

DOCUMENT  
FOLDER

OTS Statement No. 1  
Witness: Joseph Kubas  
Date: July 18, 2003  
(Revised)

Hbg JK 8/26/03

AT&T COMMUNICATIONS OF PENNSYLVANIA INC.

v.

VERIZON NORTH INC.

DOCKET NO. C-20027195

DOCKETED

SEP 02 2003

NON-PROPRIETARY

Direct Testimony

of

Joseph Kubas

Office of Trial Staff

RECEIVED

AUG 28 2003  
PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Concerning:

Access Charges  
Local Residential Exchange Rates

1 Q. **WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is Joseph Kubas and my business address is Pennsylvania Public  
3 Utility Commission, P.O. Box 3265, Harrisburg, PA 17105.

4

5 Q. **IN WHAT CAPACITY ARE YOU EMPLOYED?**

6 A. I am employed as a Fixed Utility Valuation Engineer with the Office of Trial  
7 Staff.

8

9 Q. **WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL  
10 BACKGROUND?**

11 A. An outline of my educational and professional experience is attached as  
12 Appendix A.

13

14 Q. **WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

15 A. The purpose of my direct testimony is to provide recommendations regarding  
16 Verizon's December 30, 2002 Petition to restructure access charges and  
17 increase local residential exchange rates.

18

19 Q. **WHAT ARE ACCESS CHARGES?**

20 A. Access charges are the fees that Local Exchange Companies (LECs) charge  
21 Interexchange Carriers (IXCs) and other providers of toll for the costs

1 associated with using their local phone network for the purpose of  
2 originating and terminating long distance calls placed by customers.

3  
4 **Q. WHAT FILING DID VERIZON PENNSYLVANIA, INC. AND**  
5 **VERIZON NORTH INC. MAKE ON DECEMBER 30, 2002?**

6 A. On December 30, 2002 Verizon Pennsylvania Inc. (VZ-PA) and Verizon  
7 North Inc. (VN) (Collectively, "Verizon" or "the Companies") filed a Petition  
8 to restructure and reduce access charges by **{Begin Proprietary}**  
9 **{End Proprietary}**, and to increase local residential exchange  
10 rates to make up the revenue shortfall.

11  
12 **Q. WHAT IS THE EFFECT OF AND JUSTIFICATION FOR THE**  
13 **COMPANIES' PROPOSAL?**

14 According to Verizon, local residential exchange rates will have to be increased  
15 \$1.90 per month in both of the VZ-PA and VN service territories. Verizon  
16 states that this increase in local residential exchange rates is necessary to keep  
17 the Petition revenue neutral. Verizon also states that *this Petition is in*  
18 *compliance with the Commission's Order approving the merger of Bell*  
19 *Atlantic Corporation and GTE Corporation, Docket Nos. A-310200F002,*  
20 *A-311350F0002, A-310222F0002, & A-310291F0003, entered*  
21 *(November 4, 1999). VZ-PA/VN Petition, p. 6.*

1 **Q. PLEASE SUMMARIZE YOUR POSITION IN THIS PROCEEDING.**

2 A. I do not object to Verizon's proposal to restructure Local Transport and Local  
3 Switching rates so that these rates are the same for both companies. I do  
4 object to the Companies' proposal to completely eliminate the Carrier Charge  
5 for both Companies. As explained below, establishing a carrier charge that is  
6 based on cost will make it unnecessary to increase local residential exchange  
7 rates, as proposed by the Companies.

8

9 **Carrier Charges**

10 **Q. WHAT IS A CARRIER CHARGE AND WHAT COST IS IT**  
11 **DESIGNED TO RECOVER?**

12 A. One component of access charges that IXC's pay is the Carrier Charge (CC).  
13 As recently as April 2003, the Commission defined the CC as an access  
14 charge designed to recover a portion of the cost of the local loop that IXC's  
15 use in the origination and termination of long distance calls (See,  
16 Pennsylvania Public Utility Commission v. North Pittsburgh Telephone  
17 Company, Docket No. R-00038087, (entered April 10, 2003), p. 2).

18

19 **Q. HOW IS THE CARRIER CHARGE RECOVERED BY VERIZON?**

1 A. While most access charges are listed in the tariff as a “per minute” or  
2 “traffic sensitive” rate, the CC is based on a “per line” or “non traffic  
3 sensitive” rate. The amount each IXC pays is based on its proportional  
4 share of overall access minutes of use (See, Global Order, p. 19). VZ-PA  
5 apportions the total CC rate of \$0.88 per month per line to access and toll  
6 (both imputed and ITORP). Currently, the portion of the CC that the IXCs  
7 pay for access is \$0.63 per month per line (See, VZ-PA Tariff No. 302,  
8 p. 247). The total carrier charge for VN is currently \$8.635 per month per  
9 line (See, VN Tariff No. 9, Section 12, p. 13). The original petition did not  
10 include a breakdown showing the IXC portion, the ITORP portion or the  
11 amount that should be imputed to VN.

12  
13 **Q. WHAT IS THE HISTORY OF THE CARRIER CHARGE?**

14 A. The CC was formerly known as the Carrier Common Line Charge (CCLC).  
15 The CCLC was designed to recover some of the cost of the local loop “or  
16 common line” through a “per minute” access charge component. In the  
17 Global Order, the Commission directed Bell of Pennsylvania, Inc., GTE  
18 North, and the other Incumbent Local Exchange Companies (ILECs) to  
19 convert their CCLC to a flat rate “per line” CC on a revenue neutral basis  
20 (See, Global Order, pp. 23 & 34).

1 Q. WHAT IS A "LOCAL LOOP"?

2 A. A local loop is the wire that runs from a telephone central office to a  
3 customer.

4

5 Q. IS THE LOCAL LOOP A JOINT AND COMMON COST?

6 A. Yes. The local loop is a joint and common facility that is used by customers  
7 to place and receive local calls, intraLATA toll calls, interLATA toll calls,  
8 and interstate toll calls. The local loop is also used to provide premium  
9 services such as caller ID, call waiting and other services.

10

11 Q. HAS THE COMMISSION DETERMINED THAT THE COST OF THE  
12 LOCAL LOOP SHOULD BE RECOVERED FROM ALL OF THE  
13 SERVICES THAT USE IT?

14 A. Yes. The Commission has repeatedly determined that the local loop is a  
15 "joint cost" and that since it is used by a variety of services, the cost of the  
16 local loop should be recovered from those services that use it (See, Formal  
17 Investigation to Examine and Establish Updated Universal Service Principles  
18 and Policies for Telecommunications Services in the Commonwealth, Docket  
19 No. I-00940035, (Universal Service Order), entered January 28, 1997, p. 82  
20 and Pennsylvania Public Utility Commission v Bell Atlantic Inc., Docket No.  
21 R-00963350 (entered December 16, 1996) p. 23).

1 Q. HAS THE COMMISSION PREVIOUSLY DETERMINED THE  
2 PERCENTAGE OF LOCAL LOOP COSTS THAT SHOULD BE  
3 RECOVERED FROM LOCAL SERVICE?

4 A. Yes. On page 85 of the Universal Service Order, the Commission  
5 determined that 74% of the cost of the local loop should be recovered  
6 through local exchange rates. Consequently, this leaves 26% of the cost of  
7 the local loop to be recovered from the other services that also use the local  
8 loop.

9  
10 Q. ARE YOU AWARE OF ANY COMMISSION POLICY OR ORDER  
11 DIRECTING HOW THE REMAINING 26 PERCENT OF THE COST  
12 OF THE LOCAL LOOP SHOULD BE RECOVERED?

13 A. No.

14  
15 Q. WHAT ARE THE REMAINING SERVICES THAT USE THE LOCAL  
16 LOOP?

17 A. The remaining five services that also use the local loop are: (1) interstate  
18 access, (2) intrastate toll, (3) Intralata Toll Originating Responsibility Plan  
19 (ITORP), (4) intrastate access; and, (5) other services.

1 **Q. HOW SHOULD THE REMAINING 26 PERCENT OF THE COST OF**  
2 **THE LOCAL LOOP BE RECOVERED FROM THESE SERVICES?**

3 A. Since no Commission policy or order identifies how the remaining 26 percent  
4 should be recovered, I believe it appropriate to separate these five services  
5 into two groups to determine a reasonable portion of the cost of the local loop  
6 that should be recovered from each group. Group "A" would include  
7 interstate access and other services, and Group "B" would include intrastate  
8 access, ITORP and intrastate toll. Based on my experience and knowledge of  
9 the telephone industry, I believe that approximately half of the cost should be  
10 recovered from each group. Specifically, I recommend that Group "A" be  
11 allocated 12% of the cost of the loop and Group "B" be allocated 14% of the  
12 cost of the local loop. I allocated slightly more than 50% to Group "B"  
13 because I believe that more people use intrastate toll service than interstate  
14 and "other" services.

15  
16 **Q. HOW SHOULD THE 14 PERCENT BE DIVIDED AMONG**  
17 **INTRASTATE ACCESS, ITORP AND VERIZON TOLL SERVICE?**

18 A. The 14 percent should be allocated based upon the relative market share that  
19 each service represents in the VZ-PA service territory.

1 Q. WHAT IS THE PROPORTIONATE MARKET SHARE OF EACH OF  
2 THESE THREE SERVICES THAT USE THE LOCAL LOOP?

3 A. Based on the response to OCA Interrogatory Set III, No 12 (See, TS Exhibit  
4 No. 1, Schedule 5), the IXC's currently have 71.4% of the long distance  
5 market, VZ-PA has 25.2% of the long distance market, and ITORP accounts  
6 for 3.4% of the long distance market in the VZ-PA territory. Based on these  
7 proportions, IXCs should pay 10% (71.4% of 14 = 10%) of the cost of the  
8 local loop, VZ-PA should impute 3.5% (25.2% of 14 = 3.5%) of the cost of  
9 the local loop, and ITORP should be allocated 0.5% (3.4% of 14 = 0.5%) of  
10 the cost of the local loop (See, OTS Exhibit No. 1, Schedule 2, lines 6-8). By  
11 using these allocations, only 10% of the cost of the local loop would be  
12 recovered through the CC paid by IXCs, which is the access component  
13 currently designed to recover some of the cost of the local loop.

14

15 Carrier Charge Rates

16 Q. WHAT IS VERIZON'S PROPOSAL CONCERNING VZ-PA'S \$0.63  
17 PER MONTH PER LINE CARRIER CHARGE?

18 A. Verizon is proposing to eliminate VZ-PA's current \$0.63 per month per line  
19 CC (See, Verizon Attachment B, Scenario No. 2). As described above, this is  
20 the portion paid by IXCs.

1 **Q. WHAT IS VERIZON PROPOSING TO DO WITH VN'S \$8.635 PER**  
2 **MONTH PER LINE CARRIER CHARGE?**

3 A. Verizon is proposing to eliminate VN's \$8.635 CC in two steps. In the first  
4 step, VN's \$8.635 CC will be reduced to \$0.63 per month per line, which will  
5 make the rate equal to VZ-PA's CC (See, Verizon Attachment B, Scenario  
6 No. 1). In the second step, VN's new CC of \$0.63 per month per line will be  
7 eliminated (See, Verizon Attachment B, Scenario No. 2).

8  
9 **Q. WHY IS VERIZON PROPOSING TO ELIMINATE THE CARRIER**  
10 **CHARGE FOR BOTH COMPANIES?**

11 A. Despite clear statements to the contrary in Commission orders, Verizon  
12 maintains that 100% of the cost of the local loop should be recovered from  
13 local service charges, and that no local loop cost should be recovered from  
14 access charges or any other charge. Therefore, Verizon believes there should  
15 be no access charge component to recover a portion of the local loop cost.

16  
17 **Q. WHAT DO YOU RECOMMEND REGARDING VERIZON'S**  
18 **PROPOSAL TO ELIMINATE BOTH VZ-PA'S \$0.63 PER MONTH**  
19 **PER LINE CARRIER CHARGE AND VN'S \$8.635 CARRIER**  
20 **CHARGE?**

1 A. I recommend that Verizon's proposal to eliminate both CCs be rejected, and  
2 that a CC of \$1.20 per month per line be established for both Companies.

3

4 **Q. WHY DO YOU RECOMMEND VERIZON'S PROPOSAL TO**  
5 **ELIMINATE BOTH VZ-PA'S \$0.63 PER MONTH PER LINE**  
6 **CARRIER CHARGE AND VN'S \$8.635 CARRIER CHARGE BE**  
7 **REJECTED?**

8 A. In my opinion, there should be a cost based access charge which is designed  
9 to recover a portion of the cost of providing a local loop. Since there are  
10 costs involved in the provision of local loops, and toll calls are carried over  
11 local loops, there should be a CC to recover a reasonable portion of the cost  
12 of providing local loops.

13

14 **Q. HOW DID YOU DETERMINE THE COST VERIZON INCURS TO**  
15 **PROVIDE A LOCAL LOOP?**

16 A. Since Verizon did not provide a valid cost study that showed the actual cost  
17 Verizon incurs to provide a local loop in this proceeding, I used the cost data  
18 provided by Verizon in the recent Unbundled Network Element (UNE) case  
19 at Docket R-00016683. In that proceeding, the cost of providing a 2 wire  
20 basic local loop was determined to be as follows: Density Cell 1, {Begin  
21 **Proprietary}**



1            Verizon Access Charge Rate Proposal

2    Q.    WHAT NEW RATE ELEMENTS IS VERIZON PROPOSING TO  
3            CREATE IN THIS PROCEEDING?

4    A.    Verizon is proposing to create access charges for Dedicated Trunk Ports,  
5            Shared End Office Ports, and Dedicated End Office Trunk Ports in this  
6            proceeding. These new rate elements will increase revenue by **{Begin**  
7            **Proprietary}**            **{End Proprietary}** (See, Verizon Attachment B,  
8            Scenario 2).

9  
10   Q.    DO YOU OBJECT TO THESE NEW RATE ELEMENTS?

11   A.    No.

12  
13   Q.    WHAT IS THE REVENUE EFFECT OF ELIMINATING VZ-PA'S  
14            CARRIER CHARGE?

15   A.    According to Verizon, eliminating VZ-PA's CC will reduce revenue by  
16            **{Begin Proprietary}**            **{End Proprietary}** (See, OTS Exhibit No  
17            1, Schedule 3, Column F, line 2).

18  
19   Q.    WHAT IS THE REVENUE EFFECT OF ELIMINATING VN'S  
20            CARRIER CHARGE?

1 A. According to Verizon, eliminating VN's CC will reduce revenue by {Begin  
2 Proprietary} {End Proprietary} (See, OTS Exhibit No. 1,  
3 Schedule 3, Column F, line 7).

4  
5 Q. IS THE {BEGIN PROPRIETARY} {END PROPRIETARY}  
6 AMOUNT CORRECT?

7 A. No.

8  
9 Q. WHY IS THE {BEGIN PROPRIETARY} {END  
10 PROPRIETARY} AMOUNT INCORRECT?

11 A. This amount is based on total minutes of use (MOU), which includes the total  
12 (MOU) of all toll providers including IXCs, ITORP and Verizon. The  
13 response to OCA Interrogatory Set IV, No. 4, indicates that \$0.52 or 6% of  
14 the \$8.6354 per month per line rate should be imputed to VN before the total  
15 revenue reduction was determined (See, OTS Exhibit No. 1, Schedule 6).  
16 Since Verizon doesn't charge itself for access, this imputed revenue should be  
17 subtracted from VN's total access charge revenue reductions, and Verizon  
18 should not be permitted recover revenue that no one pays by increasing local  
19 residential exchange rates. If revenue is not imputed, the filing will not be  
20 revenue neutral since the revenue that Verizon will receive as a result of the

1 proposed increase local residential exchange rates will be more than the  
2 proposed access charge revenue reduction.

3  
4 **Q. WHAT HAS TO BE CALCULATED BEFORE THE CORRECT**  
5 **REVENUE EFFECT OF ELIMINATING VN'S CARRIER CHARGE**  
6 **CAN BE DETERMINED?**

7 A. In order to determine the correct revenue affect of eliminated VN's CC it is  
8 necessary to determine the portion of VN's CC that is paid by IXC's, the  
9 portion paid by ITORP and the portion that should have be imputed by  
10 Verizon, because any change in the VN's CC rate will affect the revenue  
11 received from these sources and the revenue that should be imputed by  
12 Verizon.

13  
14 **Q. WHAT PERCENTAGE OF THE VERIZON NORTH CARRIER**  
15 **CHARGE IS PAID BY IXC'S AND ITORP?**

16 A. Based on the response to OCA Interrogatory Set IV, No. 4, the IXC's have  
17 86.4% of the toll market ( $90,313 / 104,504 = 86.4\%$ ). As described above,  
18 Verizon should have imputed 6% ( $\$0.53 / \$8.6354 = 6\%$ ) of any CC  
19 reduction, this leaves 7.6% of the toll market for ITORP ( $86.4\% + 6\% +$   
20  $7.6\% = 100\%$ ) (See, OTS Exhibit No. 1, Schedule 6).

1 Q. BASED ON THESE PERCENTAGES, WHAT IS THE REVENUE  
2 REDUCTION FOR EACH OF THESE ITEMS IF VERIZON  
3 NORTH'S CARRIER CHARGE IS ELIMINATED?

4 A. The portion paid by IXC's will be reduced by {Begin Proprietary}

5

6 {End

7 Proprietary} (See, OTS Exhibit No. 1, Schedule 3, Column F, lines 4-6).

8

9 Q. WHAT IS THE CORRECT REVENUE EFFECT OF ELIMINATING  
10 VN'S CARRIER CHARGE?

11 A. Eliminating VN's CC will reduce revenue by {Begin Proprietary}

12

13 {End Proprietary}.

14

15 Q. WHAT IS THE TOTAL CORRECT REVENUE EFFECT OF  
16 VERIZON'S PROPOSAL TO ELIMINATE THE CARRIER CHARGE  
17 AND CREATE NEW ACCESS CHARGE RATE ELEMENTS FOR  
18 BOTH COMPANIES?

19 A. Verizon's proposal to eliminate the CC and create new access charges will  
20 decrease Verizon's access charge revenue by {Begin Proprietary}

21

1 **End Proprietary}** is the increased revenue

2 as a result of the three new access charges.

3  
4 **Residential Local Exchange Service**

5 **Q. HOW MUCH IS VERIZON PROPOSING TO INCREASE LOCAL**  
6 **RESIDENTIAL EXCHANGE RATES TO OFFSET ITS PROPOSAL**  
7 **TO RESTRUCTURE ACCESS CHARGES AND ELIMINATE THE**  
8 **CC?**

9 **A.** Verizon is proposing to increase local residential exchange rates by \$1.90 per  
10 month per line to recover the **{Begin Proprietary}** **{End**  
11 **Proprietary}**(See, OTS Exhibit No 1, Schedule 4, Column C, line 13).

12  
13 **Q. WHAT DO YOU RECOMMEND REGARDING THIS PROPOSAL**  
14 **TO INCREASE LOCAL RESIDENTIAL EXCHANGE RATES BY**  
15 **\$1.90 PER MONTH PER LINE?**

16 **A.** As described above, I recommend that the proposal be rejected.

17  
18 **Q. WHY DO YOU RECOMMEND THAT THE PROPOSAL TO**  
19 **INCREASE LOCAL RESIDENTIAL EXCHANGE RATES BE**  
20 **REJECTED?**

1 A. There is absolutely no reason to increase local residential exchange rates by  
2 almost \$2 per month. Elimination of Verizon's CC charge will shift the cost  
3 of the local loop (currently being recovered in the CC) to local residential  
4 exchange customers. I do not believe residential local residential exchange  
5 customers should pay almost \$2 more per month so that IXCs can enjoy  
6 unlimited free use of the local loop.

7

8 **Q. DO BOTH VERIZON PA'S AND VERIZON NORTH'S CHAPTER 30**  
9 **PLANS PROHIBIT INCREASES IN LOCAL RESIDENTIAL**  
10 **EXCHANGE RATES WITHOUT JUSTIFICATION?**

11 A. Yes. In VZ-PA's Chapter 30 Plan, services provided by VZ-PA are grouped  
12 into various "market baskets." That Plan requires VZ-PA to provide "rational  
13 reasons" for implementing revenue neutral price changes between market  
14 baskets (See, Bell Atlantic - Pennsylvania Inc.'s Alternative Regulation Plan,  
15 Docket No. P-00930715, filed July 27, 1994, p. 11). Verizon has failed to  
16 provide any rational reasons for shifting revenue from the access charge  
17 "market basket" to the "residential local exchange market basket." In VN's  
18 Chapter 30 Plan, local residential exchange service is considered as a  
19 "protected service." In this regard, VN's Chapter 30 Plan requires cost  
20 support for increasing rates on protected services. See, VN Chapter 30 Plan,

1 p. 13. VN has not provided valid cost support that would justify increasing  
2 rates for a protected service such as local residential exchange service.

3  
4 **OTS Proposed Revenue**

5 **Q. WHAT IS THE REVENUE EFFECT OF ESTABLISHING A**  
6 **CARRIER CHARGE OF \$1.20 PER MONTH PER LINE IN THE**  
7 **VERIZON PENNSYLVANIA SERVICE TERRITORY?**

8 A. Establishing a CC of \$1.20 per month per line in the VZ-PA service territory  
9 will produce **{Begin Proprietary}** **{End Proprietary}** in annual  
10 revenue (See, OTS Exhibit No.1, Schedule 3, column H, line 9).

11  
12 **Q. WHAT IS THE REVENUE EFFECT OF ESTABLISHING A**  
13 **CARRIER CHARGE OF \$1.20 PER MONTH PER LINE IN THE**  
14 **VERIZON NORTH SERVICE TERRITORY?**

15 A. Establishing a CC of \$1.20 per month per line in the VN service territory will  
16 produce **{Begin Proprietary}** **{End Proprietary}** in annual  
17 revenue (See, OTS Exhibit No.1, Schedule 3, column H, line 11).

18  
19 **Q. WHAT DO YOU RECOMMEND REGARDING THE CARRIER**  
20 **CHARGE PAID BY ITORP IN THE VERIZON NORTH**  
21 **TERRITORY?**

1 A. I recommend that a CC of \$0.08 per month per line be paid by ITORP.

2

3 **Q. HOW DID YOU DETERMINE THAT THE CARRIER CHARGE**  
4 **PAID BY ITORP SHOULD BE \$0.08 PER MONTH PER LINE?**

5 A. As described above, I recommend that 0.5% of the cost of the local loop be  
6 recovered from ITORP (See OTS Exhibit No 1, Schedule 2, column B, line  
7 7). In this regard, 0.5% of the cost Verizon incurs to provide a local loop  
8 **{Begin Proprietary}**

9 **{End Proprietary}**.

10

11 **Q. WHAT IS THE REVENUE AFFECT OF ESTABLISHING A**  
12 **CARRIER CHARGE OF \$0.08 PER MONTH PER LINE FOR**  
13 **ITORP?**

14 A. Establishing a CC of \$0.08 per month per line in the VN service territory will  
15 produce **{Begin Proprietary}** **{End Proprietary}** in annual  
16 revenue. (See, OTS Exhibit No. 1, Schedule 3, line 13, Column H).

17

18 **Q. HOW DO YOUR PROPOSALS AFFECT THE REVENUE**  
19 **NEUTRALITY OF THE VERIZON PETITION?**

1 A. As shown on OTS Exhibit No. 1, Schedule 4, column F, line 16, the net affect  
2 of all my recommendations is a small revenue increase of \$38,000 for  
3 Verizon.

4

5 **Filing Recommendation**

6 **Q. WHAT DO YOU RECOMMEND VERIZON NORTH INCLUDE IN**  
7 **FUTURE CARRIER CHARGE FILINGS?**

8 A. I recommend that VN include a calculation to determine the CC for the  
9 IXC's, ITORP, and VN separately, and include these rates in the VN tariff,  
10 similar to what is currently being done and provided by Verizon for VZ-PA.

11

12 **Q. WHY DO YOU RECOMMEND THAT VERIZON NORTH INCLUDE**  
13 **A SEPARATE CALCULATION TO DETERMINE THE CC FOR THE**  
14 **IXC'S, ITORP AND VN?**

15 A. This information will enable the Commission and interested parties to  
16 determine the amount of CC that should be recovered from or imputed to  
17 each provider of toll service. Also, since VZ-PA currently provides this  
18 information, it will be easier to compare the rates of both Companies.

1            **Comparison to the RTCC Plan**

2    **Q.    WHAT DOES VERIZON CLAIM ITS PROPOSAL IS BASED UPON?**

3    A.    Verizon claims that its access charge proposal should be approved as filed by  
4            the Commission because it is “modeled upon and virtually identical in  
5            substance to the Rural Telephone Company Coalition (RTCC) Settlement  
6            proposal filed with the Commission on December 16, 2002” (Petition pp. 1,  
7            3, & 4). Moreover, in VZ-PA/VN St. No. 1, p. 19, Ms. Berry states, “[t]he  
8            public advocates, such as OCA and OTS, despite the fact that they are  
9            actively supporting an identical proposal for revenue neutral access  
10           reductions and rate increases for virtually every other ILEC in  
11           Pennsylvania, insist that the Verizon companies should be singled out and  
12           denied revenue neutral offsets.”

13  
14   **Q.    HOW DO THE PROPOSED SWITCHED ACCESS RATES IN THE**  
15           **RTCC SETTLEMENT DIFFER FROM THE SWITCHED ACCESS**  
16           **RATES VERIZON IS PROPOSING IN THIS PETITION?**

17   A.    In the RTCC Settlement, all of the Companies propose to reduce intrastate  
18           traffic sensitive rates to or towards interstate traffic sensitive rates. In this  
19           Petition, Verizon is applying the current VZ-PA local transport switching  
20           rates in the VZ-PA territory to the VZ service territory and creating new  
21           switched access rates. Verizon is also proposing to combine the local

1 switching rates for VZ-PA and VN and create one composite local switching  
2 rate that will be the same for both VZ-PA and VN. The composite local  
3 switching rate will be lower than the current VZ-PA local switching rate, but  
4 higher than the current VN local switching rate. The RTCC Settlement does  
5 not contain any switched access increases or any new switched access  
6 charges.

7  
8 **Q. IS THIS VERIZON PROPOSAL MODELED UPON AND**  
9 **VIRTUALLY IDENTICAL TO THE RTCC SETTLEMENT AS**  
10 **CLAIMED BY VERIZON?**

11 A. No. If the two plans were identical, the rates should be the same. When  
12 asked to provide a comparison of rates proposed by Verizon and the rates  
13 agreed to in the RTCC Plan, Ms. Berry stated that Verizon is unable to  
14 provide such a comparison because no rates were proposed in the filing (See,  
15 OTS Exhibit No. 1, Schedule 7).

16  
17 **Q. DID THE RTCC PROVIDE A SCHEDULE SHOWING PRESENT**  
18 **AND PROPOSED RATES DURING THE SETTLEMENT PROCESS?**

19 A. Yes.

1 **Q. HOW DO THE CHANGES IN THE CARRIER CHARGE IN THE**  
2 **RTCC SETTLEMENT DIFFER FROM THE CHANGES TO THE**  
3 **CARRIER CHARGE IN THIS VERIZON PROPOSAL?**

4 A. In the RTCC Settlement, the CC for each Company was increased to recover  
5 the revenue that would be lost when switched access rates were reduced. The  
6 average weighted CC for all of the RTCC companies was reduced from \$7.00  
7 per month per line to \$5.21 per month per line. The CC for some RTCC  
8 Companies was actually increased<sup>1</sup>, while some were decreased, depending  
9 on the extent of the traffic sensitive rate reductions and limitation on the  
10 increase in local exchange rates. In this proceeding, Verizon is proposing to  
11 completely eliminate its Carrier Charge.

12  
13 **Q. HOW DOES THE INCREASE IN LOCAL EXCHANGE SERVICE**  
14 **RATES IN THE RTCC SETTLEMENT DIFFER FROM THE**  
15 **INCREASES IN LOCAL EXCHANGE SERVICE RATE IN THIS**  
16 **VERIZON PROPOSAL?**

17 A. In the RTCC Settlement, after the CCs were increased, both residential and  
18 commercial local exchange rates were increased. This excess revenue was  
19 then used to only reduce the Carrier Charge. In this proceeding, Verizon is

---

<sup>1</sup> Actually, in the RTCC settlement, the CC was increased for 21 of the 30 RTCC companies.

1 proposing to eliminate its Carrier Charge and recover all the revenue shortfall  
2 by only increasing residential local exchange rates.

3  
4 **Q. IN YOUR OPINION, IS THE VERIZON PROPOSAL MODELED**  
5 **UPON OR EVEN SIMILAR TO THE ACCESS CHARGE**  
6 **REDUCTIONS IN THE RTCC SETTLEMENT?**

7 A. Absolutely not. As describe above, the goals, objectives, methods and final  
8 rates of the RTCC proposal were much different than the goals, objectives,  
9 methods and final rates proposed by Verizon in this Petition. Therefore, this  
10 Petition should not be approved as filed and the Commission should not  
11 permit Verizon to eliminate its CC and increase residential local exchange  
12 rates under the false premise that this Petition is “virtually identical” to what  
13 is contained in the RTCC Settlement.

14  
15 **Q. WHAT SPECIFIC CLAIM IS VERIZON MAKING IN THIS**  
16 **PROCEEDING?**

17 A. Verizon claims that it should be permitted to increase its residential local  
18 exchange rates simply because “OTS and the OCA are actively supporting  
19 allowing Sprint to *increase* its rates, and opposing Verizon’s revenue  
20 neutral proposal” (See, Verizon Statement No. 1.1, p. 22).

1 Q. PLEASE COMMENT ON THIS UNSUPPORTED CLAIM.

2 A. First, Verizon implies that Sprint will receive additional money after its  
3 rebalancing. This implication is false. The entire RTCC proposal is  
4 revenue neutral and just like every other RTCC company, Sprint will offset  
5 access charge reductions with increases in both residential and business  
6 local exchange rates on a revenue neutral basis. Second, Sprint provided a  
7 cost study, which after some modification, showed that the cost of  
8 providing local exchange service exceeds the revenue received from local  
9 exchange service. Third, the OTS' ultimate acceptance of Sprint's  
10 rebalancing was due to the fact that Sprint did not eliminate its CC.

11

12 Q. HOW MUCH DID SPRINT REDUCE ITS CARRIER CHARGE IN  
13 THE RTCC SETTLEMENT?

14 A. Sprint proposed to lower its CC from \$9.36 per month per line to \$7.62 per  
15 month per line. As described above, Verizon is proposing to eliminate its  
16 CC.

17

18 Q. IS THIS ONE OF THE REASONS THE OFFICE OF TRIAL STAFF  
19 SUPPORTED THE RTCC SETTLEMENT?

20 A. Yes. Any proposal by the RTCC to eliminate any CC would have been  
21 unacceptable to OTS.

1 Q. WHAT WOULD THE VERIZON CARRIER CHARGE BE IF IT  
2 WERE MADE IDENTICAL TO THE CARRIER CHARGE  
3 ESTABLISHED IN THE RTCC SETTLEMENT?

4 A. It would depend on what is meant by the word “identical”. If Verizon’s CC  
5 was made “identical” to the weighted average CC in the RTCC Settlement,  
6 then Verizon’s CC would be \$5.21 per month per line for both VZ-PA and  
7 VN. If Verizon’s CC was made “identical” to Sprint’s CC, then it would be  
8 increased to \$7.62 per month per line for both Companies. If Verizon’s CC  
9 was made “identical” to the lowest CC rate in the RTCC Settlement, then it  
10 would be \$1.22 per month per line for both Companies. While I am not  
11 advocating any of these CC rates for Verizon at this time, it does show that  
12 my recommendation to establish a CC of \$1.20 per month per line is  
13 reasonable and much closer to the CCs established in the RTCC Settlement  
14 than Verizon’s proposed CC of zero in this proceeding.

