200F0002; A-311350F0002; A-310222F0002 and A-310291F0003
Access Charge Investigation per Global Order of September 30, 1999	: Docket Nos. P-00991648, P-00991649 and M-00021596
AT&T Communications of Pennsylvania, Inc. v. Verizon North Inc.	: Docket No. C-20027195

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COMMENTS OF THE
RURAL TELEPHONE COMPANY COALITION
CONCERNING VERIZON'S ACCESS PROPOSAL

1. On December 30, 2002, Verizon Pennsylvania Inc. and Verizon North Inc. (collectively "Verizon"), filed a proposal for access reform passed upon a similar filing made on December 16, 2003 by the Rural Telephone Company Coalition ("RTCC"), Sprint, Office of Consumer Advocate ("OCA"), Office of Trial Staff ("OTS") and Office of Small Business Advocate ("OSBA") at M-00021596.

2. The RTCC hereby files limited comments to the Verizon filing noting that the December 30, 2002 filing is separate and distinct from the December 16, 2002 filing which the RTCC and others jointly submitted. As the Commission noted in its December 19, 2002 Order in *AT&T Communications of Pennsylvania, Inc. v. Verizon North Incorporated*, Docket No. C-20027195:

Our action today merely bifurcates the statewide access charge investigation of the small rural ILECs and The United Telephone Company of Pennsylvania from the access charges issues related jointly to Verizon North and Verizon PA. In other words, we shall consider the access charge issues separately for Verizon North and Verizon PA, in

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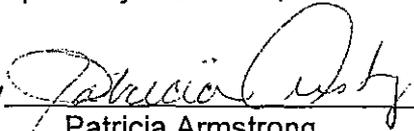
accordance with this Opinion and Order, and the statewide investigation as it relates to all other Pennsylvania ILECS shall continue to proceed in a collaborative setting as established by our Secretarial Letter dated October 24, 2001, at Docket No. M-00021596, to the extent that collaborative is fruitful.

The Commission then specifically ordered:

That the *Access Charge Investigation* proceeding at Docket No. M-00021596 is hereby bifurcated and all matters relating to further access charge reductions of Verizon North Inc. and Verizon Pennsylvania Inc. and all matters relating to access charge parity between Verizon North Inc. and Verizon Pennsylvania Inc. resulting from the *Merger Order* at Docket No. A-310200F002, are severed and consolidated into the AT&T Communications of Pennsylvania, Inc. v. Verizon North Incorporated proceeding at Docket No. C-20027195.

Thus, the disposition of the Verizon Petition is totally separate and apart from the matter involving the December 16, 2002 RTCC joint filing and we respectfully request that the Commission, in accordance with its December 19, 2002 AT&T Order, address the Verizon Petition separate from the RTCC joint filing.

Respectfully submitted,

By 
Patricia Armstrong

Attorney for
Rural Telephone Company Coalition

THOMAS, THOMAS, ARMSTRONG & NIESEN
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(717) 255-7600

Dated: February 18, 2003

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In re the Joint Application of Bell Atlantic and GTE Corporation for Approval of Agreement and Plan of Merger : Docket Nos. A-310200F0002; A-311350F0002; A-310222F0002 and A-310291F0003
Access Charge Investigation per Global Order of September 30, 1999 : Docket Nos. P-00991648, P-00991649 and M-00021596
AT&T Communications of Pennsylvania, Inc. v. Verizon North Inc. : Docket No. C-20027195

CERTIFICATE OF SERVICE

I hereby certify that I have this 18th day of February, 2003, served a true and correct copy of the Comments of the Rural Telephone Company Coalition Concerning Verizon's Access Proposal, upon the persons and in the manner set forth below:

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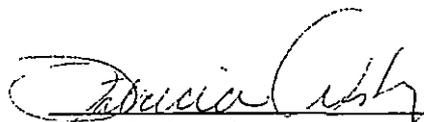
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February 18, 2003