15

16 Verizon Cost Studies

17 Q. WHAT DID VERIZON PROVIDE IN THIS PROCEEDING TO  
18 SUPPORTS IT POSITION OF INCREASING RESIDENTIAL LOCAL  
19 EXCHANGE RATES?

1 A. Verizon provided cost studies for dial tone line and local usage that it claims  
2 supports increasing residential local exchange rates (See, Verizon Statement  
3 No. 2).

4  
5 **Q. IS THIS COST STUDY OF ANY VALUE?**

6 A. No, the cost studies provided by Verizon in this proceeding are worthless.

7  
8 **Q. WHY DO YOU BELIEVE THAT THE VERIZON COST STUDIES**  
9 **ARE WORTHLESS?**

10 A. There are two major flaws in the Verizon cost of service studies. First, the  
11 Company included 100% of the cost of local loops to determine the cost of  
12 providing dial tone line service. As described above, the loop is a shared cost  
13 and it is incorrect to recover 100% of its cost from dial tone line service. As  
14 long as Verizon refuses to accept this fact, any cost study provided by  
15 Verizon will be worthless. Second, the Company employed 12.45% for the  
16 cost of money to determine the cost of local exchange service (See, Verizon  
17 Statement No. 2.0, p. 7). In a recent Commission order establishing  
18 Unbundled Network Element (UNE) rates, the Commission rejected  
19 Verizon's attempt to use 12.95% for the cost of money and instructed  
20 Verizon to use 9.83% as an input to determine the cost of UNEs (See,  
21 Generic Investigation Re Verizon Pennsylvania Inc.'s Unbundled Network

1 Element Rates, Docket No. R-00016683, (entered November 4, 2002) p. 40).

2 There may be additional errors in the Company's cost study, but the two that

3 I have identified are so egregious, there was no need to do any further review.

4

5 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

6 **A. Yes.**

**JOSEPH KUBAS**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION  
PO BOX 3265  
HARRISBURG, PA 17105-3265**

- Education:** Bachelor of Science in Civil Engineering Technology, 1985, University of Pittsburgh at Johnstown, Johnstown, PA.
- Continuing Education:** Legal Principles and Practices of Surveying at the University of Maryland. Economics, Accounting, Lotus, at the Howard Community College. Accounting at the University of Pittsburgh at Johnstown. Managing Multiple Priorities at the Pennsylvania State University. Various PA-PUC and Utility Company Seminars.
- Professional Exams:** Engineer In Training, 1985, Uniform Certified Public Accounting Exam, 1993.
- Experience:** **FIXED UTILITY VALUATION ENGINEER III**  
December 1999 - Present  
  
Pennsylvania Public Utility Commission  
Office of Trial Staff
- Duties:** Perform the duties of a Fixed Utility Valuation Engineer III in the Office of Trial Staff (OTS).  
  
Analyze and review valuation engineering, and rate structure data submitted by Water, Sewer, Telephone, Gas and Steam Heat utilities to justify utility service rates or alternative forms of regulation, by researching, analyzing, and reviewing rate case filings and investigations. Participate in on-site inspections of utility properties to determine the used and usefulness of the plant-in service and make recommendations. Prepare interrogatories in the areas of rate base, rate structure, revenue and quality of service in order to obtain additional

information regarding a utility's filing. Analyze present and proposed revenue and rate structure, and make recommendations regarding the appropriate methodology for each particular utility to employ. Prepare testimony and exhibits for the purpose of establishing the OTS positions in formal and informal proceedings before the Commission. Participate in Commission consultative report proceedings and collaboratives undertaken by the Commission.

**Experience:** **FIXED UTILITY VALUATION ENGINEER II**  
April 1996 - December 1999

Pennsylvania Public Utility Commission  
Office of Trial Staff and Bureau of Fixed Utility Services

**Duties:** Perform the duties of a Fixed Utility Valuation Engineer II in the Office of Trial Staff (OTS) and Bureau of Fixed Utility Services.

**Experience:** **FIXED UTILITY VALUATION ENGINEER TRAINEE, I & II**  
May 1993 - March 1996

Pennsylvania Public Utility Commission  
Office of Trial Staff  
Telecommunications and Water Division

**Duties:** Perform the duties of a Fixed Utility Valuation Engineer II in the Rate Structure/Engineering Section of the Telecommunications and Water Division of the Office of Trial Staff (OTS).

**Experience:** **CIVIL ENGINEER**  
May 1985 - January 1991

Clark Finefrock & Sackett Inc.  
7135 Minstrel Way  
Columbia, MD 21045

**Duties:** Engineering, Surveying, Computer, and Field Inspection work related to land development projects in Maryland.

**Testimony Before the Pennsylvania Public Utility Commission**

1.	National Utilities Inc. (Water)	R-00953416	April 1996
2.	Consumer Pennsylvania Water Company - Roaring Creek Division	R-00973869	May 1997
3.	Philadelphia Suburban Water Company	R-00973952	August 1997
4.	Bell Atlantic - Pennsylvania Inc.	P-00971307	March 1998
5.	City of Bethlehem- Bureau of Water	R-00984375	September 1998
6.	Pennsylvania Telephone Association - Chapter 30 Plan	P-00981425	December 1998
7.	GTE North Inc. Telephone Chapter 30 Plan	P-00981449	February 1999
8.	Pennsylvania American Water Co.	R-00994638	August 1999
9.	Philadelphia Suburban Water Co.	R-00994868	February 2000
10.	PG Energy (Gas)	R-00005119	June 2000
11.	Pennsylvania American Water - Coatesville Acquisition	A-212285-F07201	July 2000
12.	T. W Phillips Gas and Oil Company	R-00005459	October 2000
13.	Verizon North - Chapter 30 Plan	P-00001854	January 2001
14.	Philadelphia Gas Works	R-00006042	April 2001
15.	PFG Gas Inc. & Penn Fuels Gas Co.	R-00013679	July 2001
16.	Pennsylvania American Water Co.	R-00016339	August 2001
17.	Philadelphia Suburban Water Co.	R-00016750	February 2002
18.	Philadelphia Gas Works	R-00017034	May 2002
19.	PFG Gas Inc. & Penn Fuels Gas Co	R-00027389	July 2002
20.	Verizon - Pennsylvania, Inc.	P-00021973	September 2002
21.	Verizon - Pennsylvania, Inc.	P-00937105-F0002	January 2003
22.	Pennsylvania American Water Co.	R-00027982	April 2003
23.	Dominion Peoples 1307(f)	R-00038170	May 2003

OTS Exhibit No. 1  
Witness: Joseph Kubas  
Date: July 18, 2003  
(Revised)

8/26/03  
Hog JK

AT&T COMMUNICATIONS OF PENNSYLVANIA INC.

v.

VERIZON NORTH INC.

DOCKET NO. C-20027195

DOCKETED  
SEP 02 2003

DOCUMENT  
FOLDER

NON-PROPRIETARY

Exhibit to Accompany the

Direct Testimony

of

Joseph Kubas

Office of Trial Staff

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AUG 28 2003  
PA PUBLIC UTILITY COMMISSIC  
SECRETARY'S BUREAU

Concerning:

Access Charges  
Local Residential Exchange Rates

**Weighted Average Local Loop Cost for Verizon**

**Docket No. C-20027195**

	<b>Verizon PA Number of Lines *1</b>	<b>Verizon North Number of Lines *1</b>	<b>Verizon TOTAL Number of Lines</b>	<b>Percent of Total Lines</b>	<b>UNE Rate*2</b>	<b>Weighted Rate</b>
<b>(A)</b>	<b>(B)</b>	<b>(C)</b>	<b>(D= B+C)</b>	<b>(E)</b>	<b>(F)</b>	<b>(G=EXF)</b>
<b>{Begin Proprietary}</b>						
1	Density Cell 1					
2	Density Cell 2					
3	Density Cell 3					
4	Density Cell 4					
5	<b>TOTAL</b>					

**{End Proprietary}**

6 \*1 Response to OTS -3

7 \*2 Verizon Tentative Order Rates - Docket No. R-00016683  
filed December 4, 2002

**Cost of Local Loop and  
 Amount Recovered Through the CC Charges  
 for Verizon**

**Docket No. C-20027195**

	(A)	Percent of Total	TOTAL Verizon
		(B)	(C)
1	Weighted Average		
2	Loop Cost	100.0%	\$15.09
3	<u>Services that Use Local Loop:</u>		
4	Local Service	* 74.0%	\$11.16
5	Interstate IXC Access Service	6.0%	\$0.91
6	Verizon Toll	3.5%	\$0.53
7	ITORP Toll	0.5%	\$0.08
8	Intrastate IXC Access Service	10.0%	\$1.51
9	Other Services	6.0%	\$0.91
10	Totals	100.0%	\$15.10
11	<b>OTS Recommended Local Loop Cost That</b>		
12	<b>Should Be Recovered Through the</b>		
13	<b>Intrastate IXC Carrier Charge</b>		<b>\$1.20</b>

14 \* From Page 82, Docket I-00940035,  
 Order Entered January 28, 1997

Carrier Charge Rates and Revenue  
 for Verizon

Docket No. C-20027195

{Begin Proprietary}

VERIZON PROPOSAL

	Share of Toll Market	Number of Lines x 12	Present CC	Present Revenue	Revenue Reduction	Proposed CC	Proposed Revenue
(A)	(B)	(C)	(D)	(E = C X D)	(F = E - H)	(G)	(H = C X G)
1 <u>Verizon PA</u>							
2 IXC Access	100%		\$0.63	\$0	\$0	\$0.00	\$0
3 <u>Verizon North</u>							
4 IXC Access	86.4%		\$8.6354	\$0	\$0	\$0.00	\$0
5							
6							
7 TOTAL VN	86%			\$0	\$0		\$0
8 Total Verizon		0		\$0	\$0		\$0

OFFICE OF TRIAL STAFF RECOMMENDATION

	Share of Toll Market	Number of Lines x 12	Present CC	Present Revenue	Revenue Reduction	Proposed CC	Proposed Revenue	
9 <u>Verizon PA</u>								
IXC Access	100%		\$0.63	\$0	\$0	\$1.20	\$0	
10 <u>Verizon North</u>								
11 IXC Access	100.0%	0	\$8.6354	\$0	\$0	\$1.20	\$0	
12								
13								
14 TOTAL VN	100%	0		\$0	\$0		\$0	
15 Total Verizon		0		\$0	\$0		\$0	
16								
			Total CC Difference (Line 8 - Line 15)					\$0

{End Proprietary}

**TOTAL COMBINED REVENUE  
 for Verizon PA and Verizon North**

**Docket No. C-20027195**

{Begin Proprietary}

	VERIZON PROPOSAL			OTS RECOMMENDATION		
	Present	Increase	Proposed	Present	Increase	Proposed
(A)	(B)	(C = D - B)	(D)	(E)	(F = G - E)	(G)
1 Verizon PA Local Transport						
2 Verizon North Local Transport						
3 Total Local Transport	<hr/>			<hr/>		
4 Verizon PA Local Switching						
5 Verizon North Local Switching						
6 Total Local Switching	<hr/>			<hr/>		
7 Verizon PA Carrier Charge						
8 VN IXC Carrier Charge						
9 VN Toll						
10 VN ITORP Toll						
11 Total Carrier Charge	<hr/>			<hr/>		
12 Net Change In Access Charges (Lines 3+6+11)						
13 Increase In Residential Local Rates						
14 Revenue Affect (Line 12 + Line 13)						
15 Imputed CC Revenue for Verizon North Toll (Line 9)						
16 NET REVENUE AFFECT					\$38,056	

{End Proprietary}

RESPONSE OF VERIZON PENNSYLVANIA INC. TO SET III, INTERROGATORY NO. 12 OF OFFICE OF CONSUMER ADVOCATE DATED JUNE 9, 2003, SUBMITTED IN DOCKET C-20027195 BEFORE THE PA PUC (ACCESS CHARGE)

ANSWERED BY: Michael J. Wirl  
POSITION: Senior Product Manager

REQUEST:

With reference to Verizon Pennsylvania's Access Service Tariff, Section 6.9.7 (Carrier Charge, applicable to IXCs), a rate of \$0.63 per line per month is shown. A footnote indicates that the total Carrier Charge is \$0.88 per line per month, with \$0.63 being the IXCs' portion of the Carrier Charge.

Please provide the workpapers that show how the Verizon Companies' and the IXCs' portions of the Carrier Charge are determined.

Please provide a copy of any tariffs or orders that explain how the Verizon Companies' applicable carrier charges are currently determined?

RESPONSE:

**This information is Verizon Proprietary.**

The following computations support the current tariffed rate of \$0.63:

	INTRASTATE TOLL SEGMENTS			
	ITORP	IXCs	VZ PA	Total
MOUs 12 Months ending June 2002	347,120,099	7,198,374,260	2,540,266,424	10,085,760,783
Market Share	3.4%	71.4%	25.2%	100%
Rate (Market Share x \$0.88 CC rate)	\$0.03	\$0.63	\$0.22	\$0.88

On a semi-annual basis, Verizon looks at the current toll minutes of use to determine if the CC is apportioned correctly per the process described in Verizon's initial CC filing (Docket No. R-00005167). See Attachment OCA\_III-12 (Docket R-00005167).

RESPONSE OF VERIZON NORTH INC. TO SET IV, INTERROGATORY NO. 11 OF  
OFFICE OF CONSUMER ADVOCATE DATED JUNE 9, 2003, SUBMITTED IN DOCKET  
C-20027195 BEFORE THE PA PUC (ACCESS CHARGE)

ANSWERED BY: Michael J. Wirl  
POSITION: Senior Product Manager

REQUEST:

With reference to Verizon North's, Verizon PA's, and/or Verizon Long  
Distance's ("Verizon Companies") intrastate Carrier Charge applicable  
to IXC's, (i.e. a rate of \$8.64 per line per month).

- A. How are the Verizon Companies' share or portion of the CC charge  
(i.e. the portion that is assigned or imputed to the Verizon  
Companies as its responsibility) determined?

Please provide the workpapers that show how the Verizon Companies'  
and the IXC's' portions of the Carrier Charge are determined.

- B. What is the Verizon Companies' portion of the Carrier Charge? Are  
the Verizon Companies' shares included in the \$8.64 rate, or is  
their share separate and in addition to the \$8.64 charge? If it is  
a separate charge for Verizon North, please provide the monthly  
charge per line.

- B. Please provide a copy of any tariffs or orders that explain how the  
Verizon Companies' applicable carrier charges are currently  
determined.

RESPONSE:

- A. As with any other carrier, Verizon's assigned or imputed share of  
the CC Charge is based on its relative share of intrastate toll  
minutes:

For February 2003, the calculation was:

INTERLATA & INTRALATA Switched MOU's (from CABS)	90,312,609
INTRALATA MTS MOU's (from ITORP)	10,521,438
INTRALATA IMPUTED MOU's	3,669,996
 TOTAL SWITCHED/TOLL MOU's	 104,504,043

Pennsylvania Access Lines Applicable to NTS charge 686,883  
Source: SAR MOR DETAIL REORT SWITCHED ACCESS LINES

ACCESS LINES TO BE ALLOCATED TO CARRIERS:

Access lines to be allocated to LECS:	69,155
Carrier Charge (Flat Rate)	8.6354
Total INTRASTATE Settlement Carrier Charge:	\$597,183

- B. Of Verizon North's \$8.64, total Carrier Charge, approximately \$0.52 is imputed to Verizon's own toll.
- A. Verizon North's Carrier Charges are calculated as outlined in Telephone-Pa. P.U.C. No. 9 tariff outlined in Section 12, Sheet 13:

Allocation of Access Lines Among Carriers

For purposes of application of the monthly Carrier Charge per access line, the total number of access lines must be allocated among all carriers. Originating access minutes of use associated with calls placed to Service Access Code numbers which terminate to dedicated access lines will be rated at the terminating rate and included in the allocation process.

MOU<sub>x</sub> = Total monthly originating and terminating  
access minutes of use for carrier X.

MOU<sub>tot</sub> = Total monthly originating and terminating  
access minutes of use for all carriers.  
Number of Access Lines for Carrier X =

$\frac{MOU_x}{MOU_{tot}} * Q_{tot}$

(This step is to be completed for each carrier).

This process will be performed monthly based on the relationship of each carrier's minutes of use to the total minutes of use from the previous month.

RESPONSE OF VERIZON PENNSYLVANIA INC. TO INTERROGATORY NO. 19 OF OFFICE OF TRIAL STAFF DATED JULY 2, 2003, SUBMITTED IN DOCKET NO. C-20027195 BEFORE THE PA PUC (ACCESS CHARGE)

ANSWERED BY: Debra M. Berry  
POSITION: Director - Regulatory

REQUEST:

On page 8 of Verizon Statement No, 1, Verizon claims that its proposal is "virtually identical" to the RTCC Settlement filed in December 2002. Provide a comparison of Verizon Pennsylvania Inc.'s and Verizon North's present and proposed switched access rates in this filing to the present and proposed switched access rates in the RTCC Settlement.

RESPONSE:

The complete phrase in the testimony is that Verizon's proposal is "virtually identical in substance" to the RTCC Settlement. There was no intent on the part of Verizon to claim that the resulting switched access rates would be identical, rather that Verizon's approach to reducing access rates and recovering revenue losses was virtually identical to the proposal of the RTCC parties.

Further, Verizon is unable to provide a comparison of Verizon's proposed switched access rates to the RTCC's switched access rates because no rates were provided in the RTCC filing.

OTS Statement No. 1-SR  
Witness: Joseph Kubas  
Date: August 4, 2003

8/26/03 Hlog JDC

DOCUMENT  
FOLDER

AT&T COMMUNICATIONS OF PENNSYLVANIA INC.

v.

VERIZON NORTH INC.

DOCKET NO. C-20027195

NON-PROPRIETARY

DOCKETED  
SEP 02 2003

Surrebuttal Testimony

of

Joseph Kubas

Office of Trial Staff

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AUG 28 2003  
PA PUBLIC UTILITY COMMISSIO  
SECRETARY'S BUREAU

Concerning:

Access Charges  
Local Residential Exchange Rates

1 Q. **WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is Joseph Kubas and my business address is Pennsylvania Public  
3 Utility Commission, P.O. Box 3265, Harrisburg, PA 17105.

4

5 Q. **ARE YOU THE SAME JOSEPH KUBAS THAT FILED OTS  
6 STATEMENT NO. 1 AND OTS EXHIBIT NO. 1 IN THIS  
7 PROCEEDING?**

8 A. Yes.

9

10 Q. **WHAT IS THE PURPOSE OF YOUR SURREBUTTAL  
11 TESTIMONY?**

12 A. The purpose of my surrebuttal testimony is to address the rebuttal testimony  
13 of AT&T, Inc. (AT&T), WorldCom Network Services Inc. (MCI), and Qwest  
14 Communications Corporation (Qwest).

15

16 Q. **WHAT SPECIFIC ISSUES DO YOU ADDRESS?**

17 A. I will address AT&T's, MCI's and Qwest's support of Verizon Pennsylvania  
18 Inc. (VZ-PA) and Verizon North Inc. (VN) (Collectively, "Verizon" or "the  
19 Companies") proposal to eliminate the Carrier Charge (CC) that the  
20 Interexchange Carriers (IXCs) now pay to VZ-PA and VN. I will also  
21 address Qwest's proposal to make all intrastate access charges identical to  
22 interstate access charges, as well as its claims that lower access charges may

1 result in lower toll rates, is not the entire story. The fact that I have not  
2 addressed every issue raised by every other party should not be construed to  
3 mean that I agree with their position on those issues.  
4

5 AT&T and MCI

6 **Q. WHAT ARE AT&T'S AND MCI'S POSITIONS REGARDING**  
7 **VERIZON'S ACCESS CHARGE PROPOSAL?**

8 A. Generally, AT&T supports those aspects of the proposal that contemplate  
9 aggressive reductions in existing carrier access charges. For example,  
10 AT&T fully supports Verizon's proposal to completely eliminate the  
11 Carrier Charge for both VZ-PA and VN. (See AT&T Statement No. 1.0, p.  
12 6). Similarly, MCI recommends that the Commission eliminate both of  
13 Verizon's CCs immediately. (See MCI Statement No. 1.0, p. 38).  
14

15 **Q. WHY DO AT&T AND MCI SUPPORT ELIMINATING THE**  
16 **VERIZON CARRIER CHARGE?**

17 A. Quite simply, AT&T and MCI want to save money. Eliminating the CC  
18 will allow AT&T and MCI to have unlimited free use of the local loop to  
19 originate and terminate toll traffic. The amount of money AT&T and MCI  
20 will save if the CC is eliminated depends on the market share of each  
21 Company.

1 Q. WHAT PERCENTAGES OF THE PENNSYLVANIA LONG  
2 DISTANCE MARKET ARE ATTRIBUTABLE TO AT&T AND  
3 MCI?

4 A. Since I am not aware of Pennsylvania specific market share data, I have  
5 relied upon nationwide market share data obtained from TNS Telecoms to  
6 determine the market share of each company in Pennsylvania. Based upon  
7 this analysis, AT&T has about 33% of the interLATA intrastate long  
8 distance market in Pennsylvania, while MCI has about 16% of the same  
9 market<sup>1</sup>.

10

11 Q. BASED UPON THE TNS TELECOMS ESTIMATES, HOW MUCH  
12 MONEY WILL AT&T AND MCI SAVE IF BOTH VERIZON-  
13 PENNSYLVANIA'S AND VERIZON NORTH'S CARRIER  
14 CHARGES ARE ELIMINATED?

15 A. AT&T will save approximately {Begin Proprietary}  
16 {End Proprietary}, and MCI will save  
17 approximately {Begin Proprietary}  
18 {End Proprietary} if both VZ-PA's and VN's CCs are  
19 eliminated.

20

---

<sup>1</sup> See the TNS Telecoms website at <http://www.tnstelecoms.com/press-1-7-03.htm>.

1 **Q. IS THIS WHY AT&T AND MCI SO VIGOROUSLY SUPPORT**  
2 **ELIMINATING VZ-PA'S AND VN'S CARRIER CHARGES?**

3 A. Yes. AT&T and MCI would like to see the CC eliminated and local  
4 residential exchange rates increased almost \$2 per month so that both  
5 Companies will save millions of dollars each year in access charges.

6  
7 **Q. WHAT IS THE FIRST REASON AT&T GIVES FOR SUPPORTING**  
8 **THE COMPLETE ELIMINATION OF THE CARRIER CHARGE?**

9 A. AT&T first states that the elimination of the CC is long overdue. AT&T  
10 refers to page 60 of the Global Order in support of its position that the CC  
11 should be eliminated by stating "[i]n fact, the Commission expressed its  
12 belief that the sooner that we resolve the reduction and possible elimination  
13 of the carrier pool, the better it would be for the competitive environment in  
14 Pennsylvania." (See AT&T Statement No. 1, p. 9).

15  
16 **Q. IS THERE A DIFFERENCE BETWEEN THE CARRIER "POOL"**  
17 **AND THE CARRIER "CHARGE"?**

18 A. Yes. The Carrier Pool is the name that was given to the Universal Service  
19 Support mechanism in the Global order (See Global Order p. 142). All  
20 telecommunication providers pay into the Carrier Pool fund so that  
21 customers with high local exchange service bills served by small Incumbent  
22 Local Exchange providers (ILECs) can receive a credit on their bill.

1           However, as described in my direct testimony, the CC is a per line access  
2           charge designed to recover a portion of the cost of the local loop (See OTS  
3           Statement No. 1, p. 3).

4  
5   **Q.   HAS THE COMMISSION EVER INDICATED THAT THE**  
6   **CARRIER CHARGE SHOULD BE ELIMINATED?**

7   A.   No. AT&T is apparently trying to support its position to eliminate the CC  
8       by confusing the two terms.

9  
10 **Q.   WHAT IS THE SECOND REASON AT&T GIVES FOR**  
11 **SUPPORTING THE COMPLETE ELIMINATION OF THE**  
12 **CARRIER CHARGE?**

13 A.   AT&T states that a CC “has absolutely no basis in the cost of providing  
14       carrier access services.” AT&T further states that the CC remains “a pure  
15       subsidy element with no basis whatsoever in the ILEC’s actual cost of  
16       originating or terminating long distance calls.” (See AT&T Statement No.  
17       1, p. 28).

18  
19 **Q.   WHAT REASON DOES MCI GIVE FOR SUPPORTING THE**  
20 **COMPLETE ELIMINATION OF THE CARRIER CHARGE?**

1 A. MCI believes that access services do not result in any incremental cost,  
2 therefore, the entire cost of the local loop should be charged to Residential  
3 Local Exchange customers. (See MCI Statement No. 1, p. 38, line 17).

4

5 **Q. ARE AT&T AND MCI CORRECT THAT THE CARRIER CHARGE**  
6 **HAS NO COST BASIS?**

7 A. No. Contrary to AT&T and MCI's statements, the local loop is obviously a  
8 joint cost which is used in the provision of intrastate toll service.  
9 Moreover, in April 2003, the Commission determined that the CC does  
10 have a cost basis by defining the CC as an access charge designed to recover  
11 a portion of the cost of the local loop that IXCs use in the origination and  
12 termination of long distance calls. (See, Pennsylvania Public Utility  
13 Commission v. North Pittsburgh Telephone Company, Docket No.  
14 R-00038087 (entered April 10, 2003), p. 2. This definition is consistent with  
15 the Commission's prior determination that the local loop is a joint cost and  
16 the cost of the local loop should be recovered from all of the services that  
17 use it. (See OTS Statement No. 1, p. 5).

1 QWEST

2 **Q. WHAT IS QWEST'S POSITION REGARDING VERIZON'S**  
3 **PROPOSAL?**

4 A. Qwest states that it believes that Verizon's access charge proposal in this  
5 proceeding is a step in the right direction. (See Qwest Statement 1.0, p. 5).  
6 Qwest goes on to propose that Verizon's intrastate switched access rates be  
7 lowered to interstate levels with revenue neutral offsets in other services.  
8 Qwest states that this will eliminate the CCL charge completely and reduce  
9 the rates for many other rate elements. (See Qwest Statement 1.0, p. 10).

10

11 **Q. WHAT IS THE FIRST REASON QWEST GIVES FOR**  
12 **SUPPORTING THE COMPLETE ELIMINATION OF THE**  
13 **CARRIER CHARGE?**

14 A. Similar to AT&T, Qwest believes the CC charge has no direct access cost  
15 component and therefore represents pure contribution to the business.  
16 Specifically, Qwest alleges that this rate element is a mechanism that was  
17 established to support the Non-Traffic Sensitive portion of basic exchange  
18 service, which is the loop. (See Qwest Statement No. 1.0, p. 8).

19

20 **Q. IS QWEST CORRECT THAT THE CARRIER CHARGE HAS NO**  
21 **COST BASIS?**

22 A. No, for the reasons described above.

1 Q. WHAT IS THE SECOND REASON QWEST GIVES FOR  
2 SUPPORTING THE COMPLETE ELIMINATION OF THE  
3 CARRIER CHARGE?

4 A. Qwest believes that intrastate access rates should be lowered to interstate  
5 access rate levels. (See Qwest Statement 1.0, pp. 5, 6, 10, 13). Qwest states  
6 that differences in intrastate and interstate access charges invites toll  
7 providers to misreport intrastate traffic as interstate traffic. (See Qwest  
8 Statement No. 1, p 14).

9

10 Q. DID QWEST PROVIDE A SCHEDULE SHOWING WHAT  
11 SPECIFIC INTRASTATE ACCESS CHARGE IT WOULD LIKE  
12 LOWERED OR THE REVENUE AFFECT OF LOWERING RATES  
13 TO INTERSTATE LEVELS?

14 A. No.

15

16 Q. DID QWEST PROVIDE A COST STUDY TO SUPPORT  
17 LOWERING INTRASTATE ACCESS CHARGES TO INTERSTATE  
18 LEVELS?

19 A. No.

1 Q. DID QWEST PROVIDE A SCHEDULE SHOWING WHICH RATES  
2 WILL HAVE TO BE INCREASED TO KEEP THE FILING  
3 REVENUE NEUTRAL FOR VERIZON?

4 A. No. Qwest states that it is not in a position to propose rate increases at this  
5 time. (See Qwest Statement No. 1, p 11).

6

7 Q. SHOULD INTRASTATE ACCESS CHARGES BE EQUAL TO  
8 INTERSTATE ACCESS CHARGES?

9 A. No. The Federal Communications Commission (FCC) has jurisdiction over  
10 interstate service and has its own policies and costing methods that it  
11 believes operate in the best interest of interstate communications.

12 Similarly, the Pennsylvania Public Utility Commission has its own policies  
13 and costing methods that it believes operate in the best interest of intrastate  
14 communications. Sometimes these policies and costing methods differ, as  
15 is the case with the cost recovery of the local loop. There are often sound  
16 reasons for these differences.

17

18 Q. WHAT SHOULD THE COMMISSION DO WITH ITS PROPOSAL  
19 TO LOWER INTRASTATE ACCESS CHARGES TO INTERSTATE  
20 LEVELS?

21 A. The Commission should reject this unsupported proposal made by Qwest in  
22 this proceeding.

1 Q. WHY SHOULD THE COMMISSION REJECT QWEST'S  
2 PROPOSAL?

3 A. As described above, Qwest provided no specific rate recommendation, no  
4 schedule showing the revenue impact of its proposal, no cost of service  
5 study to support its proposal, and did not identify which rates would have to  
6 be increased to keep the filing revenue neutral.

7

8 Q. DOES QWEST CLAIM THAT CUSTOMERS WILL BENEFIT  
9 FROM REDUCING SWITCHED ACCESS RATES?

10 A. Yes. Qwest states “[o]n the whole, customers will experience toll rate  
11 reductions that balance out any offsetting rate increases. The consumer is  
12 the ultimate winner in all aspects of this proposal.” (See Qwest Statement  
13 No. 1, p. 7, and p. 10).

14

15 Q. DOES QWEST RETREAT FROM THESE GUARANTEES IN  
16 ANOTHER PART OF ITS TESTIMONY?

17 A. Yes. Qwest retreats from these guarantees on page 7 when it states “it is  
18 reasonable to assume that toll providers will pass through intrastate  
19 switched access reductions in the form of lower toll rates.” (See Qwest  
20 Statement No. 1, p. 7).

1 **Q. DOES QWEST GUARANTEE THAT IT OR ANY OTHER IXC**  
2 **WILL PASS THROUGH ACCESS CHARGE REDUCTIONS IN THE**  
3 **FORM OF LOWER TOLL RATES?**

4 **A.** No. Qwest provides no such guarantee of lower toll rates, leaving it and the  
5 other IXCs free to pocket any access charge reductions rather than pass on  
6 the lower cost to IXC customers.

7

8 **Q. EVEN IF IXCS PASS THROUGH ACCESS CHARGE**  
9 **REDUCTIONS IN THE FORM OF LOWER TOLL RATES, WILL**  
10 **CUSTOMERS NECESSARILY SEE A REDUCTION IN THEIR**  
11 **TOTAL IXC BILL?**

12 **A.** No. What Qwest fails to mention is that IXC customers now pay most of  
13 the following charges or fees: monthly minimum usage charges, calling  
14 plan charges, billing fees, instate connection fees, universal service fee-  
15 connectivity charges, regulatory assessment fees, as well as other taxes and  
16 fees that were not previously listed on a customer's bill a few years ago.  
17 Therefore, in order to be valid, any comparison of access charge reductions  
18 to toll rates over time, the comparison must include all of the new  
19 additional charges, fees and taxes that IXCs routinely add to a customer's  
20 bill, or plan to add in the future. Only this true comparison will  
21 demonstrate whether IXCs actually pass on access charge reductions to  
22 customers.

1 Q. DID QWEST PROVIDE A COMPARISON OF ACCESS CHARGES TO A  
2 CUSTOMERS' TOTAL BILL AS YOU DESCRIBE, OR EVEN TO BASIC  
3 TOLL RATES TO SUPPORT ITS CLAIM?

4 A. No.

5

6 Q. SHOULD THE CARRIER CHARGE BE ELIMINATED AS  
7 PROPOSED BY VERIZON AND SUPPORTED BY AT&T, MCI  
8 AND QWEST?

9 A. No, for the reasons stated above and in OTS Statement No. 1, pp. 3-5  
10 and 17.

11

12 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

13 A. Yes.

8/26/03 Hbg dx

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

AT&T Communications of Pennsylvania :  
Inc. :

v. :

Verizon North Inc. :

Docket No. C-20027195

**DOCKETED**

SEP 02 2003

REBUTTAL TESTIMONY

OF

WILLIAM DUNKEL

**RECEIVED**

DOCUMENT  
FOLDER

AUG 28 2003

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

ON BEHALF OF

THE OFFICE OF CONSUMER ADVOCATE

July 18, 2003

INFORMATION ALLEGED TO BE PROPRIETARY HAS BEEN DELETED

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1 **I. INTRODUCTION AND STATEMENT OF QUALIFICATIONS**

2  
3  
4 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

5 A. My name is William Dunkel. My business address is 8625 Farmington Cemetery  
6 Road, Pleasant Plains, Illinois 62677.

7  
8 **Q. WHAT IS YOUR PRESENT OCCUPATION?**

9 A. I am a consultant providing services in telephone rate proceedings. I am the  
10 principal of William Dunkel and Associates, which was established in 1980.  
11 Since that time, I have regularly provided consulting services in telephone  
12 regulatory proceedings throughout the country. I have participated in over 140  
13 state regulatory telephone proceedings before over one-half of the state  
14 commissions in the United States. I have participated in telephone regulatory  
15 proceedings for over 20 years.

16  
17 **Q. DID YOU PREPARE AN APPENDIX THAT DESCRIBES YOUR**  
18 **QUALIFICATIONS?**

19 A. Yes. My qualifications are shown on Appendix A.

20  
21  
22 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

23 A. I am testifying on behalf of the Pennsylvania Office of Consumer Advocate.

24

1   **Q.   HAVE YOU PREVIOUSLY PARTICIPATED IN PROCEEDINGS IN**  
2       **PENNSYLVANIA?**

3   A.   Yes. I testified in Pennsylvania Docket R-00963550, which was Bell Atlantic's  
4       Rate Rebalance Proceeding. In addition, I participated in the Automatic Savings  
5       Plan case, Docket No. R-00953409, pertaining to Bell Atlantic-Pennsylvania (Bell).  
6       I testified in the Alternative Regulation proceeding involving the Bell Telephone  
7       Company of Pennsylvania in Docket P-00930715. I filed testimonies in the General  
8       Rate proceeding involving Enterprise Telephone Company in Docket R-922317. I  
9       testified in the InterLATA Toll Service Investigation, Docket I-910010, which  
10      involved all telecommunications companies in Pennsylvania. I also testified in the  
11      Local Calling Area Case, Docket C-902815, which involved GTE North and United  
12      Telephone Company. I also participated in two local calling area cases involving  
13      Commonwealth Telephone Company, Docket Nos. C-913263 and C-903161,  
14      although these two Commonwealth cases were settled prior to filing of testimony.

15  
16   **Q.   PLEASE BRIEFLY DESCRIBE YOUR EXPERIENCE IN THE FIELD OF**  
17       **TELECOMMUNICATIONS.**

18   A.   From November 1975 to July, 1980, I was an engineer in the Telephone Section  
19      of the Illinois Commerce Commission. I was the expert witness for the  
20      Telephone Section during that time. I participated in essentially all telephone rate  
21      cases that were set for hearings in the State of Illinois during that period. In this

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1 position, I routinely analyzed and testified on cost studies and rate design issues  
2 on behalf of the Illinois Commerce Commission Staff. I was the Separations and  
3 Settlements expert for the Illinois Commerce Commission.

4  
5 From July, 1977 to July, 1980, I was a Staff member of the Federal Communications  
6 Commission - State Joint Board on Separations, FCC Docket No. 20981 on behalf  
7 of the Illinois Commerce Commission. The Joint Board had the national  
8 responsibility of recommending changes to be made, if any, in the Separations  
9 Manual as a result of customer ownership of terminal equipment.

10  
11 In January of 1976, I attended the AT&T Division of Revenues School as a guest  
12 and in September of that year I attended the General Telephone Company Toll  
13 Revenues Management Course.

14  
15 **Q. PLEASE BRIEFLY DESCRIBE YOUR OTHER BUSINESS**  
16 **EXPERIENCE.**

17 A. In February of 1970, I was employed by the Sangamo Electric Company as a  
18 Design Engineer initially in Navy sonar equipment, and later in the design of  
19 electric watt-hour meters. During this period, I was granted patent No. 3822440  
20 entitled a Solid State Pulse Initiator. In April of 1974, I was employed by the  
21 Illinois Commerce Commission in the Electric Section as a Utility Engineer. In

1 November of 1975, I transferred to the Telephone Section of the Illinois  
2 Commerce Commission and from that time to July of 1980 I was assigned  
3 essentially all telephone rate cases and other telephone rate matters that were set  
4 for hearing in the State of Illinois. Finally, I have testified before the Illinois  
5 House of Representatives Subcommittee on Communications and have  
6 participated in numerous schools and conferences pertaining to the Utility  
7 industry.

8  
9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

10 A. I graduated from the University of Illinois in February of 1970 with a Bachelor's  
11 of Science Degree in Engineering Physics with emphasis on economics and other  
12 business related subjects. I have taken several post-graduate courses since my  
13 graduation. These post-graduate courses include statistical analysis from  
14 Sangamon State University in Illinois, and computer circuit design and the design  
15 of servo mechanisms from the University of Illinois.

16  
17 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

18 A. The purpose of this testimony is to respond to Verizon's Direct testimony in this  
19 proceeding.

20  
21

1 **II. SUMMARY**

2  
3 **Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

4 **A.** Yes. My Direct Testimony is summarized as follows:

- 5 1. One purpose of this proceeding is to establish "parity" rates for GTE-  
6 North and BA-PA to fulfill the requirements of the Bell Atlantic/GTE  
7 Merger Order. Verizon admits that "the concept of 'parity' under the  
8 Merger Order can be achieved simply by melding the two companies' rate  
9 structures without any revenue reduction".  
10  
11 2. Verizon's proposal would increase residential basic local exchange revenues  
12 between **[BEGIN PROPRIETARY]**  
13 **[END PROPRIETARY]** per year. These higher  
14 revenues would be used to support proposed reductions in switched access  
15 service.  
16  
17 3. The OCA proposes that Verizon's intrastate switched access rates be  
18 restructured revenue neutral, to establish uniform access rates that apply to  
19 both Verizon PA and Verizon North, with no rate increases for any other  
20 services. Specifically, OCA proposes that Verizon establish a **[BEGIN**  
21 **PROPRIETARY]** **[END PROPRIETARY]** carrier charge (CC)  
22 charge per line, per month, and a traffic-sensitive switched access charges  
23 which total **[BEGIN PROPRIETARY]** **[END PROPRIETARY]**  
24 per minute.  
25  
26 4. The resulting rates under the OCA's proposal are reasonable and appropriate  
27 for the following reasons: 1) Verizon will fulfill its Merger Requirement of  
28 parity rates between Verizon PA and Verizon North, 2) Verizon will  
29 achieve the restructure of intrastate switched access charges that it desires, 3)  
30 no other service's rates will need to be increased as a result of this  
31 restructure, because it would be revenue neutral within intrastate switched  
32 access service, 4) under the OCA proposal, interexchange carriers (IXCs)  
33 would properly continue to contribute toward the recovery of the shared dial  
34 tone line (DTL) facilities of Verizon in Pennsylvania, and 5) the OCA  
35 proposal would not violate Section 1325 of the Pennsylvania Statute,  
36 however, the Verizon proposal in this proceeding would.  
37

1 5. A great deal of this testimony addresses the treatment of the dial tone line  
2 (DTL) facility. The dial tone line facility is the facility that connects from  
3 the customer premises to the telephone company switching equipment. This  
4 facility normally includes a loop (which can be a pair of wires, but it may  
5 also or instead include fiber, electronics, or even radio facilities) and a port  
6 (i.e. the physical interface between the loop and the telephone company  
7 switching equipment). The loop is referred to by a number of different  
8 names, including "subscriber line," "access line," "loop," "non-traffic  
9 sensitive (NTS)" or "common line."

10  
11 However, there is also a **rate element** that has a similar name, called dial  
12 tone line **service**. Dial tone line **service** is only one of the services that  
13 shares the dial tone line **facility**. Therefore, when a reference is made to dial  
14 tone line, it is important to distinguish whether it is the facility or the rate  
15 element that is being discussed. They are not the same. In this testimony,  
16 when I speak of the DTL line facility, I will be referring to the facility  
17 comprised of the loop and the port. When I refer to the DTL service or rate  
18 element, I will specify either "service" or "rate element."

19  
20 6. Section 1325 of the Pennsylvania Public Utility Code limits increases in  
21 local exchange rates to no greater than the overall average percentage  
22 increase in total intrastate revenues authorized by the Commission, unless a  
23 specifically stated cost exception is met. In this case, Verizon is proposing a  
24 zero total increase in intrastate revenues. Therefore, the increase in local  
25 exchange service rates is limited to zero percent, unless that cost exception is  
26 met. This definition of cost for the "cost" exception requires that a share of  
27 the cost of the DTL facility (i.e. the loop and port facilities) be included in  
28 the cost of local exchange service, with that share to be calculated in  
29 proportion to the stand alone cost of each class of service which utilizes the  
30 DTL facility. I have performed the calculation as required by Section 1325  
31 of the Pennsylvania Public Utility Code. As a result of that calculation, I  
32 have determined that **[BEGIN PROPRIETARY] [END**  
33 **PROPRIETARY]** of the cost of the residential DTL facility is to be  
34 allocated to residential basic local exchange service, under the definitions  
35 and requirements of this section of the Code. (See **Schedule WDA-1, page**  
36 **2)**

37  
38 7. When the cost of providing Verizon's residential basic local exchange  
39 service is calculated as defined in the Pennsylvania Statute, that cost is  
40 **[BEGIN PROPRIETARY] [END PROPRIETARY]** per line, per  
41 month. This cost includes both the direct cost (TSLRIC) of residential basic

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1 local exchange service, as well as [BEGIN PROPRIETARY] [END  
2 PROPRIETARY] of the cost of the residential DTL facility.

- 3
- 4 8. The current revenues from residential local exchange service, including only  
5 local usage, DTL rate element, and primary line SLC, average [BEGIN  
6 PROPRIETARY] [END PROPRIETARY] per line per month for  
7 the Verizon companies. Therefore, the cost exception is not met. The  
8 residential local exchange service revenues exceed the costs, calculated as  
9 required by that section of the Code, by [BEGIN PROPRIETARY]  
10 [END PROPRIETARY] per residential line. (See Schedule WDA-2)
- 11
- 12 9. Verizon did not comply with Section 1325 of the Pennsylvania Statute.  
13 Verizon claimed that producing the cost analyses required by Section 1325  
14 would require a "special study" that would be "burdensome to produce".
- 15
- 16 10. In Verizon's (then Bell Atlantic) most recent rate rebalancing case in  
17 Pennsylvania, the Commission: (1) rejected placing 100% of the dial tone  
18 line facility costs on basic local exchange service and, (2) found that  
19 Section 1325 applied in any rate proceeding, including a "revenue neutral"  
20 case as was being addressed in that case.
- 21
- 22 11. The United States Supreme Court has required that the dial tone line facility  
23 costs be "apportioned", and found that the practice of failing to apportion  
24 those costs placed "an undue burden" on the intrastate service.
- 25
- 26 12. Other regulatory commissions have interpreted Section 254(k) of the Federal  
27 Telecommunications Act of 1996 to limit the recovery of the dial tone line  
28 facility costs from local service.
- 29
- 30 13. In the State of Washington, the Washington Utilities and Transportation  
31 Commission has ordered that 50% of the loop (dial tone line facility) cost be  
32 included in the cost of basic local exchange service. The Washington  
33 Commission adopted an allocation of non-traffic sensitive (NTS) costs based  
34 upon a division of 50 percent to local exchange services, 25 percent to  
35 interstate toll and 25 percent to intrastate toll.
- 36
- 37 14. The FCC allocates 25% of the DTL facility cost to the interstate jurisdiction,  
38 and has tentatively concluded that it should allocate 50% of those costs to  
39 local, 25% to interstate, and 25% to intrastate.
- 40
- 41 15. The Pennsylvania Commission has found that an "appropriate portion of  
42 local loop costs should be assigned to basic universal service, consistent with

1 the treatment of other joint, shared or common costs." Dial tone line service  
2 (which is one of the rate elements charged for basic local exchange service)  
3 is included in the services that comprise "basic universal service".  
4

5 16. This testimony discusses three separate and distinct types of costs. These  
6 costs are (1) Total Service Long-Run Incremental Cost (TSLRIC), (2) Stand-  
7 Alone Cost and (3) Allocated Cost.  
8

9 17. The costs that are properly included in the TSLRIC for a given service are  
10 the costs that are not avoided if that service is discontinued, while all other  
11 services provided by the company are continued. Said another way, the  
12 TSLRIC is also equal to the additional (i.e. incremental) cost that is added,  
13 while all other services are already being provided.  
14

15 If local service were discontinued while all other services were continued,  
16 the cost of the DTL facility would not be avoided. That facility would still  
17 be needed in order to provide interstate toll, intrastate toll, interstate switched  
18 access, intrastate switched access, and other services. In addition, the loop  
19 portion of the dial tone line facility would still be needed to provide digital  
20 subscriber line (DSL) high-speed internet access. Therefore, the cost of the  
21 DTL facility cannot properly be included in the TSLRIC of local service.  
22 **Schedule WDA-6** shows each of the major categories of services that share  
23 the DTL facility.  
24

25 18. The TSLRIC is not meant to show the full cost of providing a service, but  
26 the TSLRIC is designed for only a limited purpose. The TSLRIC defines the  
27 point below which a service is being "subsidized." The TSLRIC provides  
28 the "floor" for a price. The TSLRIC is not normally accepted as determining  
29 the "reasonable" or "fair" price for a service, since it excludes the cost of all  
30 of the shared facility. However, the costs of those shared facilities must be  
31 incurred in order for that service to be provided. A service should normally  
32 be priced above the TSLRIC so that it will cover a portion of the cost of  
33 shared facilities that are needed to provide that service (but which are  
34 excluded from the calculation of the TSLRIC). As long as a service is  
35 priced equal to or greater than its properly calculated TSLRIC floor, that  
36 service is not receiving a subsidy. If the service in question is priced below  
37 its TSLRIC floor, it is said to be receiving a subsidy.  
38

39 19. The "stand alone" cost establishes the ceiling. If a service is priced equal to  
40 or less than its Stand-Alone Cost ceiling, that service is not considered to be  
41 providing a subsidy. If a service is priced greater than its Stand-Alone Cost  
42 ceiling, that service is considered to be providing a subsidy. The key

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1 difference between a stand alone cost and a TSLRIC is that the costs of the  
2 shared facilities (the facilities that are actually required and used to provide  
3 more than one service) are completely excluded from the properly calculated  
4 TSLRIC of any one of the services which share the facility, whereas 100%  
5 of the cost of all of the facilities that are necessary to provide the service  
6 (regardless of whether those facilities are actually shared with other services)  
7 are properly included in the stand alone cost of any one of those services.  
8

9 20. The Allocated Cost is what is being described in Section 1325 of the  
10 Pennsylvania Statute. This section of the statute requires that an allocated  
11 portion of the cost of the dial tone line facility be allocated to local exchange  
12 service. The allocated cost is particularly useful when pricing a service,  
13 because the reasonable price for a service is usually somewhere between the  
14 floor and ceiling.  
15

16 21. Verizon's residential basic local exchange service is not priced below its  
17 properly calculated TSLRIC, and therefore is not subsidized. If Verizon  
18 ceased providing basic residential local exchange service, it would lose  
19 **[BEGIN PROPRIETARY]**

20 **[END**

21 **PROPRIETARY]. (See Schedule WDA-1, p. 2)**  
22

23 22. Residential basic local exchange service provides more contribution per line  
24 (i.e. revenues in excess of the TSLRIC floor) than any other residential  
25 service Verizon provides. In fact, residential basic local exchange service  
26 provides more contribution per line than all of the other residential services  
27 combined. Residential basic local exchange service provides **[BEGIN**  
28 **PROPRIETARY] [END PROPRIETARY]** per line, per month in  
29 contribution, whereas other services that utilize the residential dial tone line  
30 provide in the aggregate an additional **[BEGIN PROPRIETARY]**  
31 **[END PROPRIETARY]** per line, per month in contribution. (See  
32 **Schedule WDA-1, p. 2)**  
33

34 23. At current rates, Verizon's residential basic local exchange service provides  
35 **[BEGIN PROPRIETARY] [END PROPRIETARY]** per line in  
36 contribution toward joint, shared and common costs. This represents over  
37 **[BEGIN PROPRIETARY] [END PROPRIETARY]** of the  
38 residential DTL facility costs. (See **Schedule WDA-1, p. 2)**  
39

40 24. The Carrier Charge (CC) is the switched access rate that the interexchange  
41 toll carriers pay, which allows them to share the DTL facilities owned by  
42 Verizon. At Verizon's current intrastate Carrier Charge rates, IXCs

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1 contribute less than **BEGIN PROPRIETARY]** **[END**  
2 **PROPRIETARY]** of the residential DTL facility costs. If the IXCs were  
3 unable to use Verizon's residential DTL facilities, the IXCs would have to  
4 support the full cost of the DTL facilities through the purchase of Verizon's  
5 UNE loops and ports, or through the construction of the IXCs' own network  
6 facilities. Either way, the IXCs would be forced to cover a much larger cost  
7 than they currently do through the Carrier Charge.  
8

9 25. Intrastate switched access service (Carrier Charge and Traffic Sensitive  
10 Access) provides **[BEGIN PROPRIETARY]** **[END**  
11 **PROPRIETARY]** per line, per month in revenue contribution (i.e. revenue  
12 in excess of TSLRIC). This is the lowest per-line contribution of any  
13 intrastate service that utilizes the residential dial tone line facility. (See  
14 **Schedule WDA-1, p. 2)**  
15

16 26. The total revenue from intrastate switched access service is **[BEGIN**  
17 **PROPRIETARY]**  
18 **[END PROPRIETARY]** per line, per  
19 month. This means that the current intrastate switched access rates are  
20 priced at only about **[BEGIN PROPRIETARY]** **[END**  
21 **PROPRIETARY]** of its Stand-Alone Cost. (See **Schedule WDA-1, p. 2)**  
22 In order for a service to be producing a subsidy, the revenues from that  
23 service must be in excess of its Stand Alone Cost. Therefore, intrastate  
24 switched access does not provide a subsidy to any other service.  
25

26 27. The current residential basic local exchange rates contribute toward the  
27 residential DTL facility costs. The current rates greatly exceed the "cost of  
28 providing local exchange service" as defined by Section 1325 of the Statute.  
29 No increase in residential basic local exchange rates is warranted, or  
30 allowable under Section 1325. OCA recommends there be no increase in the  
31 residential basic local exchange service rates. Residential basic local  
32 exchange service is not "subsidized." Residential basic local exchange  
33 service is producing revenues greatly in excess of its TSLRIC cost.  
34

35 28. The costs that Verizon calculates for the residential DTL facility are greatly  
36 inflated. As a check of reasonableness, I compared Verizon's proposed  
37 residential DTL to several other measures of Verizon's dial tone line facility  
38 costs. Regardless of what benchmark comparison of costs is used, Verizon's  
39 proposed residential DTL facility costs are grossly inflated and  
40 unreasonable. Verizon's proposed residential DTL facility costs are over  
41 **BEGIN PROPRIETARY]** **[END PROPRIETARY]** the  
42 equivalent cost based on the current Verizon UNE rates, over **[BEGIN**



1           **PROPRIETARY]** per line, per month, CC that the OCA is proposing for  
2 Verizon in this proceeding.

3 North Penn's intrastate TS access charges are approximately 3.0 cents per  
4 minute before the Joint Access Reform, and will be approximately 2.0  
5 cents per minute after the Joint Access Reform.  
6

7           Under the OCA's proposal, the Verizon TS charges would total [**BEGIN**  
8 **PROPRIETARY]**       [**END PROPRIETARY]** per minute.  
9

10           Third, the Verizon proposal goes far beyond anything proposed in the  
11 Joint Access Reform. For example, Verizon proposes that the Verizon  
12 "after" CC be [**BEGIN PROPRIETARY]**   [**END PROPRIETARY]**  
13 under "Scenario 2", or [**BEGIN PROPRIETARY]**   [**END**  
14 **PROPRIETARY]** under "Scenario 1". Both of these rates are much  
15 lower than the "after" CC rate for North Penn under the Joint Access  
16 Reform.  
17

- 18           33.    The OCA is not opposed to the concept of reducing switched access rates.  
19           However, the key issue in front of this Commission is whether residential  
20           basic local exchange rates should be increased in order to offset revenues  
21           lost from a reduction in switched access revenues. They should not.  
22

23    **III.    RATE PROPOSALS**

24  
25    **Q.    WHAT DOES THE OCA PROPOSE IN THIS PROCEEDING?**

- 26    A.    The OCA proposes that Verizon's intrastate switched access rates be restructured  
27    revenue neutral within switched access, to establish uniform access rates that apply  
28    to both Verizon PA and Verizon North, with no rate increases for any other services.  
29    Specifically, OCA proposes that Verizon establish a [**BEGIN PROPRIETARY]**  
30           [**END PROPRIETARY]** carrier charge (CC) charge per line, per month, and  
31    a traffic-sensitive switched access charges which total [**BEGIN PROPRIETARY]**  
32           [**END PROPRIETARY]** per minute. These rates were calculated from  
33    Berry/Wirl Direct Testimony Schedule MJW-2. The resulting rates under this  
34    proposal are reasonable and appropriate for the following reasons: 1) Verizon will

**Testimony of William W. Dunkel on behalf of  
the Pennsylvania Office of Consumer Advocate  
PA PUC Docket No. C-20027195  
July 18, 2003**

1 fulfill its Merger Requirement of parity rates between Verizon PA and Verizon  
2 North, 2) Verizon will achieve the restructure of intrastate switched access charges  
3 that it desires, 3) No other service rates will need to be increased as a result of this  
4 restructure, because it would be revenue neutral within intrastate switched access  
5 service, 4) the OCA proposal would not violate Section 1325 of the Pennsylvania  
6 Statute, however, the Verizon proposal in this proceeding would and 5) Under the  
7 OCA proposal, interexchange carriers (IXCs) would properly continue to contribute  
8 toward the recovery of the shared dial tone line (DTL) facilities of Verizon in  
9 Pennsylvania. This is appropriate, since the IXCs use these DTL facilities.  
10

11 **Q. WHAT DO THE VERIZON COMPANIES CURRENTLY CHARGE FOR**  
12 **ACCESS SERVICES IN PENNSYLVANIA?**

13 A. Verizon North and Verizon PA currently have different access charges. The  
14 weighted average of the current Verizon CC is [BEGIN PROPRIETARY]  
15 [END PROPRIETARY] per line, per month<sup>1</sup>, (which is approximately equivalent  
16 to [BEGIN PROPRIETARY] [END PROPRIETARY] per minute) and  
17 the weighted average of the current Verizon Traffic Sensitive (TS) charges is  
18 approximately [BEGIN PROPRIETARY] [END PROPRIETARY] per  
19 minute.<sup>2</sup> If both the CC charge and Traffic Sensitive charges are stated in terms

---

<sup>1</sup> Calculated from Berry/Wirl Direct testimony Exhibit MJW-1. As shown on the Exhibit, the current Verizon PA CC charge is [BEGIN PROPRIETARY] [END PROPRIETARY] per line, per month and the current Verizon North CC charge is approximately [BEGIN PROPRIETARY] [END PROPRIETARY] per line, per month.

<sup>2</sup> Calculated from Verizon's response to Office of Trial Staff's (OTS) Data Request 1-4.

1 of per-minute charges, the current rate per minute is approximately [BEGIN  
2 PROPRIETARY] [END PROPRIETARY] per minute, as shown on  
3 Berry/Wirl Direct testimony Exhibit MJW-1.

4  
5 Q. WHAT INTRASTATE SWITCHED ACCESS CHARGES DOES VERIZON  
6 PROPOSE?

7 A. Verizon proposes switched access rates under two "scenarios". As shown on  
8 Berry/Wirl Exhibit MJW-3, under "Scenario 1", Verizon would reduce its Carrier  
9 Charge to [BEGIN PROPRIETARY] [END PROPRIETARY] per line,  
10 per month, which is the current Verizon PA CC charge. The combined CC and  
11 Traffic Sensitive rate on a per minute basis would be [BEGIN PROPRIETARY]  
12 [END PROPRIETARY] under Scenario 1. As shown at the bottom of  
13 Berry/Wirl Direct Exhibit MJW-3, the intrastate switched access revenues would  
14 be reduced by approximately [BEGIN PROPRIETARY] [END  
15 PROPRIETARY] under Scenario 1.

16  
17 As shown on Berry/Wirl Exhibit MJW-4, under "Scenario 2", Verizon would  
18 completely eliminate the Carrier Charge. The total switched access rate on a per  
19 minute basis would be [BEGIN PROPRIETARY] [END  
20 PROPRIETARY] under Scenario 2. As shown at the bottom of Berry/Wirl  
21 Direct Exhibit MJW-4, the intrastate switched access revenues would be reduced

1 by an additional [BEGIN PROPRIETARY] [END  
2 PROPRIETARY] under Scenario 2. Therefore, the sum of the intrastate  
3 switched access reductions under both Scenario 1 and Scenario 2 would total  
4 [BEGIN PROPRIETARY] [END PROPRIETARY], as shown at  
5 the bottom of Berry/Wirl Direct Exhibit MJW-4.  
6

7 **Q. HOW DOES VERIZON PROPOSE TO RECOVER THE REVENUE**  
8 **REDUCTIONS THAT WOULD RESULT UNDER ITS INTRASTATE**  
9 **SWITCHED ACCESS RATE PROPOSALS?**

10 A. On Berry/Wirl Exhibit MJW-6, Verizon has provided what it calls "Examples of  
11 Revenue-Neutral Recovery of Access Reductions Under Verizon's Proposal".  
12 Under Verizon's Example Recovery, the entire access reduction would be offset by  
13 increases in the residential one-party (R-1) residential basic local exchange service  
14 rates of both Verizon PA and Verizon North. Under Scenario 1, Verizon indicates  
15 that R-1 rates would be increased approximately [BEGIN PROPRIETARY]  
16 [END PROPRIETARY] per month. This would increase the average R-1 rate  
17 (including the Subscriber Line Charge (SLC)) from [BEGIN PROPRIETARY]  
18 [END PROPRIETARY].  
19

20 Under Scenario 2, Verizon indicates that R-1 rates would be increased  
21 approximately [BEGIN PROPRIETARY] [END PROPRIETARY] per

1 month. This would increase the average R-1 rate (including the Subscriber Line  
2 Charge (SLC)) from [BEGIN PROPRIETARY] [END  
3 PROPRIETARY], as shown on Berry/Wirl Direct Exhibit MJW-6.  
4

5 **Q. ON PAGES 26-27 OF THEIR DIRECT, BERRY/WIRL SUGGEST THAT**  
6 **VERIZON HAS FULFILLED THE VERIZON NORTH RATE**  
7 **REBALANCING REQUIREMENTS AND THAT THIS RATE**  
8 **REBALANCING MUST BE APPROVED. PLEASE COMMENT.**

9 A. Verizon suggests that the rate rebalancing must be approved because it has met  
10 the elements of the Verizon North Chapter 30 rate rebalancing requirements.<sup>3</sup> On  
11 advice of counsel, I understand that when the Verizon North Plan was approved,  
12 Verizon North argued that meeting the Verizon North rate rebalancing  
13 requirements did not avoid the overall “just and reasonable” requirement that is  
14 also in the Verizon North Plan. Verizon North argued in its Chapter 30 Reply  
15 Brief that the “shall approve” rate rebalancing language in the Chapter 30 Plan  
16 did not “trump” other plan language that explains: “The requirement that rates  
17 remain just and reasonable and subject to Commission oversight shall apply to all  
18 rate proposals under the Company’s Tariff Filing Process.”<sup>4</sup> I have attached

---

<sup>3</sup> Verizon St. 1.0 at 27.

<sup>4</sup> See, Docket No. P-00001854, Verizon North Reply Brief at 51 citing the Verizon North Plan at Part 3.F.1.

1 Schedule WDA-5, which is the portion of the Verizon North Reply Brief that  
2 discusses the issue of rate rebalancing.

3  
4 **Q. WHAT IS THE INTENDED PURPOSE OF THIS PROCEEDING?**

5 A. As discussed on pages 6-7 of the Berry/Wirl Direct, the purpose of this  
6 proceeding is "determining statewide rates for access charges based upon  
7 consolidated cost studies" for the former GTE-North and BA-PA.

8  
9 **Q. COULDN'T THIS MERGER REQUIREMENT BE SATISFIED BY  
10 SIMPLY IMPLEMENTING A REVENUE-NEUTRAL RESTRUCTURE  
11 OF ONLY THE ACCESS CHARGES OF THE TWO COMPANIES?**

12 A. Yes. In fact, in its Direct testimony in this proceeding, Verizon admitted

13 Indeed, the concept of "parity" under the Merger Order can be  
14 achieved simply by melding the two companies' rate structures  
15 without any revenue reduction - which would be a reasonable  
16 approach if Verizon's request for revenue neutral offsets is denied.<sup>5</sup>

17  
18 I agree with Verizon that it would be reasonable to simply meld the rate  
19 structures of the two companies without a rate reduction.

20  

---

<sup>5</sup>Berry/Wirl Direct Testimony, page 21, lines 9-12.

1 Q. HAS VERIZON PROVIDED AN EXAMPLE OF A REVENUE-NEUTRAL  
2 RESTRUCTURE OF THE TWO COMPANIES' RATES THAT WOULD  
3 SATISFY THE MERGER REQUIREMENT OF PARITY RATES?

4 A. Yes. On Berry/Wirl Direct Exhibit MJW-2, Verizon has provided an example of  
5 a "Revenue-Neutral Access Restructuring", that would achieve parity rates, as  
6 required under the Commission's Merger Order. Under this restructure, Verizon  
7 would charge a CC charge of [BEGIN PROPRIETARY] [END  
8 PROPRIETARY] per line, per month and Traffic Sensitive charges which total  
9 [BEGIN PROPRIETARY] [END PROPRIETARY] per minute, as  
10 calculated from Berry/Wirl Exhibit MJW-2.