VIA HAND DELIVERY

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Harrisburg, PA 17120

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Re: In re: The Joint Application of Bell Atlantic Corporation and
GTE Corporation for Approval of Agreement and Plan of
Merger – Docket Nos. A-310200F0002, A-311350F0002,
A-310222F0002, A-310291F003

Access Charge Investigation per Global Order of September
30, 1999 – Docket Nos. P-00991648, P-00991649 and
M-00021596

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

Dear Secretary McNulty:

Per the notice set forth in the January 18, 2003 issue of the *Pennsylvania Bulletin*,
attached please find an original and ten (10) copies of the Joint Comments of The United
Telephone Company of Pennsylvania and Sprint Communications Company, L.P.
(collectively, "Sprint") in the above-referenced matter.

All entities on the attached Certificate of Service have been served a copy of these
Joint Comments. The Certificate of Service accompanying Verizon's Access Proposal was
used for this purpose.

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

Sincerely,

Sue Benedek

ZEB/jh
enclosures

cc: Certificate of Service (via first-class mail)
Ms. Elizabeth Barnes (via electronic mail)
Ms. Kandance Melillo (via first-class mail)

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: the Joint Application of Bell Atlantic Corporation and GTE Corporation for Approval of Agreement and Plan of Merger	:	
	:	Docket Nos. A-310200F0002
	:	A-311350F0002
	:	A-310222F0002
	:	A-310291F0003
Access Charge Investigation per Global Order of September 30, 1999	:	
	:	Docket Nos. P-00991648
	:	P-00991649
	:	M-00021596
AT&T Communications of Pennsylvania, Inc. v. Verizon North, Inc.	:	
	:	Docket No. C-20027195

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**JOINT COMMENTS OF
THE UNITED TELEPHONE COMPANY OF PENNSYLVANIA AND
SPRINT COMMUNICATIONS COMPANY, L.P.**

On January 18, 2003, the Pennsylvania Public Utility Commission ("Commission") published for comment the proposed Joint Petition by Verizon Pennsylvania, Inc. and Verizon North, Inc. (collectively, "Verizon") Regarding Access Rate Reform Plan ("Verizon Access Proposal").¹ The United Telephone Company of Pennsylvania d/b/a Sprint and Sprint Communications Company, L.P. (collectively "Sprint") hereby respectfully submit these Comments in response.

Consistent with a preexisting merger requirement, Verizon has requested that the Commission commence a proceeding for the development of access charge parity for both Verizon companies.² Verizon also suggested that interested parties meet and discuss

¹ 33 Pa.B. 502.

² Verizon Comments at 1-2.

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settlement before the matter is assigned to the Office of Administrative Law Judge for formal resolution.³

Sprint generally does not oppose Verizon's attempt to implement access parity for both Verizon companies. However, Sprint emphasizes that Verizon's Access Proposal should remain separate from the collaborative proceeding at Docket No. M-00021596 regarding statewide access charges and any access proposal submitted in that docket.⁴ Similarly, any settlement effort should likewise proceed separate from that collaborative proceeding at Docket No. M-00021596.

Verizon also contends that its Access Proposal is "virtually identical in substance" to the Joint Access Proposal submitted by the small rural ILECs, The United Telephone Company of Pennsylvania, the Office of Consumer Advocate, the Office of Trial Staff and the Office of Small Business Advocate as a result of the access charge collaborative at Docket No. M-00021596. Verizon notes that references to the Pennsylvania Universal Service Fund ("USF") have been eliminated in Verizon's Access Proposal.⁵

Any similarity in structure between Verizon's Access Proposal and the Joint Access Proposal is due to Verizon's choosing to create those similarities. The existence of similarities between the two proposals should not alter the Commission's intended course to address Verizon's Access Proposal separately.⁶

³ Verizon Comments at 7.

⁴ The access charge collaborative also arises out of the Commission's *Global Order*, at Docket Nos. R-00991648 and R-00991649.

⁵ Verizon Comments at 4. Given that Verizon is not a recipient of Pennsylvania's USF, it is understandable that Verizon excluded references to the USF. Thus, the lack of references to the USF in Verizon's Access Proposal should not be construed as having substantive import.