11

12 Q. WILL YOU PLEASE SUMMARIZE VERIZON'S CURRENT AND  
13 PROPOSED RATES?

14 A. Yes. A summary is provided below:

15 [BEGIN PROPRIETARY]

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20 [END PROPRIETARY]

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22 **IV. VERIZON'S FILING VIOLATES §1325(a) OF THE PENNSYLVANIA**  
23 **STATUTE**

24

25 **Q. DOES SECTION 1325(C) OF THE PENNSYLVANIA STATUTE DEFINE**  
26 **THE COST OF PROVIDING LOCAL EXCHANGE SERVICE?**

27 **A. Yes. Section 1325(c) of the Statute defines "Cost of providing local exchange**  
28 **service" as follows:**

---

6

1  
2 The direct cost of providing the service plus a share of the costs of the dial  
3 tone line, allocated in proportion to the stand-alone cost of each class of  
4 service which utilizes the dial tone line.  
5

6 Q. **WHAT IS THE DIFFERENCE BETWEEN THE DIAL TONE LINE**  
7 **FACILITY AND THE DIAL TONE LINE RATE ELEMENT THAT IS**  
8 **PART OF THE TOTAL CHARGE FOR BASIC LOCAL EXCHANGE**  
9 **SERVICE?**

10 A. The dial tone line is the facility that connects from the customer premises to the  
11 telephone company switching equipment. This facility normally includes a loop  
12 (which can be a pair of wires, but it may also or instead include fiber, electronics, or  
13 even radio facilities) and a port (i.e. the physical interface between the loop and the  
14 telephone company switching equipment. The loop is referred to by a number of  
15 different names, including "subscriber line," "access line," "loop," "non-traffic  
16 sensitive (NTS)" or "common line."<sup>7</sup>

17  
18 However, there is also a rate element that has a similar name, dial tone line service.  
19 Dial tone line service is only one of the services that shares the dial tone line facility.  
20 Therefore, when a reference is made to dial tone line, it is important to distinguish  
21 whether it is the facility or the rate element that is being discussed. They are not the  
22 same. In this testimony, when I speak of the DTL line facility, I will be referring to  
23 the facility comprised of the loop and the port. When I refer to the DTL service or  
24 rate element, I will specify either "service" or "rate element."

---

<sup>7</sup> Some of these terms, such as "loop" may also apply to facilities from the customer premises that do not connect to the switching equipment (such as a dedicated burglar alarm line). Throughout this testimony, I am referring only to the "loops" that are connected to the switched network.

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**Q. ON PAGE 20 OF THEIR DIRECT TESTIMONY, MS. DEAN AND MR. SANFORD PRESENT VERIZON'S CLAIMED COSTS FOR RESIDENTIAL BASIC LOCAL EXCHANGE SERVICE. DO VERIZON'S CLAIMED COSTS VIOLATE THE PENNSYLVANIA STATUTE?**

**A.** Yes. Verizon's proposed increase in the residential local exchange service rates is based on a residential basic local exchange service cost study that clearly violates §1325 of the Pennsylvania Statute.

Verizon's treatment of the costs of the Dial Tone Line Facility (loop and port) is in direct violation of the requirements of §1325. This section specifically states that only a specified "share" of the dial tone line cost can be included in the cost of local exchange service. In response to Office of Trail Staff (OTS) Data Request 1-13, Verizon stated that the basic local exchange service rates should be "set to at least cover 100% of the cost of the local loop". Verizon stated:

Verizon does not believe that any portion of the cost of the "local loop" should be recovered through access charges. Dial tone line rates should be set to at least cover 100% of the cost of the local loop. (emphasis in original)

Section 1325(c) of the Pennsylvania Statute requires that the "dial tone line" (i.e. "local loop" and port) be allocated in a specified manner. Verizon's position is in direct violation of the requirements of 1325(c).

1

2

The residential dial tone line facility costs that Verizon proposes in this

3

proceeding are [BEGIN PROPRIETARY] [END PROPRIETARY] for

4

Verizon PA and [BEGIN PROPRIETARY] [END PROPRIETARY] for

5

Verizon North.<sup>8</sup> In discovery, I had the OCA ask Verizon to identify what "share

6

of the costs of the dial tone line" it allocated to "each class of service which

7

utilizes the dial tone line". Verizon indicated that it had not made any allocation

8

of the dial tone line facility costs to any service other than basic local exchange

9

service. My request, and Verizon's response is as follows:

10

11

OCA Data Request 1-2:

Please identify what "share of the costs of the dial tone line" Verizon PA has allocated to "each class of service which utilizes the dial tone line" (e.g. what share was allocated to intrastate switched access, what share was allocated to interstate switched access, what share was allocated to intrastate toll, what share was allocated to interstate toll, what share was allocated to basic local exchange service, what share was allocated to other local services such as vertical services, etc.). Provide all workpapers, studies, analyses, etc. which support the Company's allocation of costs.

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Verizon's Response:

It is Verizon PA's position that Dial Tone Line is a separate service and the costs should not be allocated to other services. Therefore, Dial Tone

25

26

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<sup>8</sup> For Verizon PA, the costs are [BEGIN PROPRIETARY] [END PROPRIETARY] for DTL and [BEGIN PROPRIETARY] [END PROPRIETARY] usage [BEGIN PROPRIETARY] [END PROPRIETARY]; for Verizon North the claimed costs are [BEGIN PROPRIETARY] [END PROPRIETARY] DTL and [BEGIN PROPRIETARY] [END PROPRIETARY] usage [BEGIN PROPRIETARY] [END PROPRIETARY].

1 Line costs were not allocated to different classes of  
2 service.  
3

4 I had the OCA issue an identical request to Verizon North, and received the  
5 identical response to that above.  
6

7 **Q. DID VERIZON EVEN MAKE ANY ATTEMPT TO COMPLY WITH**  
8 **SECTION 1325 OF THE STATUTE?**

9 A. No. In discovery, I asked Verizon to identify the "stand-alone cost of each class  
10 of service which utilizes the dial tone line", as it is required to produce under  
11 Section 1325 of the Pennsylvania Statute. In response, Verizon admitted "The  
12 information requested is not available and requires a special study that would be  
13 burdensome to produce."<sup>9</sup> What this means is that Verizon did not even attempt  
14 to comply with the Pennsylvania Statute. This fact alone makes the Verizon  
15 proposal in the proceeding unacceptable.  
16

17 **A. LOCAL EXCHANGE SERVICE CANNOT BE INCREASED MORE**  
18 **THAN THE OVERALL PERCENT INCREASE, UNLESS THE COST**  
19 **TEST IS MET.**

20  
21 **Q. DOES VERIZON'S PROPOSAL VIOLATE THE STATUTORY**

---

<sup>9</sup> Verizon PA's response to OCA Data Request 1-3 and Verizon North's response to OCA Data Request 2-3.

1           **REQUIREMENT?**

2    A.    Yes. Verizon's proposed increase in the residential local exchange service rates is  
3           in violation of the requirements of 1325(c).

4  
5           Under either Verizon's "Scenario 1" or "Scenario 2" proposal, Verizon's switched  
6           access rates would be reduced and offset by increases in residential basic local  
7           exchange service rates. Verizon claims that its proposal is "revenue neutral",  
8           meaning that while basic residential local exchange rates would increase, there  
9           would be no overall increase in its revenues. §1325(c) of the Pennsylvania  
10          Statute states that local exchange rates cannot be increased by an amount greater  
11          than the overall percent increase, unless it can be proven that an increase in  
12          residential local exchange service rates is justified based upon the cost of  
13          residential local exchange service, as defined by the Statute. §1325(a) of the  
14          Pennsylvania Statute specifically states:

15                   In no event shall the public utility be granted an increase in local exchange  
16                   rates which is greater than the overall average percentage increase in total  
17                   intrastate revenues authorized by the commission unless the utility proves  
18                   by record evidence that a greater percentage increase for local exchange  
19                   service is justified based upon the cost of providing the service.  
20

21  
22          As previously stated, 1325(c) of the Statute defines "Cost of providing local  
23          exchange service" as follows:

24                   The direct cost of providing the service plus a share of the costs of the dial  
25                   tone line, allocated in proportion to the stand-alone cost of each class of  
26                   service which utilizes the dial tone line.

1  
2  
3 Verizon's proposed residential local exchange service rate increase would fail to  
4 satisfy the cost requirements of Section 1325. As I will demonstrate later in this  
5 testimony, Verizon's proposed residential local exchange rate is in excess of the  
6 "direct cost of providing the service plus a share of the costs of the dial tone line,  
7 allocated in proportion to the stand-alone cost of each class of service which  
8 utilizes the dial tone line." Therefore, Verizon's proposed residential local  
9 exchange service rate increases are not "justified based upon the cost of providing  
10 the service."

11  
12 Since the "cost based" exception is not met, the allowable increase in the local  
13 exchange service rate is limited to the overall percent increase, which is zero.  
14

15 **B. THE COMMISSION REJECTED VERIZON'S (THEN BELL**  
16 **ATLANTIC'S) COST STUDIES IN VERIZON'S LAST RATE**  
17 **REBALANCING CASE, BECAUSE VERIZON VIOLATED SECTION**  
18 **1325 OF THE STATUTE**

19  
20 **Q. DID THE PENNSYLVANIA COMMISSION REJECT VERIZON'S COST**  
21 **STUDIES IN ITS LAST RATE REBALANCING CASE BECAUSE**  
22 **VERIZON VIOLATED SECTION 1325 OF THE STATUTE?**

1 A. Yes. In Verizon's (then Bell Atlantic) most recent rate rebalancing case in  
2 Pennsylvania (Docket No. R-00963550 et. al.), at pages 23-24 of its Opinion and  
3 Order, the Commission:

4 (1) rejected placing 100% of the of dial tone line facility costs on basic  
5 local exchange service and,  
6 (2) found that Section 1325 applied in any rate proceeding, including a  
7 "revenue neutral" case as was being addressed in that case.

8  
9 The Commission found:

10 [W]e generally agree with the analysis of the ALJ, as amplified by the  
11 OCA, and the OTS with regard to the rejection of Bell's studies based on  
12 the allocation of 100% of dial tone line costs to the dial tone line  
13 component of local exchange service. That dial tone line is a specific  
14 service, with specific demand, begs the question of whether the 100%  
15 allocation of these costs to one class of service is acceptable. It is without  
16 question that the dial tone serves as the platform from which a host of  
17 telecommunications services are, in fact, provided.

18  
19 Consequently, while there may be some merit to Bell's distinction that the  
20 debate over the proper allocation of loop costs to other services is to be  
21 viewed as a debate over the proper recovery of these costs, the allocation  
22 of 100% to one component renders the Rate Rebalancing proposal of Bell  
23 inherently flawed. Thus, while we do not, as yet, endorse any competing  
24 percentage allocation of local loop costs, we find that 100% allocation to  
25 one component is not reasonable and does not result in a revenue neutral  
26 impact.

27  
28 We are also constrained to agree with ALJ Cocheres concerning his  
29 interpretation of Section 1325 and its applicability to this proceeding.  
30 Section 1325 applies to any rate proceeding.<sup>10</sup> (Emphasis in original)

---

<sup>10</sup> Opinion and Order, Docket No. R-00963550 et. al., December 12, 1996, pages 23-24.

1  
2 The ALJ's recommended decision (which the Commission adopted) stated:  
3

4 Bell's position is that the dial tone line is a complete service in and  
5 of itself, rather than a component of the many services Bell  
6 provides. For this reason, Bell allocated 100% of its local loop  
7 costs to the dial tone line component of local exchange service,  
8 causing dial tone line costs to appear to be well above the Dial  
9 Tone Line rates for local exchange service. Bell's conclusion,  
10 therefore, is that dial tone line service is being subsidized by other  
11 services.  
12

13 However, as the OCA has pointed out, the dial tone line is the  
14 facility that connects the customer to the Company's switching  
15 equipment. As such, it is more accurate to view it as a component  
16 of all the telecommunications services that depend on it, rather  
17 than as a separate service. In addition to local exchange service,  
18 such services would include intraLATA and interLATA toll  
19 services, CLASS or optional services, and non-published or non-  
20 listed telephone service. Thus, the costs associated with dial tone  
21 line should be viewed as joint or common costs of those services,  
22 and should be allocated across those services instead of being  
23 assigned totally to local exchange service, as Bell asserted.<sup>11</sup>  
24 (Emphasis in original)  
25

26 The ALJ's Recommended Decision in that proceeding (which the Commission  
27 adopted) also stated:

28 ...because Bell has steadfastly maintained that dial tone line is a  
29 separate service, the Company cannot justify its proposed rate  
30 increase in view of the statutory definition. In other words, Bell's  
31 position is inconsistent with the language of Section 1325(c).<sup>12</sup>  
32

33 The only reasonable and proper conclusion in light of the language  
34 of Section 1325(c) is that dial tone line must be treated as a  
35 component of multiple services whose costs must be allocated

---

<sup>11</sup> Docket No. R-00963550 et. al., Recommended Decision of ALJ Louis-G. Cocheres, October 8, 1996, pages 11-12.

<sup>12</sup>Docket R-00963550 et. al., Recommended Decision of ALJ Louis G. Cocheres, October 8, 1996, page 14.

1 among these services, and not as a separate service. Bell cannot  
2 avoid application of the statute, no matter how much it dislikes the  
3 result.<sup>13</sup>  
4  
5

6 **Q. IN OTHER PROCEEDINGS, HAS THE PENNSYLVANIA PUBLIC**  
7 **UTILITY COMMISSION RULED THAT THE LOOP COST IS A JOINT**  
8 **OR SHARED COST, A PORTION OF WHICH SHOULD BE ALLOCATED**  
9 **TO UNIVERSAL SERVICE?**

10 **A.** Yes. In addition to the prior quotes from PUC Orders, in its Order adopted  
11 in the Public Meeting held on August 31, 1995, Docket No. I-00940035, the  
12 Pennsylvania Commission ordered,

13 ...a portion of all joint, shared and common costs, including overhead  
14 costs, should be reasonably assigned to basic universal service.  
15

16 We agree with the PTA and the OCA that local loop costs are joint or  
17 shared costs since the local loop is jointly utilized to provide a wide  
18 array of telecommunications services, among which are basic  
19 universal services. Our view is unaffected by whether one views  
20 basic universal service as a single service or a group of services.  
21 Regardless, we believe an appropriate portion of local loop costs  
22 should be assigned to basic universal service, consistent with the  
23 treatment of other joint, shared or common costs. (citation  
24 omitted)<sup>14</sup> service is inappropriate and would place an undue burden  
25 on them.  
26

27 In addition, Section 1325 of the Pennsylvania Statute defines the  
28 cost of basic local exchange as "The direct cost of providing the  
29 service plus a share of the costs of the dial tone line, allocated in  
30 proportion to the stand-alone cost of each class of service which  
31 utilizes the dial tone line."

---

<sup>13</sup> Docket R-00963550 et. al., Recommended Decision of ALJ Louis G. Cocheres, October 8, 1996, page 15.

<sup>14</sup> Page 12, Order, Docket No. I-00940035, Public Meeting Held August 31, 1995.

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**V. VERIZON'S PROPOSAL VIOLATES OTHER AUTHORITIES'**  
**DETERMINATIONS REGARDING COST RECOVERY**

5

6

7

**Q. ARE YOU AWARE OF ANY STATE COMMISSIONS THAT  
SPECIFICALLY FOUND THAT ALLOCATING 100% OF THE DIAL  
TONE LINE FACILITY COSTS TO BASIC LOCAL EXCHANGE  
SERVICE WOULD BE A VIOLATION OF SECTION 254(K) OF THE  
FEDERAL TELECOMMUNICATIONS ACT OF 1996 (TA96)?**

10

11

12

**A. Yes. Section 254(k) of TA96 states:**

13

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23

**SUBSIDY OF COMPETITIVE SERVICES PROHIBITED.--A  
telecommunications carrier may not use services that are not  
competitive to subsidize services that are subject to competition.  
The Commission, with respect to interstate services, and the States,  
with respect to intrastate services, shall establish any necessary cost  
allocation rules, accounting safeguards, and guidelines to ensure that  
services included in the definition of universal service bear no more  
than a reasonable share of the joint and common costs of facilities  
used to provide those services.<sup>15</sup> (emphasis added)**

24

As I discussed elsewhere in this testimony, the dial tone line facility is comprised of

25

the loop and port. In an Order dated October 28, 1998, the Indiana Utility and

26

Regulatory Commission (IURC) specifically found that assigning 100% of the

27

loop cost to one service would violate Section 254(k) of TA96. It found the loop

---

<sup>15</sup> Section 254(k), Federal Telecommunications Act of 1996.

1 was "included in the definition of common and joint costs." The IURC found  
2 that,

3  
4 For purposes of resolving 'takings' claims and 'a reasonable share  
5 of the joint and common costs of facilities used to provide those  
6 services,' the loop must, therefore, be included in the definition of  
7 common and joint costs in order to determine confiscation claims  
8 and to be in compliance with the second sentence of Section  
9 254(k). We find that the direct assignment of 100 percent of the  
10 loop costs to any one service would be a violation of the second  
11 sentence of Section 254(k).<sup>16</sup>

12  
13 **Q. HAS THE UNITED STATES SUPREME COURT ADDRESSED THE**  
14 **ISSUE OF ALLOCATION OF LOOP COSTS?**

15 A. Yes. In the Smith vs. Illinois Bell Telephone (IBT) decision, the Supreme Court  
16 many decades ago faced the issue of allocating the costs of facilities which included  
17 what we are now calling the DTL facility. The Supreme Court found that,

18  
19 In the method used by the Illinois Company in separating its  
20 interstate and intrastate business, for the purpose of the computations  
21 which were submitted to the court, what is called exchange property,  
22 that is, the property used at the subscriber's station and from that  
23 station to the toll switchboard, or to the toll trunk lines, was  
24 attributed entirely to the intrastate service.

25  
26 While the difficulty in making an exact apportionment of the  
27 property is apparent, and extreme nicety is not required, only  
28 reasonable measures being essential (citations omitted) it is quite  
29 another matter to ignore altogether the actual uses to which the  
30 property is put. It is obvious that, unless an apportionment is made,

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<sup>16</sup> Indiana Utility Regulatory Commission Order, Cause No. 40785, Section V.(C) Common and Joint Costs, Issued October 28, 1998.

1 the intrastate service to which the exchange property is allocated will  
2 bear an undue burden--to what extent is a matter of controversy. We  
3 think this subject requires further consideration, to the end that by  
4 some practical method the different uses of the property may be  
5 recognized and the return properly attributable to the intrastate  
6 service *may be ascertained accordingly.* (Smith v. Ill. Bell Tel. Co.,  
7 282 U.S. 131, 150-151(1930))  
8  
9

10 This U.S. Supreme Court decision is still in effect and is regularly referred to in  
11 telecommunications proceedings. When addressing this very issue decades ago, the  
12 Supreme Court found that unless an "apportionment" was made to cost which  
13 included what we are now referring to as the DTL facility, an undue burden would  
14 be borne by the intrastate service (which includes residential basic local exchange  
15 service service). The Supreme Court recognized that "extreme nicety is not  
16 required." The Supreme Court stressed that a "practical method" of attributing the  
17 costs was needed.  
18

19 **Q. AS SHOWN ON SCHEDULE WDA-1, THE REQUIREMENT OF SECTION**  
20 **1325 OF THE PENNSYLVANIA STATUTE RESULTS IN [BEGIN**  
21 **PROPRIETARY] [END PROPRIETARY] OF THE RESIDENTIAL**  
22 **DTL FACILITY COST BEING ALLOCATED TO RESIDENTIAL LOCAL**  
23 **SERVICE. IS THIS ALLOCATION SIMILAR TO AN ALLOCATION**  
24 **THAT THE FCC TENTATIVELY PROPOSED?**

25 **A.** Yes. In one of its orders, the FCC stated that it had tentatively decided to allocate

1           50% of the loop cost to local service, 25% to interstate services, and 25% to  
2           intrastate toll services. The FCC's order specifically stated,

3  
4                   Under our current rules, 25 percent of loop costs are allocated  
5                   to the interstate jurisdiction. We would assume that an  
6                   additional 25 percent of each LEC's loop costs would be  
7                   associated with intrastate toll services. Thus under our  
8                   proposed allocation method, the remaining fifty percent of  
9                   each LEC's loop costs would be assumed to represent local  
10                  service costs.<sup>17</sup>

11  
12  
13   **Q.    HAVE ANY STATE COMMISSIONS REACHED A CONCLUSION**  
14   **SIMILAR TO THE FCC?**

15   A.    Yes. For example, in the State of Washington, the Washington Utilities and  
16           Transportation Commission has ordered that 50% of the loop cost be included in the  
17           cost of basic local exchange service. In Docket No. U-85-23, et al., the Washington  
18           Commission adopted an allocation of non-traffic sensitive (NTS) costs based upon a  
19           division of 50 percent to local exchange services, 25 percent to interstate toll and 25  
20           percent to intrastate toll.<sup>18</sup>

21  

---

<sup>17</sup> Page 24, Paragraph 52, Notice of Proposed Rulemaking and notice of Inquiry, CC Docket No. 80-286,  
Adopted and released July 13, 1995.

<sup>18</sup> Although establishing 25% as the ultimate goal for all regulated telecommunications companies, the  
Commission allowed U.S. West Communications, Inc. (USWC) to at least temporarily remain at its present  
allocation to intrastate toll of 16.95%. Pages 5, 9 and 10, Eighteenth Supplemental Order, Cause No. U-85-23  
et al., effective December 30, 1986. Also see Seventeenth Supplemental Order, Cause No. U-85-23 et al.,  
dated September 22, 1986, page 20.

1 Q. CAN YOU PLEASE SUMMARIZE THIS ISSUE?

2 A. Yes. The Supreme Court has required that some reasonable apportionment of the  
3 dial tone line costs be made. The Pennsylvania legislation, in analyzing this same  
4 issue, has found that only a share of the costs of the DTL facility should be  
5 considered as being part of the cost of local exchange service. The  
6 Telecommunications Act of 1996, which was passed by Congress and signed by the  
7 President, requires that the services included in the universal service definition  
8 (which includes local exchange service) should bear no more than a reasonable share  
9 of the cost of the joint or shared facilities used to provide those services. This  
10 Pennsylvania Commission has found that it believes "an appropriate portion of local  
11 loop costs should be assigned" to all services using the loop, and "the allocation of  
12 100% to one component renders the Rate Rebalancing proposal of Bell internally  
13 flawed".<sup>19</sup> Verizon's position that 100% of the cost of the dial tone line facilities  
14 should be considered a cost of local exchange service is contrary to all of the above  
15 authorities.

16  
17 **VI. VERIZON'S CLAIMED DIAL TONE LINE FACILITY COSTS ARE**  
18 **GREATLY INFLATED**  
19

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<sup>19</sup> Opinion and Order, Docket No. R-00963550, December 12, 1996, page 23.

1 Q. YOU HAVE ALREADY DISCUSSED THE FACT THAT VERIZON'S  
2 PROPOSED RESIDENTIAL BASIC LOCAL EXCHANGE COST  
3 CALCULATION VIOLATES THE PENNSYLVANIA STATUTE BY  
4 INCLUDING 100% OF THE DIAL TONE LINE FACILITY COSTS IN  
5 VERIZON'S CLAIMED RESIDENTIAL LOCAL EXCHANGE SERVICE  
6 COSTS. IS THERE ANOTHER MAJOR PROBLEM WITH VERIZON'S  
7 PROPOSED COSTS?

8 A. Yes. Not only has Verizon violated the Pennsylvania Statute by allocating 100% of  
9 the residential DTL facility costs to just one of the services that shares the DTL  
10 facility, the costs that Verizon calculates for the residential DTL facility are greatly  
11 inflated. I will demonstrate that Verizon's costs are greatly inflated by comparing  
12 Verizon's proposed costs in this proceeding to residential dial tone line facility costs  
13 based on (1) the current Verizon PA UNE loop rates (2) the "Tentative Order" rates  
14 from the current Verizon PA UNE proceeding and (3) Verizon's actual embedded  
15 (book) costs as calculated by the National Exchange Carrier Association (NECA).  
16 A comparison of Verizon's proposed residential DTL facility costs to residential  
17 DTL facility costs based on any accepted or approved loop and port costs for  
18 Verizon, clearly demonstrates that Verizon's proposed residential DTL facility costs  
19 are well in excess of any reasonable measure of cost. Shown below is a comparison  
20 of Verizon's proposed residential DTL facility costs to the residential DTL facility  
21 costs in each of my three analyses described above:

1

2 **[BEGIN PROPRIETARY]**

3

4

5

6

7 **[END PROPRIETARY]**

8

9 **Q. WHAT RESIDENTIAL DTL COSTS HAS VERIZON PROPOSED IN THIS**  
10 **PROCEEDING?**

11 **A.** As shown on page 20 of the Dean/Sanford Direct, Verizon's proposed residential  
12 DTL facility costs are shown as **[BEGIN PROPRIETARY]** **[END**  
13 **PROPRIETARY]** for Verizon PA and **[BEGIN PROPRIETARY]** **[END**  
14 **PROPRIETARY]** for Verizon North. The weighted average of these two  
15 residential costs is **[BEGIN PROPRIETARY]**

16

17

18

19

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21

1           **[END PROPRIETARY]**. The calculation of these figures is shown on Schedule  
2           WDA-3.

3  
4           **Q. VERIZON PROPOSES A RESIDENTIAL DTL OF [BEGIN**  
5           **PROPRIETARY] [END PROPRIETARY] IN THIS PROCEEDING.**  
6           **DO YOU BELIEVE THIS COST IS REASONABLE?**

7           A. No. Verizon's proposed DTL costs are greatly inflated. As a check of  
8           reasonableness, I compared Verizon's proposed residential DTL to several other  
9           measures of Verizon's dial tone line facility costs. The first comparison I made was  
10          to compare Verizon's proposed residential DTL costs to Verizon's current UNE rates  
11          for the UNE loop and UNE port.

12  
13          **Q. IS THE DIAL TONE LINE FACILITY ESSENTIALLY THE SAME AS AN**  
14          **UNBUNDLED LOOP AND UNBUNDLED PORT?**

15          A. Yes. In the Dean/Sanford Direct Testimony, the DTL is properly described as  
16          follows:

17                   A dial tone line is a local loop that is the first major functional  
18                   component of a local exchange network and is comprised of the  
19                   facilities that connect an end user customer location to a wire center  
20                   (also called a central office).<sup>20</sup>  
21

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<sup>20</sup> Dean/Sanford Direct, page 16, lines 15-17.

1           The cost components of a dial tone line are a 2 wire analog loop, a  
2           central office switch port connection and a main distribution frame  
3           connection.<sup>21</sup>  
4  
5

6           As indicated above, the DTL is the functional equivalent of a 2 wire analog loop and  
7           a central office switch port (as well as a main distribution frame connection, which is  
8           part of the port costs). As indicated on page 18, lines 5-10 of Dean/Sanford's Direct,  
9           the main distribution frame is included as part of the port cost. Verizon currently  
10          provides both the UNE loop and UNE port as unbundled network elements (UNEs)  
11          in their Pennsylvania tariff. CLECs purchase these UNEs from Verizon and use  
12          these facilities to provide competitive telecommunications services to their own end  
13          user customers. There is no valid reason for the costs of the dial tone line facility to  
14          be appreciably different than the sum of the UNE loop and UNE port costs. The  
15          cost objects being analyzed under a "dial tone line facility" and an "unbundled loop  
16          and port" cost study are essentially the same.  
17

18       **Q.   HOW DOES VERIZON'S PROPOSED RESIDENTIAL DTL FACILITY**  
19       **(LOOP AND PORT) COST COMPARE TO THE CURRENT VERIZON**  
20       **UNE RATES FOR THE EQUIVALENT FACILITIES?**

21       **A.   As I discussed elsewhere, the DTL facility is comprised of the loop and port.**  
22       Verizon's UNE loop rates vary across four separate density cells. Using the density

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<sup>21</sup> Dean/Sanford Direct, page 17, lines 6-7.

1 cell line counts Verizon provided in this proceeding, Verizon's current UNE loop  
2 rate averages [BEGIN PROPRIETARY] [END PROPRIETARY]. The  
3 current UNE port rate (which does not vary across density cells), is \$1.90.  
4 Therefore, the equivalent DTL facility costs using the current Verizon UNE rates is  
5 equal to the sum of these rates, or [BEGIN PROPRIETARY] [END  
6 PROPRIETARY]. This calculation is shown on Schedule WDA-3.

7  
8 Since UNEs are averaged across both business and residence residential lines, I  
9 marked up the above "UNE DTL facility" cost by [BEGIN PROPRIETARY]  
10 [END PROPRIETARY], to arrive at a residential DTL facility cost, based on  
11 the current Verizon UNE rates. As I pointed out earlier in this testimony, Verizon's  
12 proposed residential DTL facility costs are approximately [BEGIN  
13 PROPRIETARY] [END PROPRIETARY] higher than the average of  
14 business and residence DTL facility costs. Using this markup factor, I calculated a  
15 residential DTL facility cost of [BEGIN PROPRIETARY] [END  
16 PROPRIETARY]. This calculation is shown on Schedule WDA-3.

17  
18 **Q. YOU CALCULATED A RESIDENTIAL DTL FACILITY COST OF [BEGIN**  
19 **PROPRIETARY] [END PROPRIETARY] BASED ON THE**  
20 **CURRENT VERIZON UNE RATES. ARE THE VERIZON UNE RATES**  
21 **CURRENTLY UNDER REVIEW IN PENNSYLVANIA?**

1 A. Yes. There is a current proceeding in Pennsylvania (Docket No. R-00016683)  
2 where the Verizon UNE rates are being examined. The Commission has issued a  
3 Tentative Order in that Docket, directing Verizon to make a number of corrections  
4 and modifications to Verizon's proposed UNE costs that Verizon filed in that  
5 proceeding. Verizon has since filed revised UNE rates to comply with the Tentative  
6 Order (herein referred to as "Tentative Order Compliance Filing" UNE rates).

7

8 **Q. DID YOU PERFORM A SIMILAR ANALYSIS TO DETERMINE AN**  
9 **EQUIVALENT RESIDENTIAL DTL FACILITY COST USING THE**  
10 **TENTATIVE ORDER COMPLIANCE FILING RATES?**

11 A. Yes. By substituting the Tentative Order Compliance Filing rates into the analysis I  
12 performed, I calculated a residential DTL facility cost of [BEGIN  
13 PROPRIETARY] [END PROPRIETARY], as shown on Schedule WDA-  
14 3. Specifically, using the density cell line counts Verizon provided in this  
15 proceeding, Verizon's Tentative Order Compliance Filing UNE loop rate averages  
16 [BEGIN PROPRIETARY] [END PROPRIETARY]. The Tentative  
17 Order Compliance Filing UNE port rate (which does not vary across density cells),  
18 is \$1.14. Therefore, the equivalent DTL facility cost using the Tentative Verizon  
19 UNE rates is equal to the sum of these rates, or [BEGIN PROPRIETARY]  
20 [END PROPRIETARY]. This calculation is shown on Schedule WDA-3.

21

1 Again, since UNEs are averaged across both business and residence residential lines,  
2 I marked up the above "UNE DTL facility" cost by [BEGIN PROPRIETARY]  
3 [END PROPRIETARY], to arrive at a residential DTL facility cost of  
4 [BEGIN PROPRIETARY] [END PROPRIETARY], based on the current  
5 Verizon UNE rates. This calculation is shown on Schedule WDA-3.  
6

7 **Q. DID YOU PERFORM ANY OTHER ANALYSIS TO DETERMINE THE**  
8 **REASONABLENESS OF VERIZON'S PROPOSED RESIDENTIAL DTL**  
9 **FACILITY COSTS?**

10 A. Yes. As a further check of reasonableness, I analyzed the embedded (book) loop  
11 costs of each of the study areas of Verizon in Pennsylvania. The National Exchange  
12 Carrier Association (NECA) calculates the embedded loop costs of each Verizon  
13 Company.<sup>22</sup> The embedded costs are the actual costs on Verizon's corporate books  
14 that show what Verizon actually has invested in network facilities, and what  
15 expenses actually appear on Verizon's books.  
16

17 **Q. WHAT IS NECA?**

18 A. NECA is an organization that was established by the FCC. Each year, NECA  
19 conducts an "Annual Data Collection", where LECs (including Verizon) are required

---

<sup>22</sup> NECA calculates the embedded loop costs for four Verizon companies in Pennsylvania: Verizon PA, Verizon North-Contel, Verizon North-Quaker State and Verizon North-GTE.

1 to provide NECA with actual book investment and expense information pertaining  
2 to the LECs' telephone operations. NECA uses this information to compile a wealth  
3 of information regarding the LECs' actual investment and costs. One of the costs  
4 NECA calculates using the actual LEC book cost data is the unseparated, embedded  
5 loop cost for each LEC's study area. The weighted average embedded loop cost as  
6 calculated by NECA is [BEGIN PROPRIETARY] [END  
7 PROPRIETARY] for Verizon's study areas in Pennsylvania, as shown on Schedule  
8 WDA-3. The embedded loop cost does not include the port. Therefore I added the  
9 Tentative Order Compliance Filing Port rate, which is [BEGIN PROPRIETARY]  
10 [END PROPRIETARY], and then marked the total cost up by [BEGIN  
11 PROPRIETARY] [END PROPRIETARY] to convert the cost to a residential-  
12 only DTL cost. The result of this analysis is a residential DTL cost of [BEGIN  
13 PROPRIETARY] [END PROPRIETARY], based on the NECA embedded  
14 loop costs. These figures are shown on Schedule WDA-3.

15  
16 **Q. WHAT DO YOU CONCLUDE FROM YOUR ANALYSIS?**

17 **A.** I conclude that regardless of what benchmark comparison of costs is used, Verizon's  
18 proposed residential DTL facility costs are grossly inflated and unreasonable.  
19 Verizon's proposed residential DTL facility costs are over [BEGIN  
20 PROPRIETARY] [END PROPRIETARY] the equivalent cost based on  
21 the current Verizon UNE rates, over [BEGIN PROPRIETARY] [END

1           **PROPRIETARY]** the equivalent cost based on the Tentative Order Compliance  
2           Filing Verizon UNE rates, and more than **[BEGIN PROPRIETARY]**  
3           **[END PROPRIETARY]** the equivalent cost based on the NECA embedded loop  
4           costs, loop costs which are calculated using Verizon's actual book costs. Quite  
5           simply, Verizon's proposed residential DTL facility costs are so grossly inflated,  
6           they must be disregarded in this proceeding.

7  
8   **Q.   WHAT MEASURE OF RESIDENTIAL DTL FACILITY COSTS DID YOU**  
9   **USE IN YOUR RELATIVE STAND-ALONE COST STUDY THAT YOU**  
10 **HAVE INCLUDED IN YOUR TESTIMONY?**

11   **A.**   I have used the residential DTL facility costs based on the Tentative Order  
12           Compliance Filing UNE rates. The Tentative Order Compliance Filing UNE rates  
13           are shown on Attachment 1 of Verizon's December 4, 2002 Compliance Filing in  
14           Docket No. R-00016683. In the analysis I performed, I calculated a residential DTL  
15           facility cost of **[BEGIN PROPRIETARY]**           **[END PROPRIETARY]**,  
16           which is calculated on Schedule WDA-3. Verizon's December 4, 2002 Tentative  
17           Order Compliance Filing UNE rates are the closest rates to new PUC-approved  
18           UNE rates that I am aware of.

19

1           However, since the current UNE rates, Tentative UNE rates, and embedded costs  
2           (NECA) are all relatively close together, the overall conclusion in this testimony  
3           would be similar to using any of these measures of residential DTL facility costs.

4  
5   **VII. VERIZON'S RESIDENTIAL BASIC LOCAL EXCHANGE RATE IS**  
6   **MUCH GREATER THAN ITS INCREMENTAL COSTS.**

7  
8   **Q.   IN OTHER SECTIONS OF YOUR TESTIMONY, YOU HAVE BEEN**  
9   **DISCUSSING THE ALLOCATED COST, WHICH INCLUDES AN**  
10  **ALLOCATED PORTION OF THE COSTS OF SHARED FACILITIES,**  
11  **SUCH AS THE SHARED DTL FACILITY COST. ARE YOU GOING TO**  
12  **BE ADDRESSING A DIFFERENT TYPE OF COST IN THIS SECTION OF**  
13  **YOUR TESTIMONY?**

14  A.   Yes. In this section of my testimony, I will be addressing the Total Service Long  
15  Run Incremental Cost (TSLRIC) of providing services. The TSLRIC represents the  
16  floor for a service. The TSLRIC includes only the additional costs of providing a  
17  service, assuming that all of the facilities needed to provide all other services are  
18  already available for the service in question to use. As its role as the floor for a  
19  service, the TSLRIC establishes the lowest point at which a service can be priced,  
20  where it will not be receiving a subsidy. As long as a service is priced equal to or  
21  above its TSLRIC, the service cannot be properly considered to be receiving a  
22  subsidy.

23

1 Q. VERIZON CLAIMS THAT RESIDENTIAL LOCAL EXCHANGE SERVICE  
2 IS PRICED BELOW COST<sup>23</sup> AND IS "SUBSIDIZED"<sup>24</sup>. IS RESIDENTIAL  
3 LOCAL EXCHANGE SERVICE PRICED BELOW COST OR  
4 "SUBSIDIZED"?

5 A. No. Verizon receives residential basic local exchange service revenues of [BEGIN  
6 PROPRIETARY] [END PROPRIETARY] per line, per month in  
7 residential basic local service revenues, but it would avoid only [BEGIN  
8 PROPRIETARY] [END PROPRIETARY] per line, per month in costs.  
9 These figures are shown on page 2 of Schedule WDA-1. Quite simply, Verizon  
10 would lose much more revenues than it would avoid in costs if Verizon ceased  
11 providing residential basic local exchange service. In other words, its TSLRIC is  
12 much less than its revenues.

13  
14 Q. DOES YOUR ANALYSIS DEMONSTRATE THAT VERIZON'S  
15 RESIDENTIAL BASIC LOCAL EXCHANGE SERVICE IS NOT  
16 SUBSIDIZED?

17 A. Yes. In rate design and regulation, it is correct to say that a service is  
18 "subsidized" only if the eliminated costs exceeded the lost revenues if that service  
19 (and that service alone), was eliminated. The eliminated costs are referred to as  
20 TSLRIC costs. For Verizon's residential basic local exchange service in

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<sup>23</sup> See e.g., Dean and Sanford Direct, page 3, lines 12-14.

<sup>24</sup> See Berry/Wirl Direct, page 5.

1 Pennsylvania, that condition is not met. Therefore, residential basic local  
2 exchange service is not "subsidized."

3  
4 **Q. ARE YOU AWARE OF ANY STATE COMMISSIONS THAT REACHED A**  
5 **SIMILAR CONCLUSION?**

6 A. Yes. The Washington Utilities and Transportation Commission (WUTC), in its  
7 Fifteenth Supplemental Order in Docket No. UT-950200 dated April 11, 1996,  
8 stated: "The evidence clearly shows that residential service is covering its cost".

9  
10 The Commission explained,

11  
12 The conclusion to be drawn from these cost results is that residential  
13 service does not receive a subsidy at current rates. The average  
14 residential customer today pays \$10.50 for local service and EAS  
15 adders, plus a subscriber line charge of \$3.50. If USWC were to exit  
16 the local residential exchange market, its revenues would decrease by  
17 \$14.00 per customer, and its costs would decrease by about \$4.42 per  
18 customer. Not only does residential service cover its incremental  
19 cost (the test for cross-subsidy), it even covers the incremental cost  
20 of the local loop that is used to provide local, long-distance, and  
21 vertical services, since the revenue from local service, including the  
22 subscriber line charge, exceeds the \$13.38 cost of local service plus  
23 the local loop.<sup>25</sup>  
24

25  
26 Of course, the exact numbers vary from state to state, but the conclusion is the same.

27 If Verizon exited the residential basic local exchange market, the lost revenue would  
28 greatly exceed the avoided cost.

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<sup>25</sup> Page 90, Fifteenth Supplemental Order, Docket No. UT-950200, Commission Decision and Order Rejecting  
Tariff Revisions; Requiring Refiling, dated April 11, 1996.

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**A. RESIDENTIAL LOCAL EXCHANGE SERVICE IS NOT SUBSIDIZED.**

**Q. CAN YOU PLEASE DEMONSTRATE THE TEST FOR A SUBSIDY THAT IS RECOGNIZED BY REGULATORS?**

A. Yes. I just provided a quotation from the Washington Commission which indicates the test for cross-subsidy.

In addition, the issue of (TSLRIC) costs was addressed extensively in the last rate rebalancing case of Verizon (then Bell Atlantic), which was Pennsylvania Docket No. R-00963550. In that proceeding, Verizon clearly indicated that services cannot be considered "subsidized" when their price is equal to or above total service long run incremental cost (TSLRIC). In response to a discovery request, in that proceeding, Verizon stated,

Request: Is it Bell's position that a service is not being subsidized as long as it is priced equal to or above its TSLRIC? Please explain.

Response: Yes. In economic theory, a service is said to be subsidized if its incremental revenue does not cover the additional costs caused by the provision of the service. The appropriate measure of cost to use in this context is the forward looking incremental cost of supplying the entire service at its current level of output. [Some economists refer to this form of incremental cost as total service long run incremental cost (TSLRIC).], Therefore, to determine whether a service is subsidized according to economic theory, the central question is whether the incremental revenues from the service equal or exceed its

1 TSLRIC, as defined in response to OCA VI, No. 28.  
2 Note, however, that for reasons described in response  
3 to OCA VI, No. 21, it may not be appropriate to set  
4 the price of a service at TSLRIC.<sup>26</sup>  
5

6 **Q. HOW ARE TSLRIC COSTS DEFINED?**

7 A. In Verizon's last rate rebalancing proceeding, Verizon defined long run incremental  
8 cost as:

9  
10 The TSLRIC of service A is calculated by subtracting (i) the forward-  
11 looking total cost of supplying all other services (that is, all services  
12 except service A) from (ii) the forward-looking cost of a firm supplying all  
13 services, including service A...

14  
15 This means that costs included in the TSLRIC of a service include  
16 only those additional costs that are caused by the decision to supply  
17 the service. **Costs that would be incurred even if the service is not**  
18 **provided would be excluded from the TSLRIC of that service.**<sup>27</sup>  
19 (emphasis added)  
20  
21

22 Verizon specifically indicated that TSLRIC is equal to the costs that are not avoided,  
23 if that service is discontinued (while all other services continue to be provided).

24 Verizon indicated this fact in response to a discovery request:  
25

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<sup>26</sup> Bell response to OCA Request Set VI, #29 in Pennsylvania Docket No. R-00963550. The text of this request and response was placed in the public record and appears on page 22, beginning at line 14 of Exhibit OCA ST. 3.0 (Direct Testimony of William W. Dunkel) in Docket No. R-00963550.

<sup>27</sup> Bell's response to OCA Data Request Set VI, #28A in Pennsylvania Docket No. R-00963550. The text of this response was placed in the public record and appears on page 23, beginning at line 19 of Exhibit OCA ST. 3.0 (Direct Testimony of William W. Dunkel) in Docket No. R-00963550.

1 Request F. Is it correct that the costs which should not be  
2 included in the TSLRIC for a given service are those  
3 costs which are not avoided in the long run if that  
4 service is discontinued while all other services  
5 provided by the company are continued?  
6

7 Response F: Yes.<sup>28</sup>  
8  
9

10 **Q. USING THE ACCEPTED DEFINITION, IS THE DIAL TONE LINE**  
11 **FACILITY PART OF THE TSLRIC OF ANY OF THE SERVICES THAT**  
12 **SHARE IT?**

13 A. No. If local service was discontinued, while all other services continue to be  
14 provided, the DTL facility cost would not be avoided, since the DTL facility would  
15 still be needed to carry intrastate toll, interstate toll, intrastate switched access,  
16 interstate switched access, and other services to and from the premises. Therefore,  
17 using Verizon's own definition, the residential dial tone line facility cost is not a cost  
18 that is properly included in the TSLRIC of residential local basic service, DTL  
19 service, or any individual service that shares the dial tone line facility.  
20

21 **Q. IS THE PROPERLY CALCULATED TSLRIC INTENDED TO SHOW ALL**  
22 **OF THE COSTS OF ALL OF THE FACILITIES THAT MUST EXIST IN**  
23 **ORDER FOR THE SERVICE TO BE PROVIDED?**

---

<sup>28</sup> Bell's response to OCA Data Request Set VI, #28F in Pennsylvania Docket No. R-00963550. The text of this request and response was placed in the public record and appears on page 24, beginning at line 6 of Exhibit OCA ST. 3.0 (Direct Testimony of William W. Dunkel) in Docket No. R-00963550.

1 A. No. The TSLRIC is not meant to show the full cost of providing a service, but the  
2 TSLRIC is designed for only limited purposes. The TSLRIC defines the point  
3 below which a service is being "subsidized." The TSLRIC provides the "floor" for a  
4 price. The TSLRIC is not normally accepted as determining the "reasonable" or  
5 "fair" price for a service, since it excludes the cost of all of the shared facility.  
6 However, the costs of those shared facilities must be incurred in order for that  
7 service to be provided. A service should normally be priced above the TSLRIC so  
8 that it will cover a portion of the cost of shared facilities that are needed to provide  
9 that service (but which are excluded from the calculation of the TSLRIC).

10 Elsewhere in this testimony, I provide citations that include quotations from an order  
11 by the U.S. Supreme Court, the FCC, reference to the federal Telecommunications  
12 Act of 1996, citations to the Pennsylvania Public Utility Code, all of which indicate  
13 that a portion of the shared cost should be considered. However, those shared costs  
14 are not properly included when calculating the TSLRIC "floor" figure. When  
15 making a "subsidy" claim, the properly calculated TSLRIC is the cost that is  
16 appropriate to use.

17

18 **B. THE TSLRIC OF RESIDENTIAL BASIC EXCHANGE SERVICE TO BE**  
19 **USED IN THE TEST FOR "SUBSIDY" IS ONLY A FEW DOLLARS.**

20

21 **Q. USING THE PROPER DEFINITION OF TSLRIC, WHAT IS THE TSLRIC**  
22 **OF RESIDENTIAL LOCAL EXCHANGE SERVICE?**

23

24

A. The statewide average residential local service TSLRIC is [BEGIN  
PROPRIETARY] [END PROPRIETARY] per month per line for Verizon

1 in Pennsylvania, as shown on page 2 of Schedule WDA-1. If residential basic local  
2 service was deleted from the services that Verizon provides, the only major costs  
3 that would be eliminated would be the costs of providing residential local usage.<sup>29</sup>  
4 Therefore, I calculated the weighted (by residential lines) average of the VZ PA and  
5 VZ North residential local usage costs shown on page 20 of Ms. Dean's and Mr.  
6 Sanford's Direct testimony to arrive at the TSLRIC cost.

7  
8 All of the other costs of the Company would have to continue in order to provide the  
9 other services. The dial tone line facility would still be needed to provide intrastate  
10 toll, interstate toll, intrastate switched access, interstate switched access, and other  
11 services. Therefore, the dial tone line facility costs are not properly included in the  
12 TSLRIC.

13  
14  
15 **Q. WHAT IS SCHEDULE WDA-6?**

16 **A.** Schedule WDA-6 is a diagram that demonstrates each of the major categories of  
17 telephone service that share the dial tone line facility (i.e. the loop and port). The  
18 diagram shows the telephone network facilities between Verizon's central office  
19 and the customer's premise (depicted as a house on the diagram) that are required  
20 to provide the major categories of telephone services. As shown on Schedule  
21 WDA-6, toll service (both interstate and intrastate toll), vertical services, switched  
22 access (both interstate and intrastate switched access) and basic local services, all

---

<sup>29</sup>I used Verizon's calculation of usage costs for this calculation.

1 require the dial tone line facility (i.e. the loop and port). In addition, digital  
2 subscriber line (DSL) high-speed internet access service requires the loop portion  
3 of the dial tone line facility, as shown on Schedule WDA-6.

4  
5 **VIII. STAND ALONE COSTS**

6  
7 **Q. WHAT IS A "STAND ALONE" COST?**

8 A. In the last rate rebalancing case of Verizon (then Bell Atlantic) in Pennsylvania,  
9 Docket R-00963550, Verizon properly defined the stand alone cost of a service as  
10 follows:

11  
12 The stand alone cost of a service is the forward-looking incremental  
13 cost of supplying the service in question in isolation—that is, without  
14 any other services. (citation omitted) It differs from the TS-LRIC of  
15 the service because the stand alone cost includes all common costs  
16 that are required to produce the service, whereas the TS-LRIC of a  
17 service includes only those additional costs that are caused by the  
18 decision to supply the service.

19  
20 The stand alone cost thus equals the highest price that could be  
21 charged for a service before an efficient competitor could enter the  
22 market, charge the market price and cover its total costs. Obviously,  
23 a price set above stand alone cost is not sustainable if there are no  
24 barriers to entry, and in economic theory, a price set above stand  
25 alone cost is defined as providing a subsidy.<sup>30</sup>  
26

27 The key difference between a stand alone cost and a TSLRIC is that the costs of the  
28 shared facilities (the facilities that are actually required and used to provide more

---

<sup>30</sup> Pages 15 and 16, Taylor Direct in Pennsylvania Docket No. R-00963550.

1 than one service) are completely excluded from the properly calculated TSLRIC of  
2 any one of the services which share the facility, whereas 100% of the cost of all of  
3 the facilities that are necessary to provide the service (regardless of whether those  
4 facilities are actually shared with other services) are properly included in the stand  
5 alone cost of any one of those services.

6  
7 An FCC order makes a similar statement.

8  
9 Economists have addressed these issues by defining the terms  
10 incremental and stand-alone costs. Economists would say that in  
11 order to give incumbent local exchange carriers the proper incentives  
12 to build multi-service facilities, where such facilities are  
13 economically rational, cost allocated to each individual service or  
14 subset of services should be less than the stand-alone cost but greater  
15 than the incremental cost. Stand-alone costs represent the total cost  
16 of constructing facilities dedicated to a specific group of services,  
17 while incremental costs represents the additional cost that must be  
18 incurred in order to provide a group of services where facilities are in  
19 place to provide other services. (citation omitted) These are the  
20 upper and lower bounds within which costs allocated to regulated  
21 and nonregulated services should fall.<sup>31</sup>  
22

23 The "stand alone" cost establishes the ceiling. The TSLRIC establishes the floor.  
24 The reasonable price is usually somewhere between the floor and ceiling. A pricing  
25 problem exists when services are priced below their floor or above their ceiling. If a  
26 service is priced equal to or less than its Stand-Alone Cost ceiling, that service is not  
27 considered to be providing a subsidy. If a service is priced greater than its Stand-  
28 Alone Cost ceiling, that service is considered to be providing a subsidy.

---

<sup>31</sup> Pages 10 and 11, Notice of Proposed Rulemaking, CC Docket No. 96-112, adopted and released May 10, 1996.

1  
2 As long as a service is priced equal to or greater than its properly calculated TSLRIC  
3 floor, that service is not receiving a subsidy. If the service in question is priced  
4 below its TSLRIC floor, it is said to be receiving a subsidy.  
5  
6

7 **IX. THE RELATIVE COST OF THE CLASS OF SERVICES USED IN THE**  
8 **STAND ALONE COST ANALYSIS**  
9

10 **Q. HAVE YOU CALCULATED THE "COST OF PROVIDING LOCAL**  
11 **EXCHANGE SERVICE" FOR RESIDENTIAL LOCAL EXCHANGE**  
12 **SERVICE CONSISTENT WITH THE DEFINITIONS IN SECTION 1325, AS**  
13 **YOU READ IT AS A RATE DESIGN EXPERT?**

14 A. Yes, I have. The results are shown on Schedule WDA-1. Utilizing the definitions  
15 and requirements set forth in Section 1325, [BEGIN PROPRIETARY] [END  
16 PROPRIETARY] is the share of the DTL facility (i.e. loop and port) cost which  
17 should be included in the cost of providing residential basic local service. This  
18 allocation was calculated in proportion to the stand alone cost of each class of  
19 service which utilizes the DTL facility, as is shown on page 2 of Schedule WDA-1.  
20

21 **Q. WHAT PORTION OF THE DTL (FACILITY) COSTS ARE INCLUDED IN**  
22 **THE LOCAL EXCHANGE SERVICE STAND ALONE COST?**

23 A. 100% of the DTL facility costs are properly included in a "stand alone" cost, since  
24 those facilities would be required if local exchange service was provided, but no

1 other services were being provided. Also included in the stand alone costs are the  
2 direct (TSLRIC) costs of residential local exchange service. The direct cost of  
3 providing residential basic local exchange service is essentially the cost of providing  
4 local usage.<sup>32</sup>

5 Likewise, the stand alone cost for the other-than-local-exchange class of services  
6 also includes 100% of the cost of the DTL facility, since this facility would be  
7 needed in order to provide this class of service. Also included in the stand alone  
8 costs are the TSLRIC costs for those services.

9  
10 On page 2 of Schedule WDA-1, I calculated the percent of the residential DTL  
11 facility costs that should be allocated to residential basic local exchange service.  
12 Those costs are allocated in proportion to the stand alone cost of each class of  
13 service which utilized the residential DTL facility. Based upon this requirement,  
14 **[BEGIN PROPRIETARY] [END PROPRIETARY]** of the cost of the  
15 residential DTL facility is properly allocated to residential local exchange service.

16  
17 **Q. WHAT IS THE "COST OF PROVIDING LOCAL EXCHANGE SERVICE"**  
18 **AS CALCULATED CONSISTENT WITH SECTION 1325 OF THE**  
19 **PENNSYLVANIA STATUTE?**

---

<sup>32</sup>I used Verizon's calculation of usage costs for this calculation.

1 A. As shown on line 5 of Schedule WDA-2, the "cost of providing local exchange  
2 service" as calculated consistent with the definitions in Section 1325 for residential  
3 local exchange service, is [BEGIN PROPRIETARY] [END  
4 PROPRIETARY] per line per month. As shown on Schedule WDA-2, the  
5 residential DTL facility cost has been allocated to local exchange service in  
6 proportion to the stand alone cost of each class of service which utilizes the DTL  
7 facility (line 3). To this, the direct cost of residential basic local exchange service  
8 has been added (line 4).

9  
10 **Q. WHAT ARE THE CURRENT REVENUES VERIZON RECEIVES FOR**  
11 **RESIDENTIAL LOCAL EXCHANGE SERVICE?**

12 A. As shown on line 6 of Schedule WDA-2, the current weighted average residential  
13 local exchange service revenues for the Verizon companies is [BEGIN  
14 PROPRIETARY] [END PROPRIETARY] per line per, month.<sup>33</sup>  
15 Therefore, the current rates for residential basic local exchange service exceeds the  
16 "cost of providing local exchange service" as calculated consistent with the  
17 definitions in Section 1325 for residential basic local exchange service, by [BEGIN  
18 PROPRIETARY] [END PROPRIETARY] per line per, month, as shown  
19 on line 7 of Schedule WDA-2.

20  
21 The revenues considered in this analysis do not include revenues from residential  
22 vertical services, such as custom calling services, CLASS services, privacy listing

---

<sup>33</sup> This includes the weighted average basic residential local service revenues from local usage and DTL service, as well as the weighted average primary line SLC charge.

1 services, or any revenues other than local usage, DTL, and the Federal Subscriber  
2 Line Charge (SLC), which is charged to all subscribers of basic local exchange  
3 service.<sup>34</sup>

4  
5 **Q. WHAT DOES THE ABOVE MEAN?**

6 A. The "cost" exception to the limitation which restricts the percentage increase in local  
7 exchange service rates to be no greater than the overall average percent increase in  
8 total intrastate revenues has not been met. Since the cost based exception has not  
9 been met, that restriction applies, as I read this Section as a rate design/cost of  
10 service telecommunications expert, and in consultation with legal counsel.

11  
12 **Q. YOUR ANALYSIS DEMONSTRATES THAT THE CURRENT RATES FOR**  
13 **RESIDENTIAL BASIC LOCAL EXCHANGE SERVICE GREATLY**  
14 **EXCEED THE "COST OF PROVIDING LOCAL EXCHANGE SERVICE"**  
15 **AS DEFINED BY SECTION 1325. WHAT ELSE DOES YOUR ANALYSIS**  
16 **DEMONSTRATE?**

17 A. Schedule WDA-1 shows the TSLRIC, current revenues and Stand-Alone cost for  
18 each of Verizon's major services. The results are shown graphically on page 1, and  
19 the data supporting the graph are shown on page 2. The Schedule demonstrates that  
20 residential basic local exchange service provides more contribution per line (i.e.

---

<sup>34</sup> In addition, Verizon also receives Federal loop cost support called "Interstate Access Support (IAS)". For the third Quarter 2003, the IAS support amount totaled \$624,616 per month for the Verizon Companies (Verizon PA North - \$265,240, Verizon PA North (Contel) - \$133,265 and Verizon North PA (Quaker State) - \$226,111, according to the Universal Service Administrative Company (USAC) "Projections for the Third Quarter 2003", Appendix HC01. My analysis does not include this additional revenue.

1 revenues in excess of the TSLRJC floor) than any other residential service Verizon  
2 provides. In fact, residential basic local exchange service provides more  
3 contribution per line than all of the other residential services combined. Residential  
4 basic local exchange service provides [BEGIN PROPRIETARY] [END  
5 PROPRIETARY] per line, per month in contribution, whereas other services that  
6 utilize the residential dial tone line provide in the aggregate an additional [BEGIN  
7 PROPRIETARY] [END PROPRIETARY] per line, per month in  
8 contribution, as shown on page 2 of Schedule WDA-2.

9  
10 **Q. YOU HAVE JUST ADDRESSED YOUR ANALYSIS OF BASIC**  
11 **RESIDENTIAL LOCAL EXCHANGE SERVICE. ARE RESIDENTIAL**  
12 **VERTICAL SERVICES ALSO PROFITABLE?**

13 **A.** Yes. As shown on page 2 of Schedule WDA-1, the total revenue-above-direct-cost  
14 for Verizon's residential vertical services, such as residential Custom Calling,  
15 CLASS and Privacy Listing services is approximately [BEGIN PROPRIETARY]  
16 [END PROPRIETARY] per line, per month.

17  
18 **Q. WHAT PERCENT OF THE RESIDENTIAL DTL FACILITY COSTS DO**  
19 **THE CURRENT RESIDENTIAL BASIC LOCAL EXCHANGE RATES**  
20 **SUPPORT?**

21 **A.** At current rates, Verizon's residential basic local exchange service provides [BEGIN  
22 PROPRIETARY] [END PROPRIETARY] per line in contribution toward

1 joint, shared and common costs. This represents over [BEGIN PROPRIETARY]  
2 [END PROPRIETARY] of the residential DTL facility costs.<sup>35</sup>

3  
4 **Q. WHAT CONTRIBUTION DOES INTRASTATE SWITCHED ACCESS**  
5 **CURRENTLY PROVIDE?**

6 A. As shown on Schedule WDA-1, intrastate switched access provides [BEGIN  
7 PROPRIETARY] [END PROPRIETARY] per line, per month in revenue  
8 contribution (i.e. revenue in excess of TSLRIC). This is the lowest per-line  
9 contribution of any intrastate service that utilizes the residential dial tone line  
10 facility. This is less than [BEGIN PROPRIETARY] [END  
11 PROPRIETARY] of the residential DTL costs.<sup>36</sup>

12  
13 **Q. ON PAGE 5 OF THEIR DIRECT, BERRY/WIRL CLAIM THAT ACCESS**  
14 **CHARGES SUBSIDIZE LOCAL RATES. IS THIS TRUE?**

15 A. No. The total revenue from intrastate switched access service is [BEGIN  
16 PROPRIETARY]  
17 [END PROPRIETARY] per line, per month. This  
18 means that the current intrastate switched access rates are priced at only about  
19 [BEGIN PROPRIETARY] [END PROPRIETARY] of its Stand-Alone  
20 Cost. As I have already discussed, a service must be priced above its Stand-Alone  
21 Cost ceiling to properly be considered to be providing a subsidy. Therefore, using

---

<sup>35</sup> [BEGIN PROPRIETARY] [END PROPRIETARY].

<sup>36</sup> [BEGIN PROPRIETARY] [END PROPRIETARY].

1 the standard subsidy test, intrastate switched access service does not even come  
2 anywhere close to providing a subsidy.

3  
4 In addition, as shown on Schedule WDA-1, the total revenue from residential basic  
5 local exchange service is [BEGIN PROPRIETARY]

6 [END

7 PROPRIETARY] per line, per month. This means that the current residential basic  
8 local exchange service is priced at over [BEGIN PROPRIETARY] [END

9 PROPRIETARY] above its TSLRIC floor. As I have already discussed, a service  
10 must be priced below its TSLRIC floor to properly be considered to be receiving a  
11 subsidy. Therefore, using the standard subsidy test, residential basic local exchange  
12 service does not even come anywhere near receiving a subsidy.

13  
14 **Q. IS IT APPROPRIATE FOR THE INTEREXCHANGE TOLL CARRIERS**  
15 **(IXCs) TO PAY THE CC CHARGE FOR THE USE OF VERIZON'S**  
16 **RESIDENTIAL DIAL TONE LINE FACILITIES?**

17 **A.** Yes. If the IXCs were unable to use Verizon's residential DTL facilities, the IXCs  
18 would have to support the full cost of the DTL facilities through the purchase of  
19 Verizon's UNE loops and ports, or through the construction of the IXCs' own  
20 network facilities. Either way, the IXCs would be forced to cover a much larger cost  
21 than they currently do through the Carrier Charge.

22  
23 **Q. WHAT DO YOU CONCLUDE FROM THIS ANALYSIS?**

1 A. I conclude that the current residential basic local exchange rates contribute more  
2 than enough toward the residential DTL facility costs. Switched access does not  
3 subsidize residential local service. The current rates greatly exceed the "cost of  
4 providing local exchange service" as defined by Section 1325 of the Statute. No  
5 increase in residential basic local exchange rates is warranted.