⁶ *AT&T Communications of Pennsylvania, Inc. v. Verizon North Incorporated*, Docket No. C-20027195, Opinion and Order, entered December 24, 2002 (hereinafter "*AT&T/Verizon North Order*").

Verizon's merger commitment required that development of access charge parity between the two Verizon companies shall be based upon consolidated cost studies.⁷ Thereafter, in response to a Formal Complaint lodged by AT&T Communications of Pennsylvania, Inc. ("AT&T") relative to Verizon North's switched access charges, the Commission determined to afford AT&T and Verizon North 45 days from the Commission's order entry date at Docket No. C-20027195 "to work out their differences in the ongoing access charge collaborative."⁸ If AT&T and Verizon North are unable to reach a settlement within 45 days, then outstanding matters are to be resolved in a consolidated on-the-record proceeding.⁹

The Commission in the *AT&T/Verizon North Order*, however, made it abundantly clear that the access charge issues related jointly to Verizon North and Verizon PA proceed "on a separate track" from the collaborative access charge investigation.¹⁰ The Commission stated:

Our action today merely bifurcates the statewide access charge investigation of the small rural ILECs and The United Telephone Company of Pennsylvania from the access charges issues related jointly to Verizon North and Verizon PA. In other words, we shall consider the access charge issues separately for Verizon North and Verizon PA, in accordance with this Opinion and Order, and the statewide investigation as it relates to all other Pennsylvania ILECs shall continue to proceed in a collaborative setting established. . . at Docket No. M-00021596, to the extent the collaborative is fruitful.¹¹

⁷ Verizon Comments at ¶ 3. See, *Joint Application of Bell Atlantic Corporation and GTE Corporation for Approval of Agreement and Plan of Merger*, Docket Nos. A-310200F002, et al., Opinion and Order, entered November 4, 1999.

⁸ *AT&T/Verizon North Order* at 15. By Sprint's calculation, the 45-day settlement period has expired.

⁹ *Id.* at 15-16.

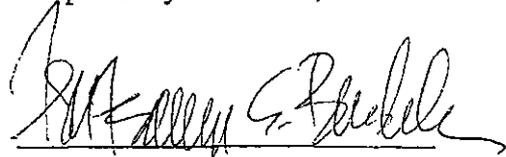
¹⁰ *Id.* at 14.

¹¹ *Id.* at 16.

Moreover, Verizon's use of an alleged similar access structure does not remedy the differences that exist concerning densities, rates and costs as between Verizon and companies serving rural areas, such as Sprint. In the contemplated separate proceeding, Verizon is not deprived of an opportunity to seek and to demonstrate the justness and reasonableness of utilizing a similar structure applicable to Verizon notwithstanding these differences. Accordingly, Sprint submits that Verizon's Access Proposal should continue on a separate track for final disposition on the merits.

WHEREFORE, Sprint appreciates the opportunity to present these Comments. For the foregoing reasons, Verizon's Access Proposal should continue on a separate track from the collaborative proceeding at Docket No. M-00021596.

Respectfully submitted,



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Dated: February 18, 2003

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: the Joint Application of Bell Atlantic Corporation and GTE Corporation for Approval of Agreement and Plan of Merger	:		:	Docket Nos. A-310200F0002 A-311350F0002 A-310222F0002
Access Charge Investigation per Global Order of September 30, 1999	:		:	Docket Nos. P-00991648 P-00991649 M-00021596
AT&T Communications of Pennsylvania, Inc. v. Verizon North, Inc.	:		:	Docket No. C-20027195

CERTIFICATE OF SERVICE

I hereby certify that I have this 18th day of February, 2003, served a true copy of the foregoing Joint Comments upon the persons below via first-class mail, in accordance with the requirements of 52 Pa. Code §1.54:

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Respectfully submitted,



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Qwest

Spirit of Service

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ORIGINAL

THOMAS W. SNYDER
Attorney

February 18, 2003

James J. McNulty
Secretary
Pennsylvania Public Service Commission
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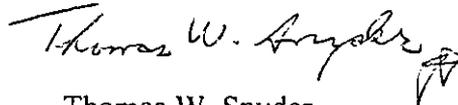
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03 FEB 19 PM 3:22
SECRETARY'S BUREAU

Re: Docket Nos. A-310200F002; A-311350F002; A-310222F002; A-310291F003; P-00991648; P-00991649; M-00021596; C-20027195

Dear Secretary McNulty:

Enclosed for filing please find the original and nine copies of the Comments of Qwest Communications Corporation in the above-referenced dockets.