6  
7  
8 **X. VERIZON'S PROPOSAL IS NOT "VIRTUALLY IDENTICAL"<sup>37</sup> TO THE**  
9 **JOINT ACCESS REFORM PLAN FOR THE RTCC AND SPRINT**

10  
11 **Q. ON PAGE 21 OF THEIR DIRECT, BERRY/WIRL STATE "BOTH**  
12 **VERIZON PA'S AND VERIZON NORTH'S WEIGHTED AVERAGE**  
13 **RESIDENTIAL RATES OF APPROXIMATELY \$13.50 ARE LOWER**  
14 **THAN THE CURRENT AVERAGE RATE OF TWELVE OF THE ILECS**  
15 **IN THE RURAL SETTLEMENT, INCLUDING SPRINT/UNITED AT**  
16 **\$15.88." THEN ON PAGE 26 OF THEIR DIRECT, BERRY/WIRL**  
17 **ARGUE THAT IT IS AN "UNFOUNDED ASSUMPTION THAT**  
18 **VERIZON'S COSTS OF PROVIDING SERVICE ARE SOMEHOW**  
19 **VASTLY DIFFERENT THAN THOSE OF OTHER ILECS" INCLUDED**  
20 **IN THE RURAL TELEPHONE COMPANY COALITION (RTCC)**  
21 **SETTLEMENT. DO THESE STATEMENTS SUPPORT VERIZON'S**

---

<sup>37</sup> Berry/Wirl Direct, page 8.

1           **PROPOSAL TO INCREASE RESIDENTIAL BASIC LOCAL EXCHANGE**  
2           **RATES?**

3    A.    No. First of all, Sprint/United is not representative of all of the rural companies  
4           involved in the Joint Access Reform. The \$15.88 local rate Verizon refers to is  
5           after the rate rebalancing that Sprint/United made on September 3, 2002. At that  
6           time Sprint/United raised its local rates and lowered access. Prior to that the  
7           Sprint/United average residential local rate was \$14.31.<sup>38</sup> In addition, the \$13.50  
8           average Verizon residential rate that Verizon refers to does not include the  
9           Verizon Federal SLC charge, which has a weighted average of \$6.14 per month  
10          (currently \$6.09 for Verizon PA and \$6.50 for Verizon North), per initial  
11          residential line for Verizon in Pennsylvania.<sup>39</sup> Therefore, Verizon's real current  
12          residential basic local exchange rate averages \$19.64 per month, as shown on  
13          Schedule WDA-1.

14  
15          According to Sprint's Tariff, its current residential SLC rate is \$4.26 per month  
16          (over 30% less than Verizon's average residential SLC charge). Therefore, the  
17          total charge for Sprint's residential basic local exchange service is approximately  
18          \$20.14<sup>40</sup>, which is within a few percent of Verizon's current residential rate.

---

<sup>38</sup> Sprint Proposal for Pennsylvania Access Investigation, April 15, 2002, footnote 9.

<sup>39</sup> The SLC rates are from Verizon's Tariff FCC No. 1, page 4-24.

<sup>40</sup> \$15.88 + \$4.26 = \$20.14.

1

2

In addition, the rural companies that were part of the Joint Access Reform settlement generally do have higher costs than Verizon, on average. In fact, even Sprint/United has higher costs than Verizon does. For example, Sprint/United's embedded (book) cost per loop as calculated by NECA is \$21.96 per month.<sup>41</sup>

5

6

The weighted average NECA loop cost for Verizon in Pennsylvania is \$17.19, as shown on Schedule WDA-4. Therefore, Sprint's NECA loop cost is over 27% higher than Verizon's.<sup>42</sup>

8

9

10

The weighted average NECA loop cost for the Joint Access Reform ILECs as a group is 30% higher than the Verizon NECA loop cost. This is shown on Schedule WDA-4. The simple fact is that on average, the ILECs in the Joint Access Reform agreement have costs significantly in excess of those of Verizon.

14

15

**Q. IN ITS ORDER APPROVIDING THE JOINT ACCESS REFORM**

16

**SETTLEMENT, DID THIS COMMISSION POINT OUT SEVERAL**

17

**DIFFERENCES BETWEEN RURAL AND NON-RURAL CARRIERS?**

---

<sup>41</sup>Universal Service Fund 2002 Submission of 2001 Study Results by the National Exchange Carrier Association, Section 6, page 36. \$263.48 per year, divided by 12 months = \$21.96.

<sup>42</sup>\$21.96 - \$17.19 divided by \$17.19 = 27.8%.

1 A. Yes. In its Order approving the Settlement, the Commission discussed FCC white  
2 papers that highlighted several important differences between rural and non-rural  
3 carriers. On page 7 of its Order, the Commission states:

4 As documented in a series of white papers prepared by the Rural Task  
5 Force, which was constituted by the FCC to study the differences between  
6 the provision of telecommunications services in rural and non-rural areas,  
7 rural carriers generally have higher operating and facilities costs due to  
8 lower subscriber density, smaller exchanges and limited economies of  
9 scale. Significantly, rural carriers rely more heavily on revenues from  
10 access charges and universal service support in order to provide ubiquitous  
11 and affordable local service.<sup>43</sup>  
12

13 **Q. IN ITS TESTIMONY IN THIS PROCEEDING, DOES VERIZON PA**  
14 **ADMIT THAT ITS RATES ARE ALREADY MUCH LOWER THAN**  
15 **OTHER COMPANIES' RATES?**

16 A. Yes. On page 23 of their Direct, Berry/Wirl admit that Verizon's access rates are  
17 very different than the other companies' rates. Verizon PA admitted to "- already  
18 having by far the lowest access rates in the state":

19 Indeed, because Verizon has been ahead of the curve in lowering its  
20 access rates - already having by far the lowest access rates in the state -  
21 Verizon can achieve a reasonable melding and reduction of the two  
22 companies' access rates without imposing rate increases of the magnitude  
23 apparently contemplated under the RTCC Settlement.  
24

25 **Q. ON PAGE 8 OF THEIR DIRECT TESTIMONY, BERRY/WIRL CLAIMS**  
26 **THAT VERIZON'S PROPOSAL IS "MODELED UPON AND**

---

<sup>43</sup>PUC Order in Docket No. M-00021596 et. al., Public Meeting held July 10, 2003, page 7.

1 VIRTUALLY IDENTICAL IN SUBSTANCE" TO THE JOINT ACCESS  
2 REFORM PLAN FOR THE RTCC AND SPRINT (JOINT ACCESS  
3 REFORM). IS VERIZON'S CLAIM TRUE?

4 A. No. First of all, Verizon PA's current access rates are already much lower than  
5 those of the RTCC companies and Sprint. As I have already discussed, the  
6 weighted average current Carrier Charge (CC) rate for Verizon is approximately  
7 [BEGIN PROPRIETARY] [END PROPRIETARY] per line per  
8 month.<sup>44</sup> Under the OCA's proposal, the CC charge would be set at [BEGIN  
9 PROPRIETARY] [END PROPRIETARY], without increasing any non-  
10 access service rates. Both of these CC rates are well below the current CC rate of  
11 any of the 31 Joint Access Reform companies. The current weighted average CC  
12 rate for the 31 RTCC/Sprint Joint Access Reform companies is \$6.97 per line, per  
13 month.<sup>45</sup> Clearly the Verizon "before" access rates are **not at all similar** to the  
14 Joint Access Reform companies "before" access rates.

15  
16 Secondly, the "before" Verizon CC rate is already much lower than even the  
17 "after" CC rate of other companies. For example, North Penn is one of the 31  
18 Joint Access Reform companies. North Penn's current CC charge is \$7.00 per

---

<sup>44</sup> Calculated from Berry/Wirl Direct testimony Exhibit MJW-1. As shown on the Exhibit, the current Verizon PA CC charge is [BEGIN PROPRIETARY] [END PROPRIETARY] per line, per month and the current Verizon North CC charge is approximately [BEGIN PROPRIETARY] [END PROPRIETARY] per line, per month.

<sup>45</sup> These are the rates prior to the Joint Access Reform.

1 line per month, and the North Penn CC charge "after" the Joint Access Reform  
2 will still be much higher than either the current [BEGIN PROPRIETARY]  
3 [END PROPRIETARY] per line,  
4 per month, CC that the OCA is proposing for Verizon in this proceeding.

5  
6 Third, the Verizon proposal goes far beyond anything proposed in the Joint  
7 Access Reform. For example, Verizon proposes that the Verizon "after" CC be  
8 [BEGIN PROPRIETARY] [END PROPRIETARY] under "Scenario 2",  
9 or [BEGIN PROPRIETARY] [END PROPRIETARY] under "Scenario  
10 1". Both of these rates are much lower than the "after" CC rate for North Penn  
11 under the Joint Access Reform.

12  
13 North Penn's intrastate TS access charges are approximately 3.0 cents per minute  
14 before the Joint Access Reform, and will be approximately 2.0 cents per minute  
15 after the Joint Access Reform.

16  
17 Verizon's TS access charges will be [BEGIN PROPRIETARY] [END  
18 PROPRIETARY] under the OCA proposal, which is much lower than the North  
19 Penn TS access charges will be after the Joint Access Reform.

20  
21 Q. WILL YOU SUMMARIZE THE DISCUSSION YOU PROVIDED ABOVE?

1 A. Yes. The following facts are clear:

2 (1) Verizon's current access charges, particularly the CC, are much lower than the  
3 average current access charges of the "Joint Access Reform" companies.

4 Therefore, Verizon does not have the same starting point.

5 (2) When a weighted average access rate is created for the two Verizon  
6 Companies, with no change in total intrastate access revenues, the resulting  
7 Verizon current, "before" access charges are lower than the North Penn rates  
8 would be **after** the Joint Access Reform. Verizon does not need the Joint Access  
9 Reform. All Verizon needs to do is average the access rates of the two  
10 companies.<sup>46</sup> The weighted average rates of Verizon are already lower than  
11 where the Joint Access Reform would take North Penn.

12 (3) Verizon's proposal that its CC be reduced to either **[BEGIN**  
13 **PROPRIETARY]** **[END PROPRIETARY]** per line, per month is  
14 not at all similar to the Joint Access Reform proposal.

15  
16 OCA was able to obtain (from various public sources) "before" rates for the Joint  
17 Access Reform companies and the "after" information for North Penn, but those  
18 public sources do not have the "after" data for all, or even a majority, of the Joint  
19 Access Reform Companies.

---

<sup>46</sup> In addition, the OCA has no objection to the Verizon proposal to "align their access rate structures without actually reducing the overall revenues from access", as described on page 9, lines 17-18 of Berry/Wirl's Direct.

1

2 Unfortunately, OCA is unable to disclose in this document a full comparison of  
3 the Joint Access Reform Proposal "after" rates to the proposed rates under the  
4 Verizon Proposal. The "after" Joint Access Reform data is proprietary in the  
5 "Joint Access Reform" proceeding, and cannot be used in this proceeding, even as  
6 "proprietary" data.

7

8 However, the data that we have presented for the Joint Access Reform companies  
9 clearly demonstrates that Verizon's access rates are nowhere near identical to the  
10 Joint Access Reform companies' access rates.

11

12 As discussed above, the Verizon proposal is nowhere near to being "virtually  
13 identical" to the RTCC/Sprint Joint Access Reform Proposal.

14

15 **Q. WHAT IS THE OCA'S PROPOSAL IN THIS PROCEEDING?**

16 A. The OCA proposes that Verizon's intrastate switched access rates be restructured  
17 revenue neutral within switched access, to establish uniform access rates that apply  
18 to both Verizon PA and Verizon North, with no rate increases for any other services.  
19 Specifically, OCA proposes that Verizon establish a **[BEGIN PROPRIETARY]**  
20 **[END PROPRIETARY]** CC charge per line, per month, and traffic-sensitive  
21 switched access charges which total **[BEGIN PROPRIETARY]** **[END**

1           **PROPRIETARY]** per minute. These rates were calculated from Berry/Wirl Direct  
2           Testimony Schedule MJW-2. The resulting rates under this proposal are reasonable  
3           and appropriate for the following reasons: 1) Verizon will fulfill its Merger  
4           Requirement of parity rates between Verizon PA and Verizon North, 2) Verizon  
5           will be allowed to restructure its access charges to "align their access rate structures  
6           without actually reducing the overall revenues from access", as described on page 9,  
7           lines 17-18 of Berry/Wirl's Direct, 3) No other service rates will need to be  
8           increased as a result of this restructure, because it would be revenue neutral within  
9           switched access, 4) the OCA proposal would not violate Section 1325 of the  
10          Pennsylvania Statute, however, the Verizon proposal would, 5) under the OCA  
11          proposal, interexchange carriers would properly continue to contribute toward the  
12          recovery of the shared DTL facilities of Verizon in Pennsylvania which the  
13          interexchange carriers use and benefit from, and (6) for all of the other reasons set  
14          forth in this testimony.

15  
16   **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

17   **A.    Yes**

18

William Dunkel, Consultant  
8625 Farmington Cemetery Road  
Pleasant Plains, Illinois 62677

Qualifications

The Consultant is a consulting engineer specializing in telecommunication regulatory proceedings. He has participated in over 140 state regulatory proceedings as listed on the attached Relevant Work Experience.

The Consultant has provided cost analysis, rate design, jurisdictional separations, depreciation, expert testimony and other related services to state agencies throughout the country in numerous telecommunication state proceedings. The Consultant has also provided depreciation testimony to state agencies throughout the country in several electric utility proceedings.

The Consultant made a presentation pertaining to Video Dial Tone at the NASUCA 1993 Mid-Year Meeting held in St. Louis.

In addition, the Consultant also made a presentation to the NARUC Subcommittee on Economics and Finance at the NARUC Summer Meetings held in July, 1992. That presentation was entitled "The Reason the Industry Wants to Eliminate Cost Based Regulation--Telecommunications is a Declining Cost Industry."

The Consultant provides services almost exclusively to public agencies, including the Public Utilities Commission, the Public Counsel, or the State Department of Administration in various states.

William Dunkel currently provides, or in the past has provided, services in telecommunications proceedings to the following clients:

The Public Utility Commission or the Staffs in the States of:

Arkansas	Mississippi
Arizona	Missouri
Delaware	New Mexico
Georgia	Utah
Guam	Virginia
Illinois	Washington
Maryland	U.S. Virgin Islands

The Office of the Public Advocate, or its equivalent, in the States of:

Colorado	Maryland
District of Columbia	Missouri
Georgia	New Jersey
Hawaii	New Mexico
Illinois	Ohio
Indiana	Pennsylvania
Iowa	Utah
Maine	Washington

The Department of Administration in the States of:

Illinois	South Dakota
Minnesota	Wisconsin

In April, 1974, the Consultant was employed by the Illinois Commerce Commission in the Electric Section as a Utility Engineer. In November of 1975, he transferred to the Telephone Section of the Illinois Commerce Commission and from that time until July, 1980, he participated in essentially all telephone rate cases and other telephone rate matters that were set for hearing in the State of Illinois. During that period, he testified as an expert witness in numerous rate design cases and tariff filings in the areas of rate design, cost studies and separations. During the period 1975-1980, he was the Separations and Settlements expert for the Staff of the Illinois Commerce Commission.

From July, 1977 until July, 1980, he was a Staff member of the FCC-State Joint Board on Separations, concerning the "Impact of Customer Provision of Terminal Equipment on Jurisdictional Separations" in FCC Docket No. 20981 on behalf of the Illinois Commerce Commission. The FCC-State Joint Board is the national board which specifies the rules for separations in the telephone industry.

The Consultant has taken the AT&T separations school which is normally provided to the AT&T personnel.

The Consultant has taken the General Telephone separations school which is normally provided for training of the General Telephone Company personnel in separations.

Since July, 1980 he has been regularly employed as an independent consultant in telephone rate proceedings across the nation.

He has testified before the Illinois House of Representatives Subcommittee on Communications, as well as participating in numerous other schools and conferences pertaining to the utility industry.

Prior to employment at the Illinois Commerce Commission, the Consultant was a design engineer for Sangamo Electric Company designing electric watt-hour meters used in the electric utility industry. The Consultant was granted patent No. 3822400 for a solid state meter pulse initiator.

The Consultant graduated from the University of Illinois in February, 1970 with a Bachelor's of Science Degree in Engineering Physics with emphasis on economics and other business-related subjects. The Consultant has taken several post-graduate courses since graduation.

RELEVANT WORK EXPERIENCE OF  
WILLIAM DUNKEL

ARIZONA

- U.S. West Communications  
Wholesale cost/UNE case                      Cost of Service Study  
General rate case                                Docket No. T-00000A-00-0194  
Depreciation case                                Docket No. E-1051-93-183  
General rate case                                Docket No. T-01051B-97-0689  
General rate case                                Docket No. T-01051B-99-0105

ARKANSAS

- Southwestern Bell Telephone Company                      Docket No. 83-045-U

CALIFORNIA

(on behalf of the Office of Ratepayer Advocates (ORA))

- Kerman Telephone General Rate Case                      A.02-01-004

(on behalf of the California Cable Television Association)

- General Telephone of California                      I.87-11-033
- Pacific Bell  
Fiber Beyond the Feeder Pre-Approval  
Requirement

COLORADO

- Mountain Bell Telephone Company  
General Rate Case                                Docket No. 96A-218T et al.  
Call Trace Case                                    Docket No. 92S-040T  
Caller ID Case                                    Docket No. 91A-462T  
General Rate Case                                Docket No. 90S-544T  
Local Calling Area Case                        Docket No. 1766  
General Rate Case                                Docket No. 1720  
General Rate Case                                Docket No. 1700  
General Rate Case                                Docket No. 1655  
General Rate Case                                Docket No. 1575  
Measured Services Case                        Docket No. 1620
- Independent Telephone Companies  
Cost Allocation Methods Case                      Docket No. 89R-608T

DELAWARE

- Diamond State Telephone Company  
General Rate Case                                PSC Docket No. 82-32  
General Rate Case                                PSC Docket No. 84-33  
Report on Small Centrex                        PSC Docket No. 85-32T

General Rate Case  
Centrex Cost Proceeding

PSC Docket No. 86-20  
PSC Docket No. 86-34

DISTRICT OF COLUMBIA

- C&P Telephone Company of D.C.  
Depreciation issues

Formal Case No. 926

FCC

- Review of jurisdictional separations
- Developing a Unified Intercarrier  
Compensation Regime

FCC Docket No. 96-45

CC Docket No. 01-92

FLORIDA

- BellSouth, GTE, and Sprint  
Fair and reasonable rates

Undocketed Special Project

GEORGIA

- Southern Bell Telephone & Telegraph Co.  
General Rate Proceeding  
General Rate Proceeding  
General Rate Proceeding  
General Rate Proceeding

Docket No. 3231-U

Docket No. 3465-U

Docket No. 3286-U

Docket No. 3393-U

HAWAII

- GTE Hawaiian Telephone Company  
Depreciation/separations issues  
Resale case

Docket No. 94-0298

Docket No. 7702

ILLINOIS

- Commonwealth Edison Company  
General Rate Proceeding  
General Rate Proceeding  
Section 50  
Section 55  
Section 50  
Section 55
- Central Illinois Public Service  
Section 55  
Section 55  
Section 55  
Exchange of Facilities (Illinois Power)  
General Rate Increase

Docket No. 80-0546

Docket No. 82-0026

Docket No. 59008

Docket No. 59064

Docket No. 59314

Docket No. 59704

Docket No. 58953

Docket No. 58999

Docket No. 59000

Docket No. 59497

Docket No. 59784

-	Section 55	Docket No. 59677
-	South Beloit	
	General Rate Case	Docket No. 59078
-	Illinois Power	
	Section 55	Docket No. 59281
	Interconnection	Docket No. 59435
-	Verizon North Inc. and Verizon South Inc.	Docket No. 02-0560
	DSL Waiver Petition Proceeding	
-	Geneseo Telephone Company	
	EAS case	Docket No. 99-0412
-	Central Telephone Company	
	(Staunton merger)	Docket No. 78-0595
-	General Telephone & Electronics Co.	
	Usage sensitive service case	Docket Nos. 98-0200/98-0537
	General rate case (on behalf of CUB)	Docket No. 93-0301
	(Usage sensitive rates)	Docket No. 79-0141
	(Data Service)	Docket No. 79-0310
	(Certificate)	Docket No. 79-0499
	(Certificate)	Docket No. 79-0500
-	General Telephone Co.	Docket No. 80-0389
-	SBC	
	UNE Rate Case	Docket No. 02-0864
	Alternative Regulation Review	Docket No. 98-0252
-	Ameritech (Illinois Bell Telephone Company)	
	Area code split case	Docket No. 94-0315
	General Rate Case	Docket No. 83-0005
	(Centrex filing)	Docket No. 84-0111
	General Rate Proceeding	Docket No. 81-0478
	(Call Lamp Indicator)	Docket No. 77-0755
	(Com Key 1434)	Docket No. 77-0756
	(Card dialers)	Docket No. 77-0757
	(Concentration Identifier)	Docket No. 78-0005
	(Voice of the People)	Docket No. 78-0028
	(General rate increase)	Docket No. 78-0034
	(Dimension)	Docket No. 78-0086
	(Customer controlled Centrex)	Docket No. 78-0243
	(TAS)	Docket No. 78-0031
	(III. Consolidated Lease)	Docket No. 78-0473
	(EAS Inquiry)	Docket No. 78-0531
	(Dispute with GTE)	Docket No. 78-0576
	(WUI vs. Continental Tel.)	Docket No. 79-0041
	(Carle Clinic)	Docket No. 79-0132
	(Private line rates)	Docket No. 79-0143

(Toll data)	Docket No. 79-0234
(Dataphone)	Docket No. 79-0237
(Com Key 718)	Docket No. 79-0365
(Complaint - switchboard)	Docket No. 79-0380
(Porta printer)	Docket No. 79-0381
(General rate case)	Docket No. 79-0438
(Certificate)	Docket No. 79-0501
(General rate case)	Docket No. 80-0010
(Other minor proceedings)	Docket No. various
- Home Telephone Company	Docket No. 80-0220
- Northwestern Telephone Company	
Local and EAS rates	Docket No. 79-0142
EAS	Docket No. 79-0519

INDIANA

- Public Service of Indiana (PSI)	
Depreciation issues	Cause No. 39584
- Indianapolis Power and Light Company	
Depreciation issues	Cause No. 39938

IOWA

- U S West Communications, Inc.	
Local Exchange Competition	Docket No. RMU-95-5
Local Network Interconnection	Docket No. RPU-95-10
General Rate Case	Docket No. RPU-95-11

KANSAS

- Southwestern Bell Telephone Company	
Commission Investigation of the KUSF	Docket No. 98-SWBT-677-GIT
- Rural Telephone Service Company	
Audit and General rate proceeding	Docket No. 00-RRLT-083-AUD
Request for supplemental KUSF	Docket No. 00-RRLT-518-KSF
- Southern Kansas Telephone Company	
Audit and General rate proceeding	Docket No. 01-SNKT-544-AUD
- Pioneer Telephone Company	
Audit and General rate proceeding	Docket No. 01-PNRT-929-AUD
- Craw-Kan Telephone Cooperative, Inc.	
Audit and General rate proceeding	Docket No. 01-CRKT-713-AUD
- Sunflower Telephone Company, Inc.	
Audit and General rate proceeding	Docket No. 01-SFLT-879-AUD
- Bluestem Telephone Company, Inc.	
Audit and General rate proceeding	Docket No. 01-BSST-878-AUD
- Home Telephone Company, Inc.	

- Audit and General rate proceeding  
Wilson Telephone Company, Inc. Docket No. 02-HOMT-209-AUD
- Audit and General rate proceeding  
S&T Telephone Cooperative Association, Inc. Docket No. 02-WLST-210-AUD
- Audit and General rate proceeding  
Blue Valley Telephone Company, Inc. Docket No. 02-S&TT-390-AUD
- Audit and General rate proceeding  
JBN Telephone Company Docket No. 02-BLVT-377-AUD
- Audit and General rate proceeding  
S&A Telephone Company Docket No. 02-JBNT-846-AUD
- Audit and General rate proceeding  
Wheat State Telephone Company, Inc. Docket No. 03-S&AT-160-AUD
- Audit and General rate proceeding  
Docket No. 03-WHST-503-AUD

MAINE

- New England Telephone Company  
General rate proceeding Docket No. 92-130

MARYLAND

- Chesapeake and Potomac Telephone Company  
General rate proceeding Docket No. 7851  
Cost Allocation Manual Case Case No. 8333  
Cost Allocation Issues Case Case No. 8462
- Verizon Maryland  
PICC rate case Case No. 8862  
USF case Case No. 8745

MINNESOTA

- Access charge (all companies) Docket No. P-321/CI-83-203
- U. S. West Communications, Inc. (Northwestern Bell Telephone Co.)  
Centrex/Centron proceeding Docket No. P-421/91-EM-1002  
General rate proceeding Docket No. P-321/M-80-306  
Centrex Dockets MPUC No. P-421/M-83-466  
MPUC No. P-421/M-84-24  
MPUC No. P-421/M-84-25  
MPUC No. P-421/M-84-26  
MPUC No. P-421/GR-80-911  
MPUC No. P-421/GR-82-203  
MPUC No. P-421/GR-83-600  
MPUC No. P-421/CI-84-454  
MPUC No. P-421/CI-85-352  
MPUC No. P-421/M-86-53

Toll Compensation case	MPUC No. P-999/CI-85-582
Private Line proceeding	Docket No. P-421/M-86-508
- AT&T	
Intrastate Interexchange	Docket No. P-442/M-87-54

MISSISSIPPI

- South Central Bell	
General rate filing	Docket No. U-4415

MISSOURI

- Southwestern Bell	
General rate proceeding	TR-79-213
General rate proceeding	TR-80-256
General rate proceeding	TR-82-199
General rate proceeding	TR-86-84
General rate proceeding	TC-89-14, et al.
Alternative Regulation	TC-93-224/TO-93-192
- United Telephone Company	
Depreciation proceeding	TR-93-181
- All companies	
Extended Area Service	TO-86-8
EMS investigation	TO-87-131
Cost of Access Proceeding	TR-2001-65

NEW JERSEY

- New Jersey Bell Telephone Company	
General rate proceeding	Docket No. 802-135
General rate proceeding	BPU No. 815-458
	OAL No. 3073-81
Phase I - General rate case	BPU No. 8211-1030
	OAL No. PUC10506-82
General rate case	BPU No. 848-856
	OAL No. PUC06250-84
Division of regulated	BPU No. TO87050398
from competitive services	OAL No. PUC 08557-87
Customer Request Interrupt	Docket No. TT 90060604

NEW MEXICO

- U.S. West Communications, Inc.	
E-911 proceeding	Docket No. 92-79-TC
General rate proceeding	Docket No. 92-227-TC
General rate/depreciation proceeding	Case No. 3008
Subsidy Case	Case No. 3325

USF Case	Case No. 3223
- VALOR Communications Subsidy Case	Case No. 3300
<u>OHIO</u>	
- Ohio Bell Telephone Company General rate proceeding	Docket No. 79-1184-TP-AIR
General rate increase	Docket No. 81-1433-TP-AIR
General rate increase	Docket No. 83-300-TP-AIR
Access charges	Docket No. 83-464-TP-AIR
- General Telephone of Ohio General rate proceeding	Docket No. 81-383-TP-AIR
- United Telephone Company General rate proceeding	Docket No. 81-627-TP-AIR
<u>OKLAHOMA</u>	
- Public Service of Oklahoma Depreciation case	Cause No. 96-0000214
<u>PENNSYLVANIA</u>	
- GTE North, Inc. Interconnection proceeding	Docket No. A-310125F002
- Bell Telephone Company of Pennsylvania Alternative Regulation proceeding	Docket No. P-00930715
Automatic Savings	Docket No. R-953409
Rate Rebalance	Docket No. R-00963550
- Enterprise Telephone Company General rate proceeding	Docket No. R-922317
- All companies InterLATA Toll Service Invest.	Docket No. I-910010
Joint Petition for Global Resolution of Telecommunications Proceedings	Docket Nos. P-00991649, P-00991648, M-00021596
- GTE North and United Telephone Company Local Calling Area Case	Docket No. C-902815
- Verizon Joint Application of Bell Atlantic and GTE for Approval of Agreement and Plan of Merger	Docket Nos. A-310200F0002, A-311350F0002, A-310222F0002, A-310291F0003
<u>SOUTH DAKOTA</u>	
- Northwestern Bell Telephone Company General rate proceeding	Docket No. F-3375

TENNESSEE

(on behalf of Time Warner Communications)

- BellSouth Telephone Company  
Avoidable costs case Docket No. 96-00067

UTAH

- U.S. West Communications (Mountain Bell Telephone Company)
  - General rate case Docket No. 84-049-01
  - General rate case Docket No. 88-049-07
  - 800 Services case Docket No. 90-049-05
  - General rate case/  
incentive regulation Docket No. 90-049-06/90-  
049-03
  - General rate case Docket No. 92-049-07
  - General rate case Docket No. 95-049-05
  - General rate case Docket No. 97-049-08
  - Qwest Price Flexibility-Residence Docket No. 01-2383-01
  - Qwest Price Flexibility-Business Docket No. 02-049-82

VIRGIN ISLANDS, U.S.

- Virgin Islands Telephone Company
  - General rate case Docket No. 264
  - General rate case Docket No. 277
  - General rate case Docket No. 314
  - General rate case Docket No. 316

VIRGINIA

- General Telephone Company of the South
  - Jurisdictional allocations Case No. PUC870029
  - Separations Case No. PUC950019

WASHINGTON

- US West Communications, Inc.
  - Interconnection case Docket No. UT-960369
  - General rate case Docket No. UT-950200
- All Companies-  
Analyzed the local calling  
areas in the State

WISCONSIN

- Wisconsin Bell Telephone Company
  - Private line rate proceeding Docket No. 6720-TR-21
  - General rate proceeding Docket No. 6720-TR-34

**THIS SCHEDULE HAS BEEN OMITTED.  
IT CONTAINS INFORMATION CLAIMED TO BE  
PROPRIETARY BY VERIZON.**

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IT CONTAINS INFORMATION CLAIMED TO BE  
PROPRIETARY BY VERIZON.**

NECA LOOP COST FOR PENNSYLVANIA ILECS  
YEAR END 12/2001

	A	B = A / 12	C	D = B x C
	Annual NECA	Monthly NECA	USF	
	Loop Cost (1)	Loop Cost	Loops (1)	Weighted
ALLTEL	\$ 280.72	\$ 23.39	241,904	\$ 5,658,941
Bentleyville	\$ 270.92	\$ 22.58	3,480	\$ 78,567
Commonwealth	\$ 268.14	\$ 22.35	332,084	\$ 7,420,417
Denver & Ephrata	\$ 260.10	\$ 21.68	62,927	\$ 1,363,943
Hickory Tel. Co.	\$ 345.48	\$ 28.79	1,450	\$ 41,746
Ironton Tel. Co.	\$ 263.68	\$ 21.97	6,297	\$ 138,366
Laurel Highland	\$ 272.49	\$ 22.71	6,347	\$ 144,125
Marianna & Scenery Hill	\$ 495.87	\$ 41.32	2,925	\$ 120,868
North Eastern PA	\$ 334.45	\$ 27.87	13,124	\$ 365,777
Pennsylvania Tel Co.	\$ 345.24	\$ 28.77	1,454	\$ 41,832
Palmerton	\$ 271.34	\$ 22.61	13,574	\$ 306,931
Pymatuning	\$ 275.81	\$ 22.98	2,674	\$ 61,460
South Canaan	\$ 333.20	\$ 27.77	3,324	\$ 92,296
Venus	\$ 346.75	\$ 28.90	1,428	\$ 41,263
Yukon Wlatz Telephone	\$ 364.82	\$ 30.40	1,103	\$ 33,533
North Pittsburgh	\$ 260.25	\$ 21.69	81,623	\$ 1,770,199
Sugar Valley	\$ 383.03	\$ 31.92	1,290	\$ 41,176
Mahonoy & Mahantango	\$ 341.02	\$ 28.42	4,305	\$ 122,341
SPRINT/UNITED	\$ 263.48	\$ 21.96	401,740	\$ 8,820,871
Lackawaxen	\$ 288.48	\$ 24.04	3,998	\$ 96,112
Armstrong North	\$ 399.26	\$ 33.27	556	\$ 18,499
Armstrong PA	\$ 587.11	\$ 48.93	1,844	\$ 90,219
Citizens of Kecksburg	\$ 264.38	\$ 22.03	5,837	\$ 128,599
Fronteir Breezewood	\$ 314.83	\$ 26.24	4,477	\$ 117,458
Fronteir Canton	\$ 290.31	\$ 24.19	4,320	\$ 104,512
Fronteir Lakewood	\$ 225.68	\$ 18.81	1,677	\$ 31,539
Fronteir Oswayo	\$ 235.72	\$ 19.64	2,368	\$ 46,515
Fronteir PA	\$ 158.48	\$ 13.21	29,630	\$ 391,314
North Penn	\$ 472.06	\$ 39.34	5,674	\$ 223,206
Buffalo Valley	\$ 259.28	\$ 21.61	24,740	\$ 534,549
Conestoga	\$ 263.75	\$ 21.98	62,469	\$ 1,373,017
Average of RTCC & Sprint Companies		\$ 22.41	\$ 1,330,643	\$ 29,820,187
Verizon (2)	\$ 206.27	\$ 17.19		
Ratio		130%		

(1) Universal Service Fund 2002 Submission of 2001 Study Results by the National Exchange Carrier Association, Section 6, pages 35-36.