Sincerely,



Thomas W. Snyder

92

ORIGINAL

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re the Joint Application of : Docket Nos. A-310200F0002
Bell Atlantic Corporation and : A-311350F0002
GTE Corporation for Approval : A-310222F0002
of Agreement and Plan of Merger : A-310291F0003

Access Charge Investigation per : Docket No.s P-00991648
Global Order of September 30, 1999 : P-00991649
: M-00021596

**DOCUMENT
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AT&T Communications of
Pennsylvania, Inc.,

v.

Docket No. C-20027195

Verizon North Inc.

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**INITIAL COMMENTS OF QWEST CORPORATION CONCERNING
THE JOINT PETITION OF VERIZON PENNSYLVANIA INC. AND
VERIZON NORTH INC. REGARDING ACCESS RATE REFORM**

NOW COMES, Qwest Communications International, Inc. ("Qwest"), and provides its Initial Comments to the Joint Petition of Verizon Pennsylvania Inc. and Verizon North Inc. ("Verizon") Regarding Access Rate Reform. These Initial Comments are filed pursuant to the Commission's January 18, 2003 Notice. 33 Pa.B. 502.

I. INTRODUCTION

On December 30, 2002, Verizon filed with the Pennsylvania Public Utility Commission ("Commission") its Joint Petition of Verizon Pennsylvania Inc. and Verizon North Inc. Regarding Access Rate Reform ("Petition"). In its Petition, Verizon requests that the Commission commence a proceeding for the purpose of determining statewide access rates for Verizon PA and Verizon North, in compliance with a condition of this Commission's November

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4, 1999 Order approving the Verizon merger. Verizon in its Petition also sets forth a proposal for further intrastate access restructuring. As part of its proposal, Verizon states that for calendar years 2003 and 2004, if its intrastate traffic sensitive ("TS") rates exceed its interstate TS rates, it proposes, at its sole discretion, to lower its intrastate TS rates to match or move closer to its interstate TS rates, and simultaneously increase local rates by a corresponding revenue neutral amount. (VZ Petition, ¶ II.5 and Attachment A).¹

II. STATEMENT OF POSITION

Of all of the carriers that will be commenting in this proceeding, Qwest probably comes the closest to sharing the Commission's own broad-based concern for the future development of the telecommunications industry as a whole, and not just any particular segment of that industry. Having merged with U S WEST, Qwest is the nation's fourth largest incumbent local exchange carrier ("ILEC"), collecting switched access revenues from interexchange carriers. At the same time, Qwest is one of the country's largest interexchange carriers ("IXCs"), paying switched access charge expenses to ILECs. Qwest is also a facilities-based competitive LEC ("CLEC") that competes for the customers of other ILECs. To that end it has deployed fiber rings in more than two dozen out-of-region cities. On top of that, Qwest is one of the nation's largest providers of Internet backbone services and of various other services based on Internet protocol. Qwest also provides wireless services to more than one million subscribers.

Qwest believes that in assessing Verizon's Petition, the Commission should consider how the Petition furthers the goals of creating and enforcing policies to achieve an overall market-

¹ The restructure will include the implementation of Local Transport Restructure by Verizon North and the introduction by both Verizon PA and Verizon North of items, such as trunk ports, currently found in the interstate rate structure. Verizon's proposal also includes proposed adjustments to its rates for residential basic local exchange service. Qwest makes no comment with respect to these proposed rate adjustments.

oriented intercarrier compensation regime. With the Federal Communications Commission's ("FCC") completion of a restructure of interstate switched access rates through implementation of its *CALLS* and *MAG* Orders, the timing is right for this Commission to work with Verizon to close the jurisdictional gap between Verizon's interstate switched access rates and its intrastate switched access rates. If the Commission closes the jurisdictional gap between Verizon's interstate and intrastate switched access rates in the state of Pennsylvania, the Commission will have taken an important step in doing its part to move toward a more sensible, pro-competitive intercarrier compensation scheme.

As part of its access charge proposal, Verizon proposes to increase existing local rates in a revenue neutral manner to offset the decreases in intrastate switched access rates. Reducing intrastate access rates while at the same time shifting support for local services to end-users will create an economically sound and competitively neutral rate structure that will encourage vigorous competition in the market for telecommunications services to the benefit of all consumers. The proposal also is consistent with the FCC's access charge reform plan, where the FCC increased an existing flat-rated interstate subscriber line charge to offset reductions in interstate switched access charges. With this flat-rated charge on end user bills, the FCC has begun to shift support for local service to end users in a way that is consistent with sound principles of cost causation. The FCC has indicated that its decisions will continue to reflect this philosophy in current and future proceedings, as the competitive nature of the telecommunications industry continues to evolve.

Based on these concepts, Qwest supports Verizon's proposal to bring the access rates of Verizon PA and Verizon North to parity in a revenue neutral manner. Qwest notes, however, that Verizon contends that Verizon North would thus be "lowering" its rates to those of Verizon

PA (Verizon Petition, ¶ II.8). Qwest reserves the right to contest this averment and argue, where applicable, that Verizon North may actually currently provide the lower rated access element. In those cases, both affiliates should charge the current Verizon North rate under Verizon's statewide access parity plan. But otherwise, as noted, Qwest supports Verizon's proposal to achieve statewide averaging in a revenue neutral manner.

Qwest's position diverges with Verizon's proposal, however, when it comes to the level to which intrastate switched access rates should be reduced. As discussed below, Qwest believes that, rather than lower access rates at its own discretion following establishment of the statewide average, Verizon should be ordered, following its statewide averaging, to reduce its intrastate switched access rates to the level of its interstate switched access rates.

III. ARGUMENT

With Verizon's Application before it, the Commission should seize the opportunity to reform Verizon's switched access charges in the state of Pennsylvania in a meaningful, pro-competitive manner. At the federal level, the FCC has moved and will continue to move in a direction that significantly reduces interstate switched access rates. The FCC has directly addressed removing any implicit support for local service out of access rates at the interstate level. State commissions should stay consistent with FCC policies and direction and reduce intrastate switched access rates in the same manner as the FCC. If intrastate switched access rates are reduced, the opportunity for regulatory driven arbitrage will be diminished, the competitive landscape will be enhanced, and consumer confusion will be reduced. Thus, Verizon should be ordered to reduce its access rates to parity with federal levels, rather than at its own discretion.

A. REDUCING STATE SWITCHED ACCESS RATES TO THE INTERSTATE LEVEL ON A REVENUE NEUTRAL BASIS WILL ADVANCE SIGNIFICANT PUBLIC POLICY GOALS

At least five key benefits will be achieved through a revenue-neutral restructure of intrastate switched access rates.

1. Carrier Incentives To Engage In Uneconomic Bypass Of The Public Switched Network Will Be Reduced

Uneconomic bypass occurs when a carrier uses dedicated facilities to bypass the switched network. Carriers employ these dedicated bypass facilities when it is cheaper for them to lease or build bypass facilities to carry their traffic than it is for them to use the switched network and pay switched access charges.

To the degree a carrier uses these dedicated bypass facilities to carry local traffic, they merely represent a competitive alternative to the switched network. To the degree a carrier uses these dedicated bypass facilities to carry toll traffic, the carrier is essentially bypassing the switched access charge rate system. When a carrier bypasses the intrastate switched access charge rate system, the carrier avoids paying the implicit support intrastate switched charges provide to local service.