(2) Weighted average using public line counts

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ADMINISTRATIVE LAW JUDGE ROBERT P. MEEHAN

RECEIVED

MAY 07 2001

OFFICE OF  
CONSUMER ADVOCATE

PETITION OF VERIZON NORTH INC FOR  
ALTERNATIVE REGULATION AND PLAN  
FOR NETWORK MODERNIZATION

Docket No. P-00001854

REPLY BRIEF  
OF  
VERIZON NORTH INCORPORATED

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Attorneys for  
Verizon North Incorporated

DATED May 4, 2001

lending rate described in Section 1308(d) of the Public Utility Code. There is no basis for OTS's assertion that Verizon North will "keep money," the only substantive objection made by the OTS in its Main Brief.<sup>213</sup>

Therefore, the provision permitting the limiting banking of decreases proposed in the Plan should be adopted.<sup>214</sup>

#### D. RATE CHANGES

##### 1. "Just and Reasonable"

Verizon North's language regarding rate changes is similar, and in most cases identical, to that contained in other Commission-approved plans, including Plans agreed to by the OCA in settlement. It should be approved. There is no basis for OCA's contention that the plan language somehow changes the "just and reasonable" standard for this Commission's review of rates. That standard plainly continues to apply. There also is no doubt that Verizon North continues to be bound by the Commission's merger approval Order and the MOU. No additional language on those issues is required.

Verizon North's plan also contains many local rate protections, including protections approved in other Chapter 30 plans. During the course of this proceeding Verizon North has agreed to several additional OTS suggestions, including an overarching increase cap of \$3.50 per month per year for all local rates, both business and residential. The additional limitations on Verizon North's ability to rebalance rates suggested by the parties should be rejected.

In clear acknowledgement of the Commission's position that the "just and reasonable" standard continues to apply to the post-Chapter 30 ratemaking processes, Verizon North's Plan expressly requires that all Verizon North's rate proposals for noncompetitive services be subject

---

<sup>213</sup> OTS MB at 20.

<sup>214</sup> VN Exh. 1, Plan at Part 3.E.

to the "just and reasonable" standard.<sup>215</sup> OTS witness Mr. Kubas recognized that Verizon North has made such provision expressly in its Plan.

Q. And the language of the plan is shall approve consistent with the customer protections?

\* \* \*

A. Yes, I would agree there are customer protections involved with this.

Q. Okay. So it's not the Commission shall approve it. They shall approve it - consistent with those customer protections?

A. Yes.

Q. And if you look back to F, those customer protections include the requirement that rates stay just and reasonable?

\* \* \*

A. Yes, that's true.<sup>216</sup>

Therefore, there is no disagreement as to whether the just and reasonable standard is applicable.<sup>217</sup> Verizon North agrees that it is and has incorporated that understanding in its Plan.

There is simply no rational basis for the OCA's ultimate assertion that the "shall approve" language "trumps" or otherwise "prohibits" the applicability of the "just and reasonable" standard.<sup>218</sup> Verizon North's Plan provides:

The requirement that rates remain just and reasonable and subject to Commission oversight shall apply to all rate proposals under the Company's Tariff Filing Process.<sup>219</sup>

This language is identical to that approved by the Commission in the Sprint/United Plan, agreed-to by the OCA in settlement,<sup>220</sup> which provides:

The requirement that rates remain just and reasonable and subject to Commission oversight shall apply to all rate proposals

<sup>215</sup> VN Exh. 1, Plan at Part 3.F.1.

<sup>216</sup> NT at 480-81.

<sup>217</sup> OCA MB at 48-53.

<sup>218</sup> OCA MB at 49, 50.

<sup>219</sup> VN Exh. 1, Plan at Part 3.F.1.

<sup>220</sup> Sprint/United Settlement Agreement.

under the Company's Tariff Filing Process.<sup>221</sup>

It is also substantively the same as the language approved by the Commission in the ALLTEL

Plan, which provides:

All rate changes proposed either under the PSM formula, including exogenous events, or under the rate restructuring and rebalancing provisions of this Plan shall be approved if just and reasonable and if a proposed tariff does not cause one of the following to occur and is otherwise in compliance with this Plan: . . .<sup>222</sup>

Nevertheless, the OCA argues that the foregoing proposed "just and reasonable" language is "trumped" or "prohibited" by operation of Part 3.B.1 of the Plan, which provides:

The Company may file tariffs proposing to rebalance and/or restructure its rates for noncompetitive services, either an increase or a decrease, upon the implementation date of the Plan. If a proposed tariff would not cause the Company's SPI to exceed the PSI as calculated in the most recent annual filing, then such tariff shall be approved, subject to Part 3, Section F hereof provided that: . . .<sup>223</sup>

OCA fails to recognize that the "shall be approved" language is immediately followed by the language "such tariff shall be approved, subject to Part 3, Section F."<sup>224</sup> Part 3, Section F sets forth the Consumer Protections, including the express acknowledgement of the applicability of the "just and reasonable" standard.<sup>225</sup> Verizon North believes that the applicability of the "just and reasonable" standard could not be any clearer.

Moreover, Verizon North's proposed language is consistent with that approved by the Commission for other companies. The Commission-approved Sprint/United Plan, agreed-to by OCA in settlement,<sup>226</sup> provides:

The Company may file tariffs proposing to rebalance and/or restructure its rates for noncompetitive services, either an

<sup>221</sup> VN Exh. 3, Sprint/United Plan at Part 3.F.1.

<sup>222</sup> VN Exh. 3, ALLTEL Plan at Part 3.D.1.

<sup>223</sup> VN Exh. 1, Plan at Part 3.B.1.

<sup>224</sup> VN Exh. 1, Plan at Part 3.B.1.

<sup>225</sup> VN Exh. 1, Plan at Part 3.F.1.

<sup>226</sup> Sprint/United Settlement Agreement.

increase or a decrease, upon the implementation date of the Plan, consistent with the rebalancing restrictions set forth in paragraph 2. above. If a proposed tariff would not cause the Company's SPI to exceed the PSI as calculated in the most recent annual filing, then such tariff shall be approved, subject to Part 3, Section F. provided that: . . . <sup>227</sup>

The Commission-approved ALLTEL Plan provides:

The Commission shall review the tariff proposals to determine that they are within the limits as set forth in Part 3.D.1. below. If the Commission determines that ALLTEL PA's rate proposals are not within these criteria, then the Commission may order ALLTEL PA to modify them to produce a tariff which does not exceed these criteria. If the tariff proposals are within these criteria, then the Commission shall approve them. <sup>228</sup>

The Commission-approved Commonwealth Telephone Plan (which does not include express language acknowledging the "just and reasonable" standard) provides:

The Company may file tariffs proposing to rebalance and/or restructure its rates for noncompetitive services (increase or decrease) after January 1, 1997. If a proposed tariff does not cause one of the following to occur, then such tariffs shall be approved: . . . <sup>229</sup>

Clearly, the Commission does not perceive that the inclusion of the "shall be approved" language trumps or otherwise renders meaningless language that expressly recognizes the applicability of the "just and reasonable" standard. OCA's contrived and fanciful argument to the contrary should be soundly rejected.

## 2. Memorandum of Understanding Incorporation and Residential Local Rate Freeze

As explained in Verizon North's Main Brief, the Memorandum of Understanding ("MOU") and the Commission's Order approving the parent level merger of Bell Atlantic and GTE have been incorporated in the Plan generally<sup>230</sup> and are also referenced specifically

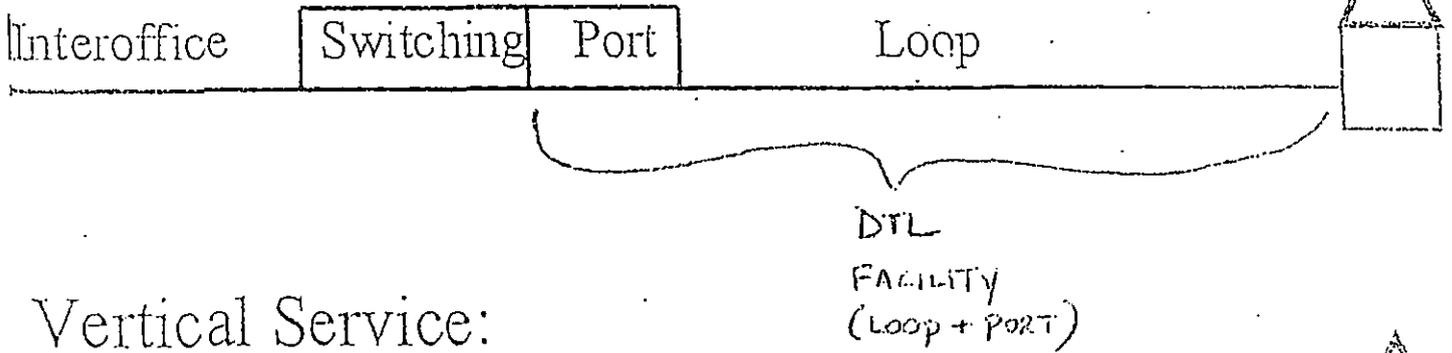
<sup>227</sup> VN Exh. 3, Sprint/United Plan at Part 3.B.1.

<sup>228</sup> VN Exh. 3, ALLTEL Plan at Part 3.B.3.

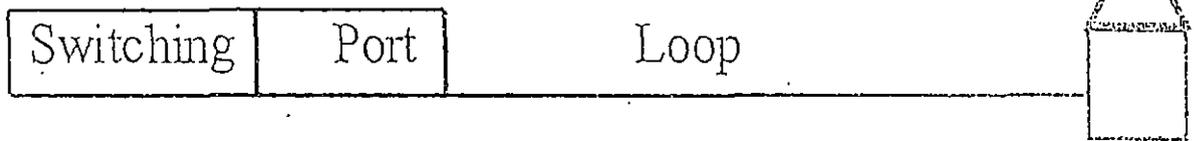
<sup>229</sup> VN Exh. 3, Commonwealth Telephone Plan at Part 3.B.1.

<sup>230</sup> VN MB at 55-56.

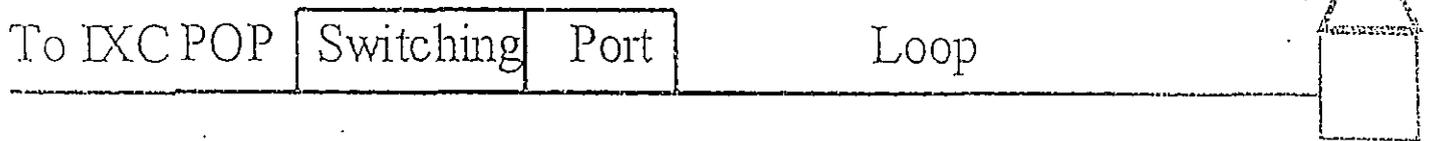
### Toll Service:



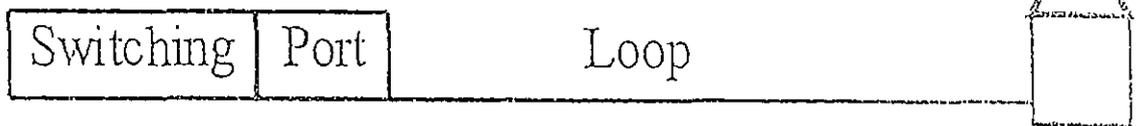
### Vertical Service:



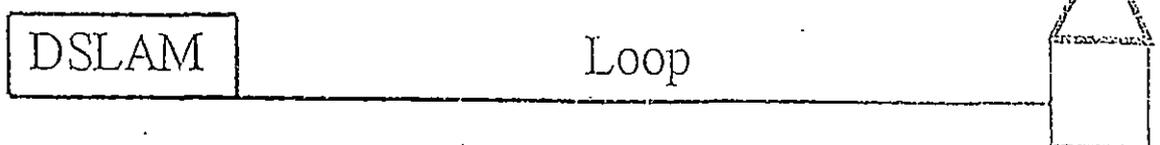
### Switched Access:



### Basic Local Service:



### DSL:



CERTIFICATE OF SERVICE

Re: 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 Rebuttal Testimony of William Dunkel, 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 18th day of July, 2003.

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8/26/03 Hlog DK

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

AT&T Communications of Pennsylvania  
Inc.

v.

Verizon North Inc.

Docket No. C-20027195

**DOCKETED**

SEP 02 2003

SURREBUTTAL TESTIMONY

OF

DOCUMENT  
FOLDER

WILLIAM DUNKEL

ON BEHALF OF

**RECEIVED**

THE OFFICE OF CONSUMER ADVOCATE

AUG 28 2003

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

August 4, 2003

**INFORMATION ALLEGED TO BE PROPRIETARY HAS BEEN DELETED**

1 **I. INTRODUCTION**

2

3 **Q. ARE YOU THE SAME WILLIAM DUNKEL THAT FILED REBUTTAL**  
4 **TESTIMONY IN THIS PROCEEDING?**

5 **A. Yes.**

6

7 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

8 **A. The purpose of my Surrebuttal is to respond to the Rebuttal testimonies of Mr.**  
9 **Kirchberger/Mr. Nurse and Mr. Oyefusi on behalf of AT&T, the Direct testimony**  
10 **of Mr. Kubas on behalf of Office of Trial Staff (OTS), the Testimony of Mr.**  
11 **Buckalew on behalf of the Office of Small Business Advocate (OSBA), the**  
12 **Rebuttal testimony of Mr. Pelcovits on behalf of MCI, and the Rebuttal testimony**  
13 **of Mr. McIntyre on behalf of Qwest Communications Corporation.**

14

15 **II. RESPONSE TO OSBA WITNESS BUCKALEW AND OTS WITNESS**

16 **KUBAS**

17

18 **Q. IN YOUR REBUTTAL, YOU RECOMMENDED THAT VERIZON'S**  
19 **INTRASTATE SWITCHED ACCESS RATES BE RESTRUCTURED ON A**  
20 **REVENUE NEUTRAL BASIS WITHIN SWITCHED ACCESS. DO ANY**  
21 **OTHER PARTIES SUPPORT A REVENUE NEUTRAL**

1           **CONSOLIDATION OF VERIZON'S INTRASTATE SWITCHED ACCESS**  
2           **RATES?**

3    A.    Yes. On page 4 of his Testimony, Mr. Buckalew (testifying on behalf of the  
4           Office of the Small Business Advocate (OSBA)) states:

5                   I agree with the consolidation of Verizon PA and Verizon North on a  
6                   revenue neutral basis using the access charges as recommended by  
7                   Verizon in its revenue neutral proposal.

8  
9           The Verizon "revenue neutral proposal" results in a \$1.20 CC charge per line, per  
10           month, and traffic-sensitive switched access charges which total **[BEGIN**  
11           **PROPRIETARY]   [END PROPRIETARY]** per minute.

12  
13    **Q.    DO THE OSBA AND OTS PROPERLY RECOGNIZE THAT TOLL**  
14           **CARRIERS SHOULD CONTRIBUTE TOWARD THE COSTS OF THE**  
15           **LOOP FACILITIES THAT THEY USE?**

16    A.    Yes. On page 7 of his Testimony, OSBA witness Buckalew states:

17                   Toll carriers should be charged and should support the local loop. Toll  
18                   carriers use the loop; without the loop there is no connection to the  
19                   customer. The loop was designed to provide quality toll service. One of  
20                   the reasons we have a telecommunications system that connects to  
21                   virtually anyone and anywhere in this country is due to the sharing of  
22                   these costs by all services that use the loop.

23  
24           On page 10 of his Direct, OTS witness Kubas states:

25  
26                   In my opinion, there should be a cost based access charge which is  
27                   designed to recover a portion of the cost of providing a local loop. Since  
28                   there are costs involved in the provision of local loops, and toll calls are  
29                   carried over local loops, there should be a CC to recover a reasonable  
30                   portion of the cost of providing local loops.

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**Q. IN YOUR REBUTTAL TESTIMONY, YOU CONDUCTED A STAND-ALONE COST ANALYSIS CONSISTENT WITH SECTION 1325 OF THE STATUTE. YOUR ANALYSIS CONCLUDED THAT [BEGIN PROPRIETARY] [END PROPRIETARY] OF THE DTL FACILITY COSTS SHOULD BE ALLOCATED TO BASIC LOCAL EXCHANGE SERVICE. DID ANY OTHER PARTIES REACH A SIMILAR CONCLUSION?**

**A. Yes. Beginning on page 12 of his Testimony, OSBA witness Buckalew states:**

The FCC has ordered a 25% assignment of loop costs to interstate toll use. Based on the assumption of equal availability of the loop, i.e., 50% local, 50% toll (25% interstate and 25% intrastate toll), in the past I have recommended using 25% as the intrastate factor for intrastate toll access. This does not preclude this Commission from allocating the 75% of loop costs, which are in its jurisdiction, any way it decides is reasonable. However, the one inescapable conclusion is that loops are used by all toll and local services and, therefore, should be paid for by all services using the facility.

Further, using any assignment factor does not dictate a specific pricing mechanism. That is, although I recommend that 25% of loop cost be allocated and charged to intrastate carriers, the carriers can decide how to collect it from customers in the competitive market.

**Q. ON PAGE 21 OF YOUR REBUTTAL, YOU POINTED OUT THAT VERIZON'S PROPOSED RESIDENTIAL BASIC LOCAL EXCHANGE SERVICE COST STUDY IS UNACCEPTABLE BECAUSE IT ALLOCATES 100% OF THE DIAL TONE LINE FACILITIES TO BASIC**

1           **LOCAL EXCHANGE SERVICE. DID THE OTS REACH THE SAME**  
2           **CONCLUSION?**

3    A.    Yes. On page 27 of his Direct, Mr. Kubas states that Verizon's residential basic  
4           local exchange service cost study is "worthless", because it includes 100% of the  
5           cost of the local loops to determine the cost of providing the dial tone line service  
6           part of basic local exchange service.

7  
8

9    **Q.    IN YOUR REBUTTAL TESTIMONY, YOU REPEATEDLY IDENTIFIED**  
10           **THE LOOP FACILITY AS A SHARED COST. DID THE OFFICE OF**  
11           **TRIAL STAFF ALSO PROPERLY IDENTIFY THE LOOP AS A SHARED**  
12           **FACILITY?**

13   A.    Yes. On page 5 of OTS witness Kubas' Direct, he states:

14                    The local loop is a joint and common facility that is used by customers to  
15                    place and receive local calls, intraLATA toll calls, interLATA toll calls,  
16                    and interstate toll calls. The local loop is also used to provide premium  
17                    services such as caller ID, call waiting and other services.

18  
19

20   **Q.    DOES THE OTS PROPOSAL RECOGNIZE THAT TOLL CARRIERS**  
21           **SHOULD PROPERLY CONTRIBUTE TOWARD THE COST OF THE**  
22           **DTL FACILITIES THAT THEY USE?**

23   A.    Yes. On page 10, line 1, Mr. Kubas states:

24  
25  
26  
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28

                  I recommend that Verizon's proposal to eliminate both CCs be rejected,  
                  and that a CC of \$1.16 per month per line be established for both  
                  companies.

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**Q. IS THE OTS' PROPOSED CC VERY CLOSE TO THE CC PROPOSED BY OCA AND THE OSBA?**

A. Yes. The OTS' proposed \$1.16 per line per month CC charge is very close to the \$1.20 CC proposed by the OSBA<sup>1</sup> and the OCA<sup>2</sup>.

**Q. YOU AGREE WITH MUCH OF THE OTS TESTIMONY, ANALYSIS AND CONCLUSIONS IN THIS PROCEEDING. IS THERE ANY PART OF THE OTS ANALYSIS THAT DIFFERS FROM YOUR ANALYSIS IN THIS PROCEEDING?**

A. Yes. While I agree with much of the OTS testimony, analysis and conclusions in this proceeding, my proposed method used to reach my conclusion differs from that of the OTS.

Specifically, as I discussed beginning on page 19 of my Rebuttal, Section 1325(c) of the Statute defines the "Cost of providing local exchange service" as follows:

The direct cost of providing the service plus a share of the costs of the dial tone line, allocated in proportion to the stand-alone cost of each class of service which utilizes the dial tone line.

In my analysis, I allocated the dial tone line costs to residential local exchange service "in proportion to the stand-alone cost of each class of service which utilizes the dial tone line", as specified in Section 1325 of the Statute. In

---

<sup>1</sup> Buckalew Testimony, page 17, line 6.  
<sup>2</sup> Dunkel Rebuttal, page 67.

1 Verizon's last rate rebalancing proceeding, the Commission found that Section  
2 1325 applies to any rate proceeding.<sup>3</sup> Therefore, I believe that the cost standard  
3 set forth in Section 1325 should be followed in this proceeding.

4  
5 In contrast, the OTS based its allocation of DTL facility costs to local exchange  
6 service, on a measure of local exchange service's **minutes of use** relative to all  
7 services. OTS obtained its allocation from the Commission's Universal Service  
8 Order. In the Universal Service Order, the loop costs were not "allocated in  
9 proportion to the stand-alone cost of each class of service which utilizes the dial  
10 tone line". In its Order in that proceeding, the Commission allocated loop costs to  
11 "basic universal service" (BUS) based on the relative subscriber line usage (SLU)  
12 of BUS. In its Order, the Commission indicated that local exchange traffic  
13 represented 74% of the traffic on the DTL facilities.<sup>4</sup> As Mr. Kubas indicates on  
14 page 6 of his Direct, OTS used that figure as the basis for its conclusion that 74%  
15 of the cost of the local loop should be recovered through local exchange rates,  
16 14% should be allocated to intrastate access, ITORP and intrastate toll, and the  
17 remaining 12% **should be allocated to interstate access and "other services"**.

18  
19 **Q. AREN'T 25% OF THE LOOP COSTS PROPERLY ALLOCATED TO**  
20 **THE INTERSTATE JURISDICTION UNDER FCC RULES?**

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<sup>3</sup> Opinion and Order, Docket No. R-00963550 et. al., December 12, 1996, pages 23-24.

<sup>4</sup>Opinion and Order, Docket No. I-00940035, Public Meeting Held December 19, 1996 (hereafter referred to as Universal Service Order), page 85.

1 A. Yes. Under the FCC rules, 25% of the loop facility costs are allocated to the  
2 interstate jurisdiction. Therefore, a maximum of 75% of the loop costs can even  
3 be considered at all when determining the appropriate intrastate rates.

4  
5 Under Mr. Kubas' analysis, 88% (plus perhaps some additional, unspecified  
6 percent for "other services") of the loop costs are allocated to intrastate. Thus,  
7 Mr. Kubas' analysis allocates too much loop cost to the intrastate jurisdiction.  
8 The loop allocation to intrastate should be only 75%, which would then be shared  
9 among the intrastate services.

10  
11 **III. RESPONSE TO AT&T WITNESSES KIRCHBERGER AND NURSE**

12  
13 **Q. ON PAGE 5 OF THEIR DIRECT, AT&T WITNESSES**  
14 **KIRCHBERGER/NURSE CLAIM THAT VERIZON'S CURRENT**  
15 **SWITCHED ACCESS RATES ARE NOT "COST-BASED", BECAUSE**  
16 **THEY ARE PRICED FAR IN EXCESS OF VERIZON'S "ECONOMIC**  
17 **COST". ON PAGE 8 OF HIS REBUTTAL, MCI'S WITNESS MR.**  
18 **PELCOVITS CLAIMS THAT SWITCHED ACCESS RATES HAVE**  
19 **HISTORICALLY EXCEEDED "ECONOMIC COST". WHAT DO AT&T**  
20 **AND MCI MEAN BY "ECONOMIC COST"?**

1 A. By "economic cost", AT&T and MCI appear to be referring to the incremental  
2 (TSLRIC) cost.<sup>5</sup>  
3

4 **Q. IS THERE ANYTHING INAPPROPRIATE ABOUT SERVICES BEING**  
5 **PRICED ABOVE THEIR TSLRIC?**

6 A. No. As I discussed beginning on page 52 of my Rebuttal, the TSLRIC establishes  
7 the **floor** for a service. The TSLRIC floor for a service includes the direct  
8 (incremental) cost of providing the service, but **excludes** the cost of shared facilities,  
9 despite the fact that the costs of shared facilities must be recovered in the prices  
10 charged for services. Quite simply, it is totally appropriate for a service to be priced  
11 to cover its direct (incremental) cost **as well as** a portion of the costs of shared  
12 facilities. If all services were priced equal to just their direct costs, the costs of  
13 shared facilities would not be recovered. AT&T's and MCI's implication that  
14 making a contribution to shared costs is somehow inappropriate is incorrect.  
15

16 **Q. DOES INTRASTATE SWITCHED ACCESS SERVICE MAKE A LARGE**  
17 **CONTRIBUTION TOWARD SHARED COSTS RELATIVE TO OTHER**  
18 **SERVICES THAT SHARE THE DTL FACILITIES?**

19 A. No. As shown on my Rebuttal Schedule WDA-1, intrastate switched access service  
20 (Carrier Charge and Traffic Sensitive Access) provides **[BEGIN PROPRIETARY]**

---

<sup>5</sup> Kirchberger/Nurse Direct, Page 9, lines 1-9.

1           **[END PROPRIETARY]** per line, per month in revenue contribution (i.e.  
2 revenue in excess of TSLRIC). This is the lowest per-line contribution of any  
3 intrastate service that utilizes the residential dial tone line facility.  
4

5 In comparison, residential basic local exchange service provides more contribution  
6 per line (i.e. revenues in excess of the TSLRIC floor) than any other residential  
7 service Verizon provides. In fact, residential basic local exchange service provides  
8 **[BEGIN PROPRIETARY]            [END PROPRIETARY]** per line, per month  
9 in contribution, which is more contribution per line than **all of the other residential**  
10 **services combined.**  
11

12 **Q.    ON PAGE 8, LINE 2 OF THEIR DIRECT, KIRCHBERGER/NURSE**  
13 **CLAIM THAT "HIDDEN SUBSIDIES" EXIST IN THE CURRENT**  
14 **VERIZON SWITCHED ACCESS RATES. DID AT&T DEMONSTRATE**  
15 **THAT THERE WERE ANY "SUBSIDIES" IN THE CURRENT VERIZON**  
16 **RATES?**

17 **A.** No. All AT&T pointed out was that Verizon's current switched access rates  
18 exceed the TSLRIC price **floor** for switched access. Services are properly priced  
19 **above their floor.** A subsidy is being produced only if a service exceeds its  
20 Stand-Alone Cost ceiling. As I pointed out on page 58 of my Rebuttal, Verizon's  
21 current switched access service (including both the CC charge and traffic

1 sensitive charges) is priced at only [BEGIN PROPRIETARY] [END  
2 PROPRIETARY] of its Stand-alone ceiling. Therefore, they are nowhere near  
3 producing a subsidy.  
4

5 **Q. ON PAGE 6 OF THEIR DIRECT, KIRCHBERGER/NURSE INDICATE**  
6 **THAT AT&T IS IN FAVOR OF VERIZON'S PROPOSAL TO**  
7 **COMPLETELY ELIMINATE THE CARRIER CHARGE. IS IT**  
8 **SURPRISING THAT AT&T WOULD BE SUPPORTIVE OF THIS**  
9 **PROPOSAL?**

10 A. No. The proposal to eliminate the CC is effectively a proposal to grant AT&T a  
11 free ride on the dial tone line facilities of Verizon. Under Verizon's proposal,  
12 end-users would be forced to support AT&T's free ride on the DTL facilities  
13 through increases in local basic exchange rates.  
14

15 Under Verizon's proposal, Verizon's own toll affiliate would also receive a free  
16 ride on the DTL facilities. Therefore, both AT&T and Verizon's toll affiliate  
17 would be better off, but residential end-users would be worse off because they  
18 would be forced to fund the toll carriers' free ride through increased basic local  
19 exchange rates.  
20

1   **Q.    ON PAGE 28 OF THEIR DIRECT, KIRCHBERGER/NURSE CLAIM**  
2       **THAT THE CARRIER CHARGE "HAS ABSOLUTELY NO BASIS IN**  
3       **THE COST OF PROVIDING CARRIER ACCESS SERVICES". IS THIS**  
4       **A VALID CLAIM?**

5    A.    No. The Carrier Charge (CC) is the switched access rate that the interexchange toll  
6        carriers pay, which allows them to share the DTL facilities owned by Verizon.  
7        There are substantial costs associated with the DTL facilities. These costs include  
8        depreciation, maintenance, cost of money, as well as other costs.

9  
10        At Verizon's current intrastate Carrier Charge rates, IXCs contribute less than  
11        **[BEGIN PROPRIETARY] [END PROPRIETARY]** of the residential DTL  
12        facility costs.<sup>6</sup> If the IXCs were unable to use Verizon's residential DTL facilities,  
13        the IXCs would have to support 100% of the costs of DTL facilities through the  
14        purchase of Verizon's UNE loops and ports, or through the construction of the IXCs'  
15        own network facilities. Either way, the IXCs would be forced to cover a much  
16        larger loop cost than they currently do through the Carrier Charge.

17  
18   **Q.    ON PAGE 13 OF THEIR REBUTTAL, KIRCHBERGER/NURSE STATE**  
19       **THAT "WIRELESS CARRIERS PAY NO ACCESS CHARGES**  
20       **WHATSOEVER" AT THE TERMINATING END OF TOLL CALLS TO A**

---

<sup>6</sup> The average current CC charge **[BEGIN PROPRIETARY]**  
**[END PROPRIETARY]**.

1           **POINT WITHIN THE SAME "MAJOR TRADING AREA". DOES THIS**  
2           **MEAN THAT WIRELESS CARRIERS NEVER PAY SWITCHED ACCESS**  
3           **CHARGES?**

4    A.    No. All Kirchberger/Nurse are saying is that the "local" calling areas of wireless  
5           carriers and LECs are generally defined differently. However, wireless carriers must  
6           pay access charges on both the originating and terminating end of wireless calls that  
7           either originate or terminate outside of the wireless carrier's local calling area (Major  
8           Trading Area ("MTA")).<sup>7</sup> Therefore, both IXCs and wireless carriers must pay  
9           access charges for calls that originate or terminate outside of a designated local  
10          calling area. One difference is that the FCC has defined local calling areas  
11          differently for the wireless industry and the LEC industry.