Moreover, these dedicated bypass facilities are rarely used to the extent they would be if utilized as part of the switched network. These underutilized dedicated bypass facilities are essentially wasted capacity. The remaining ratepayers that utilize the switched network ultimately pay for the wasted capacity on these dedicated bypass facilities in one way or another. Lower switched access rates will result in more service providers and customers utilizing the switched network instead of dedicated bypass facilities. With greater use, the switched network becomes more efficient.

2. Economic Penalties Will Be Removed For Carriers That Rate Average Their Toll Plans

Under the current switched access rate regime, state switched access rates differ from interstate rates. Indeed, switched access rates differ from state to state and from LEC to LEC. When interexchange carriers price their services, they price them in the aggregate. Where one state or LEC has higher than average switched access rates, the interexchange carrier must decide whether to create a specific rate plan for the area or accept lower contribution when pricing its services for that area.

An interexchange carrier that maintains several area-specific rate plans incurs greater costs to manage those rate plans than it would if it were managing a single rate plan or a few rate plans. Alternatively, an interexchange carrier that decides to maintain a single rate plan incurs costs in the form of lower contribution that the carrier must recover in some other way. In either case, the carrier may choose to withhold some services in an area or create higher priced plans in order to compensate for the disparity in intrastate switched access rates. Ultimately, the customer pays the price for this inefficiency.

3. Customer Confusion Will Be Reduced When Rate Plans Are Priced Based On Quality And The Economic Efficiency Of The Carrier's Operations Rather Than In Response To Widely Varying Switched Access Rates

To the degree that carriers choose to address the wide variety of different intrastate switched access rate structures with widely different toll rate plans, customer confusion is multiplied. There are enough marketing reasons to create multiple rate plans without adding the complexity of widely different intrastate switched access rate structures to the mix.

4. Toll Usage Rated Support For End-User Non-Traffic Sensitive ("NTS") Flat-Rated Costs Will Be Eliminated

Currently, higher switched access rates cause toll customers to pay toll rates that are higher than the actual cost incurred to provide those services. Those customers that make more toll calls pay disproportionately more in toll rates because the switched access charges underlying those toll rates are calculated using minutes of use rather than using a flat rate. The usage-based recovery of these NTS costs is the underlying cause of the higher toll and access rates that high toll volume customers pay to their respective carriers. If a sound economic structure is the basis for a sound competitive environment, the long run competitive environment surrounding toll calling will not be sound as long as the price toll customers pay is not designed to recover the costs of providing the service they use.

5. The Hidden Support That All Network Users Pay In Various Incalculable Ways Will Be Eliminated

Because switched access rates are higher than they would be in a fully competitive environment, carriers will pass these uneconomic costs on to their customers in a variety of ways, most of which will be hidden from the consumer. Because these uneconomic costs are hidden from the consumer, the consumer has a difficult time making sound economic choices among providers. Reducing intrastate switched access rates to the level of their interstate counterparts will eliminate these uneconomic costs from the carrier's calculation of the price for its services.

B. REDUCING INTRASTATE SWITCHED ACCESS RATES ON A REVENUE NEUTRAL BASIS WILL BE CONSISTENT WITH RECENT FCC POLICY

Over the past several years, the FCC has reduced interstate switched access rates and increased the End User Common Line ("EUCL") charge, which has transferred the support of local service from the interexchange carriers that pay switched access charges to the end-users

that pay the EUCL charge. In fact, the FCC recently approved another increase to the federal EUCL to \$6.00 per access line. Order, *Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps, Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers*, CC Docket Nos. 96-262, 94-1, FCC 02-161 (F.C.C. June 5, 2002). This shifting of costs associated with local service from the interexchange carriers to the end-user is consistent with principles of cost causation.

The FCC continued its plan to reduce interstate switched access rates and implement corresponding revenue neutral offsets in its *CALLS* and *MAG* Orders. See Sixth Report And Order, Report And Order and Eleventh Report And Order, *In the Matter of: Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users and Federal-State Joint Board On Universal Service*, CC Docket Nos. 96-262, 94-1, 99-249 and 96-45, FCC 00-193, 15 FCC Rcd. 12962 (F.C.C. May 31, 2000) (“*CALLS* Order”); Second Report And Order And Further Notice Of Proposed Rulemaking, Fifteenth Report And Order and Report And Order, *In the Matter of: Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation and Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers*, CC Dockets Nos. 00-256, 96-45, 98-77 and 98-166, FCC 01-304, 16 FCC Rcd. 460 (F.C.C. November 8, 2001) (“*MAG* Order”).

In the *CALLS* Order, the FCC instituted a transitional access restructure for larger Incumbent Local Exchange Carriers (“ILECs”). The plan set forth in the *CALLS* Order requires price-cap ILECs to reduce their interstate switched access charges and increase an interstate end

user subscriber line charge. The result of these FCC actions is to shift recovery of end-user revenues from usage-sensitive toll charges to flat rated monthly line charges. A similar transitional plan has been adopted for non-price cap ILECs through the *MAG* Order.

Interstate switched access will continue to decline and will eventually become nominal, as the FCC moves closer to a bill and keep regime for all intercarrier compensation. Qwest supports moving to bill and keep and has stated such in its comments filed with the FCC in the Intercarrier Compensation Docket. See Notice of Propose Rulemaking, *In the Matter of: Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, FCC 01-132 (F.C.C. April 27, 2001).

Restructuring intrastate switched access rates by reducing current rates and increasing the existing statewide intrastate subscriber line charge is completely consistent with these FCC Orders. If this revenue-neutral restructure of intrastate switched access charges is adopted, intrastate rates will move toward their interstate counterparts, accomplishing a significant step toward more rational economic pricing for intercarrier compensation.

C. IXC FLOW-THROUGH SHOULD NOT BE REQUIRED

As a final matter, Qwest would like to briefly address flow-through, even though the issue is not squarely presented by the Verizon Petition. Pennsylvania is not the first state by any means to evaluate whether its intrastate switched access rates should be reduced to parity with interstate levels. Indeed, nearly every state has engaged in this analysis, and many have reduced their intrastate access rates in a revenue neutral manner, consistent with the principles outlined above.

Significantly, nearly all of these states have not required IXCs to show that they have flowed-through the reductions to customers. The reason most cited is that the interexchange

market is sufficiently competitive to ensure flow-through without the need for carriers to show flow-through to the commissions. Qwest agrees with this premise. Indeed, in a market in which services are being offered by hundreds of carriers at prices as low as \$.04/minute, it is virtually impossible for any carrier to keep its rates artificially high when faced with declining costs.

Another oft-cited reason for not requiring a regulated flow-through is that it actually keeps rates higher. That is, IXC's that otherwise would lower rates in advance of access charge reductions will wait for the reductions to occur in order to get "credit" for the reductions in situations where flow-through is regulated. Qwest also agrees with this premise; regulation of a competitive market will only serve to keep rates artificially high.

Thus, Qwest submits that, in the event that Verizon lowers its access rates, IXC's should not be ordered to demonstrate flow-through to the Commission. Competition will mandate the flow-through.

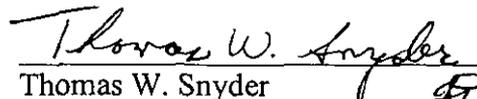
III. CONCLUSION

Verizon's Petition represents a good place in which to begin to reform its intrastate switched access rates. However, in order to truly create an overall market-oriented intercarrier compensation regime, the Commission should require Verizon to reduce its intrastate access rates to the interstate level, on a revenue neutral basis.

Dated: February 18, 2003

Respectfully submitted

QWEST COMMUNICATIONS CORP.


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February 24, 2003

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APR 14 2003

James J. McNulty
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

DOCUMENT

Re: Service List for Dockets P-00991648, P-00991649, M-0021596 and C-20027195

Dear Secretary McNulty:

Please change the name on the service lists for dockets P-00991648, P-00991649, M-0021596 and C-20027195 from William Fishman to Russell M. Blau.