12  
13   **Q.    DO WIRELESS CARRIERS STILL PAY VERIZON SOMETHING TO**  
14          **ACCESS VERIZON'S NETWORK, EVEN IF THE CALL ORIGINATES**  
15          **AND TERMINATES WITHIN THE WIRELESS CARRIER'S LOCAL**  
16          **CALLING AREA (MTA)?**

17    A.    Yes. As Kirchberger/Nurse indicate on page 14 of their Rebuttal, wireless carriers  
18           pay reciprocal compensation charges for all calls that originate and terminate within  
19           the wireless carrier's local calling area (MTA). Similarly, CLECs also pay  
20           reciprocal compensation charges for calls that originate and terminate within the

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<sup>7</sup> FCC 96-325, First Report and Order, CC Docket No. 96-98, Released August 8, 1996, paragraph 1043.

1 CLEC's designated local calling area. Again, the difference is that the FCC has  
2 defined local calling areas differently for the wireless industry and the LEC industry.

3  
4 **Q. ON PAGE 12 OF THEIR DIRECT, KIRCHBERGER/NURSE SUGGEST**  
5 **THAT SINCE WIRELESS CARRIERS HAVE LARGER LOCAL CALLING**  
6 **AREAS, WIRELESS CARRIERS ENJOY A COST ADVANTAGE OVER**  
7 **WIRELINE CARRIERS. PLEASE COMMENT.**

8 A. The "cost advantage" that AT&T describes is a result of a difference in the definition  
9 of local calling areas between wireless and wireline industries. Both IXC and  
10 cellular carriers pay access charges for calls that are going into or out of their local  
11 calling areas.

12  
13 **Q. ON PAGE 18 OF THEIR REBUTTAL, KIRCHBERGER/NURSE ARGUE**  
14 **THAT ACCESS RATES SHOULD BE REDUCED BECAUSE OF THE**  
15 **GROWTH IN E-MAIL AND INSTANT MESSAGING ON THE INTERNET.**  
16 **DO YOU AGREE?**

17 A. No. The fact that other forms of communications are becoming popular has nothing  
18 to do with setting proper cost-based rates for Verizon's switched access services.  
19 The simple fact is that switched access does have costs associated with it. Not only  
20 does switched access cause direct (i.e. incremental/TSLRIC) costs, but switched

1 access is also part of a whole family of services that share facilities that have  
2 associated costs (e.g. the dial tone line facilities).

3  
4 There is no valid reason for providing switched access a "free ride" on the dial tone  
5 line facilities as a result of popularity of other forms of telecommunications. The  
6 simple fact is that there are costs associated with switched access, and the rates for  
7 switched access service should be based upon those costs.

8  
9 **IV. RESPONSE TO MCI WITNESS PELCOVITS**

10  
11 **Q. ON PAGE 23 OF HIS REBUTTAL, MR. PELCOVITS STATES:**

12 **THERE IS NO REASON TO EXPECT THAT ACCESS CHARGE**  
13 **REDUCTIONS MUST BE OFFSET BY INCREASES IN LOCAL**  
14 **RATES.**

15  
16 **DO YOU AGREE WITH MR. PELCOVITS ON THIS POINT?**

17 **A.** Yes. I agree there should be no such increase in local rates. First of all, as  
18 discussed beginning on page 56, and shown on Schedule WDA-1 of my Rebuttal,  
19 residential basic local exchange service already makes the largest per-line  
20 contribution of any residential service that Verizon provides.

21

1 **Q. IS BASIC LOCAL EXCHANGE SERVICE THE ONLY AVAILABLE**  
2 **SOURCE OF FUNDS IF VERIZON WANTED TO INCREASE OTHER**  
3 **SERVICE RATES TO OFFSET SWITCHED ACCESS REDUCTIONS?**

4 A. Absolutely not. For example, Verizon has over **[BEGIN PROPRIETARY]**  
5 **[END PROPRIETARY]** in annual "Other Local Exchange" revenues.<sup>8</sup>  
6 The "Other Local Exchange Revenues" include the revenues from vertical  
7 services such as Caller ID, Call Waiting and many other vertical services, have  
8 increased dramatically in recent years. A 10% increase in these "Other Local  
9 Exchange" revenues would generate more than enough offsetting revenues to  
10 cover Verizon's proposed "Scenario 1" access reduction proposal shown on  
11 Berry/Wirl Direct Schedule MJW-3.

12  
13 **Q. ON PAGE 25 OF HIS DIRECT, MR. PELCOVITS STATES THAT**  
14 **VERIZON'S PROPOSED DIAL TONE LINE FACILITY COST IS NOT**  
15 **CREDIBLE, BECAUSE IT IS MORE THAN DOUBLE THE COSTS OF**  
16 **THE UNBUNDLED LOOP AND PORT RATES ESTABLISHED BY THE**  
17 **COMMISSION IN THE GLOBAL ORDER. DO YOU AGREE?**

18 A. Yes. As I discussed on pages 33-42 of my Rebuttal, I performed a similar  
19 analysis where I concluded that Verizon's proposed residential DTL facility costs  
20 are over **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** the

---

<sup>8</sup> Verizon PA's response to OCA Data Request 1-19 and Verizon North's response to OCA Data Request 2-19.

1 equivalent cost based on the current Verizon UNE rates, over [BEGIN  
2 PROPRIETARY] [END PROPRIETARY] the equivalent cost based on  
3 the Tentative Order Compliance Filing Verizon UNE rates, and more than [BEGIN  
4 PROPRIETARY] [END PROPRIETARY] the equivalent cost based on  
5 the NECA embedded loop costs, loop costs which are calculated using Verizon's  
6 actual book costs. Since Verizon's proposed residential DTL facility costs are so  
7 grossly inflated, they must be disregarded in this proceeding.

8  
9 **Q. ON PAGE 26, LINE 12 OF HIS REBUTTAL, MR. PELCOVITS CLAIMS**  
10 **THE COST OF RESIDENTIAL BASIC LOCAL SERVICE IS \$19.50 PER**  
11 **MONTH. HOWEVER, ON YOUR REBUTTAL SCHEDULE WDA-2, YOU**  
12 **SHOW THE COST TO BE [BEGIN PROPRIETARY] [END**  
13 **PROPRIETARY]. WHAT IS THE MAJOR DIFFERENCE BETWEEN**  
14 **THESE TWO ESTIMATES OF COST?**

15 **A.** The biggest difference between Mr. Pelcovits' cost and my cost is that my cost is  
16 calculated consistent with Section 1325(c) of the Pennsylvania Statute.

17  
18 Specifically, Section 1325(c) requires that the cost of basic local exchange service  
19 include a **portion** of the DTL facility costs, allocated in proportion to the Stand-  
20 Alone cost of each of the services that use the DTL facility. In contrast, Mr.  
21 Pelcovits allocated 100% of the DTL facility costs to basic local exchange service.

1  
2 After properly following Section 1325(c) of the Statute, I concluded that [BEGIN  
3 **PROPRIETARY]** [END PROPRIETARY] of the residential DTL facility  
4 costs are properly allocated to residential local exchange service, as discussed on  
5 page 53 of my Rebuttal.

6  
7 The access services that MCI receives from Verizon also use the same DTL facility,  
8 but Mr. Pelcovits allocates 0% of the DTL facility cost to access services.

9  
10 **Q. ON PAGE 38 OF HIS REBUTTAL, MR. PELCOVITS STATES:**

11 **ACCESS SERVICES DO NOT RESULT IN ANY INCREMENTAL**  
12 **COST (THE "IC" IN TELRIC) ASSOCIATED WITH THE LOOP.**  
13 **THE LOOP IS NEEDED TO PROVIDE ANY FORM OF**  
14 **TELEPHONE SERVICE TO THE END USER, AND IS NOT**  
15 **DRIVEN OR CAUSED BY THE AMOUNT OF USAGE, OR THE**  
16 **CATEGORY OF SERVICES, UTILIZED BY THE CONSUMER.**

17  
18 **DOES ANY ONE SERVICE THAT SHARES THE LOOP "RESULT IN ANY**  
19 **INCREMENTAL COST ASSOCIATED WITH THE LOOP"?**

20 **A.** No. No one service that shares the loop facilities causes any additional loop costs to  
21 be incurred. This is true because shared costs are excluded from the properly  
22 calculated incremental cost (i.e. TSLRIC) of a service. Therefore, the same  
23 argument could be made for any service that shares the loop facilities. The  
24 Commission reached a similar conclusion on page 83 of its Universal Service Order  
25 when it stated:

1           We reject the ILECs' arguments that the local loop is not a joint cost because  
2 other services which use the loop do not result in any additional cost. We do  
3 not find the arguments of Bell's expert witness Dr. Kahn persuasive on this  
4 point. In particular, we do not accept the basis of Dr. Kahn's argument that  
5 the loop is needed for local service and the incremental cost of the loop does  
6 not increase to provide other services, that its full cost must be attributed to  
7 local service. This same argument could be made with respect to toll  
8 service. Since the loop is necessary to provide toll service, it could at the  
9 same time be argued that the full cost should be allocated to toll, and in so  
10 doing the incremental cost to provide local service would be zero.  
11  
12  
13

14 **V.       RESPONSE TO QWEST WITNESS MCINTIRE**

15  
16  
17  
18 **Q.       ON PAGE 13 OF HIS REBUTTAL, QWEST'S WITNESS MR. MCINTIRE**  
19 **ARGUES THAT THERE SHOULD BE "PARITY" BETWEEN THE**  
20 **INTRASTATE AND INTERSTATE SWITCHED ACCESS RATES. DO**  
21 **YOU AGREE?**

22 **A.**    No. First of all, there is no requirement that Verizon's intrastate access charges be at  
23 "parity" with Verizon's interstate access charges. As I pointed out on page 5 of my  
24 Rebuttal, one purpose of this proceeding is to establish "parity" rates for GTE-  
25 North and BA-PA to fulfill the requirements of the Bell Atlantic/GTE Merger  
26 Order. The Merger Order was referring to the intrastate rates, not the interstate  
27 rates. OCA agrees with Verizon that "the concept of 'parity' under the Merger  
28 Order can be achieved simply by melding the two companies' rate structures  
29 without any revenue reduction".

1           Secondly, the interstate access charges are supported by the SLC that end users pay,  
2           which currently averages [BEGIN PROPRIETARY]    [END  
3           PROPRIETARY] per line, per month for residential customers in Pennsylvania, as  
4           shown on page 19, line 14 of my Rebuttal.<sup>9</sup> Such support is neither necessary nor  
5           appropriate for intrastate switched access service in Pennsylvania.

6  
7           In Verizon's interstate tariffs, there is no Carrier Charge, or any other similar charge  
8           that toll carriers pay to contribute toward the cost of Verizon's dial tone line facilities  
9           that toll carriers use to provide toll services to their end users. Toll carriers should  
10          make some reasonable contribution toward the recovery of the cost of the dial tone  
11          facilities. Toll carriers should not be granted a "free ride" on the shared dial tone  
12          line facilities, especially if that "free ride" comes at the expense of end users. OCA  
13          agrees with the OTS that any proposal to eliminate the CC is "unacceptable".<sup>10</sup>

14

15   **Q.    DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

16   **A.    Yes.**

---

<sup>9</sup> Weighted average for Verizon PA and Verizon North.

<sup>10</sup> Kubas Direct, page 25, lines 20-21.

CERTIFICATE OF SERVICE

Re: 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 Surrebuttal Testimony of William Dunkel, 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:

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BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

AT&T COMMUNICATIONS OF  
PENNSYLVANIA, INC.

v.

VERIZON NORTH INC.

**DOCKETED**

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Docket No. C-20027195

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ALLEN G. BUCKALEW

ON BEHALF OF

THE OFFICE OF SMALL BUSINESS ADVOCATE

NON-PROPRIETARY

DATE SERVED: JULY 18, 2003

DATE SUBMITTED FOR THE RECORD:

8/26/03

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1

**I. QUALIFICATIONS AND INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**  
3 **ADDRESS.**

4 A. My name is Allen G. Buckalew. I am an Economist specializing in the  
5 telecommunications industry at J.W. Wilson & Associates, Inc. Our offices  
6 are at 1601 North Kent Street, Rosslyn Plaza C – Suite 1104, Arlington,  
7 VA 22209.

8 **Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.**

9 A. I hold an A.A. and a B.S. degree with high honors, both from the  
10 University of Florida, and a M.S. degree from George Washington  
11 University. My major areas of concentration were economics and  
12 telecommunications.

13 **Q. HOW HAVE YOU BEEN EMPLOYED IN THE PAST?**

14 A. Before I entered the University of Florida, I worked for four years in Naval  
15 Telecommunications. After graduating from the University of Florida, I  
16 worked for four years at the Federal Communications Commission  
17 (“FCC”) as an Industry Economist in the Common Carrier Bureau and was  
18 employed extensively in areas involving telecommunications, economics,  
19 accounting, engineering, and policy matters. For example, one of my major

1 projects was "The Economic Implications and Interrelationships Arising  
2 from Policies and Practices Relating to Customer Interconnection,  
3 Jurisdictional Separations and Rate Structures," (Docket 20003). This case  
4 opened the terminal equipment (e.g., telephone sets, and private branch  
5 exchanges ("PBXs")) market in the United States to competition. I also  
6 provided economic analysis in several rate cases. For example,  
7 "Communications Satellite Corporation, Investigation into Charges,  
8 Practices, Classifications, Rates and Regulations," (Docket 16070). My  
9 major responsibility was to serve as economic advisor and analyst for the  
10 Common Carrier Bureau.

11 After the FCC, I was appointed Associate Director for Telecommunications  
12 Research of the National Regulatory Research Institute ("NRRI") at Ohio  
13 State University. My responsibilities at NRRI focused on  
14 telecommunications policy as seen from an analytical perspective that  
15 combined accounting, engineering, and economic disciplines. During my  
16 employment at the Institute, I completed several studies for state public  
17 utility commissions, including "The Impact of Measured Telephone Rates  
18 on Telephone Usage of Government and Nonprofit Organizations" (for the  
19 Public Utilities Commission of Ohio) and "Toward An Analysis of

1 Telephone License Contracts and Measured Rates” (for the Maryland  
2 Public Service Commission).

3 In addition, I have provided several state Commissions with technical and  
4 economic assistance. This assistance was related to identifying, explaining  
5 and analyzing major issues in telecommunications cases. Since joining  
6 J.W. Wilson & Associates, Inc. in May 1980, I have provided economic  
7 analysis in numerous proceedings in most of the States of the United States,  
8 Canada, Bolivia, Nepal, Egypt, and Tanzania. I have provided analysis for  
9 the Federal Communications Commission and the United States  
10 Department of Justice. For example, I testified on behalf of the Department  
11 of Justice in the case that broke up the Bell system. In addition, I have  
12 worked for numerous State Attorneys General. For example, I evaluated  
13 the merger proposal of Bell Atlantic and NYNEX for the National  
14 Association of Attorneys General and the Bell Atlantic and GTE merger  
15 proposal for the Pennsylvania Attorney General. I also analyzed the merger  
16 proposal of MCI and WorldCom for the California Public Utilities  
17 Commission.

18 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL**  
19 **ORGANIZATIONS AND HONOR SOCIETIES?**

20

1 A. Yes. I am a member of the Society of Depreciation Professionals, the  
2 American Economic Association, Omicron Delta Epsilon (an international  
3 honor society in economics) and Beta Gamma Sigma (an honor society in  
4 business).

5 **Q. COULD YOU BRIEFLY SUMMARIZE YOUR PROFESSIONAL**  
6 **RESPONSIBILITIES TO DATE?**

7 A. Yes. My primary responsibilities have been to supervise and actively  
8 participate in public utility regulatory policy research, especially in the  
9 telecommunications field. These responsibilities require the use and  
10 application of economic, accounting, and engineering analyses.

11 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

12 A. I present this testimony on behalf of the Office of Small Business Advocate  
13 (“OSBA”) of the Commonwealth of Pennsylvania.

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
15 **PROCEEDING?**

16 A. The OSBA has asked me to analyze Verizon’s access charge costs and  
17 proposed rates in this proceeding. I agree with the consolidation of Verizon

1 PA and Verizon North on a revenue neutral basis using the access charges  
2 as recommended by Verizon in its revenue neutral proposal.

3 **II. SUMMARY**

4 **Q. THE RESULT OF VERIZON'S ANALYSIS OF THE CARRIER**  
5 **CHARGE IS A RATE OF \$1.20 PER MONTH FOR BOTH**  
6 **VERIZON PENNSYLVANIA AND VERIZON NORTH. DO YOU**  
7 **AGREE?**

8 A. Yes. Although this is an increase for Verizon PA, it is a major decrease for  
9 access in Verizon North. Verizon's second step, or additional proposal, is  
10 to lower the consolidated rate to \$.63 and make up the difference by  
11 increasing residential local exchange rates. There is no reason to lower the  
12 consolidated carrier charge to the current Verizon PA rate of \$.63 per  
13 month. To lower the consolidated \$1.20 rate simply transfers the cost of  
14 the loop away from toll carriers and onto local exchange ratepayers.

15 **Q. SO, IF USING THE REVENUE NEUTRAL PROPOSAL CHANGES**  
16 **RESULT IN A CARRIER RATE OF \$1.20, HOW MUCH WOULD**  
17 **TOLL CARRIERS CONTRIBUTE TO LOOP RECOVERY?**

18

1 A. Verizon claims the cost of a loop to be about [BEGIN VZ  
2 PROPRIETARY] \_\_\_\_\_  
3 \_\_\_\_\_ |  
4 END VZ PROPRIETARY]. Whether the Commission eventually finds  
5 that the real cost is higher or lower than [BEGIN VZ PROPRIETARY]  
6 \_\_\_\_\_ [END VZ  
7 PROPRIETARY]. Obviously, even with large changes in the cost of the  
8 loop, toll carriers are contributing very little to a resource that is an integral  
9 part of their operations. Without access to the loop, the toll carriers would  
10 be out-of-business. Even if one considers the interstate assignment, toll  
11 carriers contribute very little to use this crucial resource because the FCC  
12 adopted end user charges. As the Commission knows, 25% is assigned to  
13 interstate. This leaves approximately \$30 for intrastate recovery. The fact  
14 that today, on a consolidated basis, intrastate toll carriers only have to  
15 recover \$1.20 of the \$30, is minimal. To lower the recovery further to \$.63  
16 or zero is not reasonable.

17 **Q. DO YOU AGREE WITH CHARGING ALL LOOP COSTS TO**  
18 **LOCAL EXCHANGE SERVICE CUSTOMERS?**

19 A. No. The rationale for charging local exchange customers for loop costs,  
20 rather than including these costs in toll carriers' costs, centers around the

1 argument that loop costs are non-traffic sensitive or customer-specific.  
2 This argument ignores the fact that the loop is part of the integrated  
3 telephone network and was built to serve both local and toll usage. In fact,  
4 today's loops are of such good quality that they are being put to all kinds of  
5 uses, like digital subscriber line ("DSL").

6 **Q. WHY IS IT REASONABLE, IN YOUR OPINION, TO CHARGE**  
7 **TOLL CARRIERS A PORTION OF THE LOOP COSTS?**

8 A. Toll carriers should be charged and should support the local loop. Toll  
9 carriers use the loop; without the loop there is no connection to the  
10 customer. The loop was designed to provide quality toll service. One of  
11 the reasons we have a telecommunications system that connects to virtually  
12 anyone and anywhere in this country is due to the sharing of these costs by  
13 all services that use the loop.

14 **Q. DO YOU AGREE THAT SETTING RATES BASED ON THE COST**  
15 **OF SERVICE LEADS TO ECONOMIC EFFICIENCY?**

16 A. Yes. Economic efficiency means that consumer demands are being  
17 satisfied to the maximum extent at the lowest possible cost. Ratepayers  
18 determine which telecommunications services to obtain based on the prices  
19 of those services. These services must reflect the costs involved in

1 providing them. In order to ensure that society's resources are used in the  
2 manner society desires, it is necessary to have individual products and  
3 services reflect the cost of production. For example, if the transport  
4 charges are not based on costs, carriers may continue to select the telephone  
5 company as the transport carrier even though there may be more efficient  
6 producers with lower long-run marginal costs. It is necessary to ensure that  
7 consumption patterns do not cause inefficient use of the resources devoted  
8 to telecommunications services without regard to costs.

9 An efficient rate structure must reflect costs because only then will  
10 consumers be able to make rational choices among the available sources of  
11 supply. Only cost-reflective rates will produce an efficient assessment of  
12 the relative merits of each service offerings. The existing loop system was  
13 designed to serve both local and toll; it is not possible to separate the costs  
14 of each use. However, it is clear that no service should get a free ride.

15 **Q. IS EQUITY AN IMPORTANT CONSIDERATION IN RATE**  
16 **DESIGN?**

17 A. Yes; however, equity is also promoted by cost-based rates, so that some  
18 ratepayers are not forced to cross-subsidize other ratepayers. For example,  
19 it is a cross-subsidy to require non-DSL users to pay for the removal of load  
20 coils or allow DSL usage a free ride over the loop simply because DSL can

1 use existing loops.

2 **Q. WOULD CROSS-SUBSIDIZATION BE INHERENT IN THE**  
3 **VERIZON PROPOSED ACCESS RATE LEVELS OF \$0.63 AND**  
4 **ZERO? IF SO, HOW?**

5 A. Yes. First by contributing virtually nothing to use a facility that is required  
6 to provide toll service causes other services and ratepayers to pay more of  
7 the loop cost. Second, there is a subsidy that flows from Verizon PA  
8 customers to Verizon North customers. Verizon PA customers' local  
9 exchange rates are increased to recover Verizon North's loop costs.

10 **III. CARRIER CHARGES**

11 **Q. VERIZON'S INITIAL STEP OR PROPOSAL AFTER**  
12 **CONSOLIDATION WOULD RESULT IN A DECREASE OF**  
13 **ABOUT \$8 FROM VERIZON NORTH RATES. VERIZON**  
14 **RECOMMENDS A CARRIER CHARGE EQUAL TO \$0.63 AFTER**  
15 **CONSOLIDATION. DO YOU AGREE WITH THIS**  
16 **RECOMMENDATION?**

17 A. No. Over the last few years the proposals to shift access costs from toll  
18 services to local services has found favor with telephone companies eager  
19 to recover more of their costs from captive local customers. This is

1 especially true since they wanted to be in the toll business themselves. In  
2 addition, because of the FCC's decision to recover interstate access costs  
3 through flat customer charges, state regulators have been under pressure to  
4 shift loop costs away from toll carriers onto local exchange customers. In  
5 this case, it is a shift from toll carriers using Verizon North's facilities to  
6 local exchange customers in both Verizon PA's and Verizon North's  
7 territory. In other words, Verizon PA's customers are being asked to  
8 recover Verizon North's access or loop costs.

9 **Q. DO YOU AGREE WITH THE SHIFT OF COST RESPONSIBILITY?**

10 A. No. Access lines or loops are part of the integrated telephone network; they  
11 are not *subscriber facilities* in terms of cost responsibility. Access line  
12 costs do vary in the long run with usage. The shift to local exchange  
13 ratepayers is not supported by marginal cost pricing principles. In addition,  
14 local telephone utilities have an incentive to overstate the access line costs  
15 that should be recovered from captive local exchange customers. Such  
16 overrecoveries would permit local carriers to offer competitive services on  
17 a subsidized basis.

18 Although customer charges are the wrong economic and regulatory  
19 prescription for recovering access line costs, it can be argued that there is  
20 not a single right practical answer. While several reasonable approaches

1 are suggested even in Verizon's filing, the essential requirements for now  
2 are good judgment and clear reasoning by regulators. Verizon has  
3 proposed to reduce the carrier charge at \$1.20, \$.63, or zero and shift these  
4 costs to local subscribers. At zero the entire loop revenue requirement is  
5 proposed to be charged to local exchange subscribers.

6 The argument is that because the loop is claimed to be non-traffic sensitive,  
7 local exchange ratepayers should recover all the costs. This argument  
8 ignores the fact that the loop is part of the integrated telephone network  
9 (i.e., available to all subscribers, toll and local) and a variable cost in the  
10 long run. All costs are variable in the long run. If in fact these costs were  
11 not variable, we would not have the quality of telephone service we have  
12 today. For example, fiber optic loops are being used and may some day be  
13 the accepted standard. Fiber optic loops are not necessary for the provision  
14 of basic voice grade telephone service. However, under the current  
15 industry philosophy, basic local exchange ratepayers will be forced to  
16 recover 100% of these costs. In addition, consider the fact that telephone  
17 companies have not offered customers the chance to buy their access lines  
18 in order to eliminate any loop charges. The loop is an element of current  
19 telephone communication services that is being continually improved and  
20 changed, in a few years new technology may replace the loop facilities as

1 we know them today.

2 In addition, if the Commission feels that a flat charge for loop access is  
3 appropriate, then it is just as appropriate to charge AT&T, MCI/WorldCom,  
4 Sprint, or any carrier using loops a flat charge.

5 **Q. ON WHAT BASIS SHOULD THE NON-TRAFFIC SENSITIVE**  
6 **("NTS") PORTION OF ACCESS COSTS ALLOCATED TO**  
7 **INTRASTATE JURISDICTIONAL SERVICE BE RECOVERED?**

8 A. The classification between non-traffic sensitive and traffic sensitive costs is  
9 arbitrary. Most access costs are sensitive to types of service in the long run.  
10 The investment costs associated with loop plant are central office circuit  
11 costs and the loop itself. The expenses associated with loops include  
12 maintenance and testing of loops and other directly related costs.

13 The FCC has ordered a 25% assignment of loop costs to interstate toll use.  
14 Based on the assumption of equal availability of the loop, i.e., 50% local,  
15 50% toll (25% interstate and 25% intrastate toll), in the past I have  
16 recommended using 25% as the intrastate factor for intrastate toll access.  
17 This does not preclude this Commission from allocating the 75% of loop  
18 costs, which are in its jurisdiction, any way it decides is reasonable.  
19 However, the one inescapable conclusion is that loops are used by all toll

1 and local services and, therefore, should be paid for by all services using  
2 the facility.

3 Further, using any assignment factor does not dictate a specific pricing  
4 mechanism. That is, although I recommend that 25% of loop cost be  
5 allocated and charged to intrastate carriers, the carriers can decide how to  
6 collect it from customers in the competitive market.

7 **Q. SOME MIGHT CLAIM THAT THE CARRIER CHARGE**  
8 **REPRESENTS A SUBSIDY TO LOCAL TELEPHONE SERVICE BY**  
9 **TOLL USERS. IS THIS CORRECT?**

10 A. No. Toll users require the use of the loop facilities to complete calls. It is  
11 totally incorrect to claim that toll users should pay nothing for a facility that  
12 was designed for their use and used by them. The real question is what to  
13 charge for the loop.

14 **Q. GIVEN YOUR RECOMMENDATION, WOULD DIVERSE,**  
15 **INNOVATIVE SERVICES USING THE LOCAL LOOP FACTOR**  
16 **ACCESS LINE COSTS INTO THE RATE OF THE SERVICE**  
17 **RECOUPING COST TO USE THE FACILITY?**

18 A. Yes. All services that need and use the loop to provide service should  
19 provide some support for the cost of the loop. For example, requiring DSL

1 services to provide some recovery, as is done by some telephone  
2 companies, is reasonable.

3 **Q. ARE THERE OTHER USAGE RELATED CONSIDERATIONS**  
4 **THAT SHOULD BE ACCOUNTED FOR IN PRICING LOCAL**  
5 **LOOPS?**

6 A. Yes. Obviously there are choices between private loops and shared loops;  
7 there are design choices concerning the installation of concentrators; and  
8 loop loading can be accomplished by using either permanent access line  
9 attachments or traffic-sensitive central office equipment. Usage  
10 requirements determine the resource requirements for loops just as usage  
11 requirements determine the resource requirements for electric generating  
12 plants. Indeed, we can go even further. Just as there are alternative  
13 technologies for power generation, there are alternative technologies for  
14 communications. Loop costs vary not only with usage but also by the type  
15 of service provided and the type of equipment to which the loop is or may  
16 be attached.

17 Moreover, because basic loop systems are generally designed and installed  
18 on a mass basis rather than on a customer-specific basis, loop costs have  
19 been influenced by particular service needs and new usage considerations  
20 as they have developed. With changes in customer usage, many new

1 combinations of loop design and administration have been introduced and  
2 adopted for standardized loops. Standard loops must be capable of meeting  
3 various signaling and transmission quality requirements for a wide variety  
4 of services.

5 **Q. DO BOTH THE VOLUME OF LOOP USAGE AND THE KINDS OF**  
6 **SERVICES THAT USE THE LOOP AFFECT COSTS?**

7 A. Yes. For example, if usage was very infrequent and confined to a local  
8 area, it is doubtful that high-cost capital-intensive local loop systems would  
9 be warranted. In that case, radio transmission could be a far less costly  
10 option. But for the congestion and jamming costs attributable to usage and  
11 the special requirements associated with long-distance calling, infrequent  
12 and/or emergency local communications might be accomplished with a  
13 \$100 radio transmitter/receiver (some CB units today cost less than \$100)  
14 rather than a \$1,000 local loop. Obviously, given conventional radio  
15 technology and the calling volume in most markets, the higher fixed capital  
16 cost of a loop system is justified by the even higher congestion costs that  
17 would swamp a radio alternative. But that is a usage consideration. Access  
18 line costs should be viewed as a common cost. And, access costs can be  
19 allocated to different services. For example:

20 "The fact that most services are typically provided in  
21 combinations, using the same facilities, does not mean that

1 definable shares of the common costs cannot in principle be  
2 causally attributable to each. When the same equipment may be  
3 used to make products A and B, and when producing A uses  
4 capacity that could otherwise be used to supply B, then we speak  
5 of their costs as common instead of joint: and in this event, the  
6 marginal cost of A may include an identifiable part of these  
7 common costs. This situation is widespread in the public  
8 utilities and in industry generally....The same coaxial cable may  
9 transmit telephone messages, business data, or TV  
10 programs....If any one of these...services uses...circuits...that  
11 would in fact otherwise be used for one of the others, or if it  
12 requires the construction of greater capacity than would  
13 otherwise be necessary, then it does bear a causal responsibility  
14 for a share of the common capacity costs. The cost allocation  
15 formulae actually employed may achieve only a rough, rule-of-  
16 thumb approximation to the actual costs for which each product  
17 or service is responsible, but those costs have objective reality”  
18 (Alfred E. Kahn, The Economics of Regulation (1970), Volume  
19 I, page 78).

#### 20 IV. RECOMMENDATIONS AND CONCLUSIONS

##### 21 Q. WOULD YOU SUMMARIZE YOUR RECOMMENDATIONS?

22 A. Yes. Local loops are part of the integrated switched telecommunications  
23 network – they are not a customer-specific facility such as a gas lateral or  
24 an electric drop – regulatory commissions may reasonably choose to  
25 impose only minimal customer charges. Charging a portion of access costs  
26 to toll carriers and allowing them to innovate and experiment in recovering  
27 these costs through their own competitive pricing arrangements seems  
28 eminently reasonable. Including another portion of access costs in local

1 service rates is also reasonable just as flat exchange rates now recover for  
2 access on a flat basis.

3 There is not a single "correct" solution to the access cost pricing issue. But,  
4 there are some wrong ones. Declaring all access loop costs to be non-  
5 traffic-sensitive so as to rationalize their total attribution to a fixed local  
6 subscriber charge is unwarranted and harmful a carrier. A carrier charge of  
7 \$1.20 is reasonable.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes, it does.