Thank you.

Sincerely,



Erica Hudson Carden
Telecommunications Administrative
Coordinator

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2003 FEB 26 AM 8:59
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Suzan DeBusk Paiva
Assistant General Counsel
Law Department

BTL

February 28, 2003

VIA E-MAIL AND UPS OVERNIGHT DELIVERY

Kenneth L. Mickens, Esquire
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FEB 28 2003

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Re: In re the Joint Application of Bell Atlantic Corporation and
GTE Corporation for Approval of Agreement and Plan of Merger,
Docket Nos. A-310200F0002, A-311350F0002, A-310222F0002
and A-310291F0003;
Access Charge Investigation per Global Order of September 30, 1999,
Docket Nos. P-00991648, P-00991649, M-00021596;
and AT&T Communications of Pennsylvania, Inc. v. Verizon North Inc.,
Docket No. C-20027195

Dear Mr. Mickens,

Enclosed please find the Responses of Verizon Pennsylvania Inc. and Verizon North Inc. to the Office of Trial Staff's Set II Interrogatories relating to Verizon's December 30, 2002 merger compliance access filing.

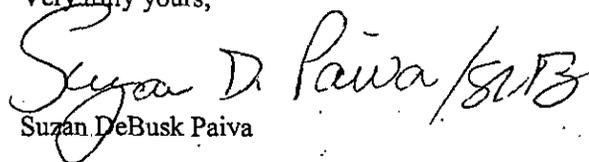
As you requested, we are providing the Office of Trial Staff with four copies of these Responses.

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

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JUN 11 2003

Very truly yours,


Suzan DeBusk Paiva

SDP/slb
Enc.

Via UPS Overnight Delivery

cc: James J. McNulty (cover letter and certificate of service only)
Elizabeth Barnes
Robert Marinko
William W. Dunkel

Via E-Mail and UPS Overnight Delivery

Attached Certificate of Service

CERTIFICATE OF SERVICE

I, Suzan DeBusk Paiva, hereby certify that I have this day served a copy of the Responses of Verizon Pennsylvania Inc. and Verizon North Inc. to Set II Interrogatories of the Office of Trial Staff, 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 28th day of February, 2003.

VIA UPS OVERNIGHT DELIVERY

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March 5, 2003

James J. McNulty, Secretary
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MAR 14 2003

SECRETARY'S BUREAU

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Re: In re the Joint Application of Bell Atlantic Corporation and GTE Corporation for Approval of Agreement and Plan of Merger
Docket Nos. A-310200F0002; A-311350F0002; A-310222F0002 and A-310291F0003
Access Charge Investigation per Global Order of September 30, 1999,
Docket Nos. P-00991648, P-00991649, M-00021596 and AT&T Communications of Pennsylvania, Inc. v. Verizon North Inc.,
Docket No. C-20027195

Dear Secretary McNulty:

The Office of Consumer Advocate writes to inform you that it will not file Reply Comments in the above referenced matter.

Copies of this letter have been served upon all parties of record as shown on the attached Certificate of Service.

Sincerely,

Shaun A. Sparks
Assistant Consumer Advocate

Enclosures

cc: All parties of record

CERTIFICATE OF SERVICE

Re: In re the Joint Application of Bell Atlantic Corporation and GTE Corporation for Approval of Agreement and Plan of Merger
Docket Nos. A-310200F0002; A-311350F0002; A-310222F0002 and A-310291F0003
Access Charge Investigation per Global Order of September 30, 1999,
Docket Nos. P-00991648, P-00991649, M-00021596 and
AT&T Communications of Pennsylvania, Inc. v. Verizon North Inc.,
Docket No. C-20027195

I hereby certify that I have this day served a true copy of the foregoing document, Office of Consumer Advocate's letter regarding Reply Comments, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 5th day of March, 2003.

SERVICE BY INTER-OFFICE MAIL

Kenneth Mickens, Esq.
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Pa. Public Utility Commission
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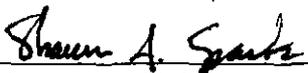
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