

Suzan DeBusk Paiva
Assistant General Counsel



ORIGINAL

Verizon Pennsylvania Inc.
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Suzan.D.Paiva@Verizon.com

January 2, 2007

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**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

VIA UPS OVERNIGHT DELIVERY

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

**RE: 2006 Annual Price Stability Index/ Service Price Index filing
of Buffalo Valley Telephone Company
P-00981428F1000 and R-00061375**

**2006 Annual Price Stability Index/Service Price Index filing
of Conestoga Telephone & Telegraph Company
P-00981429F1000 and R-00061376**

**2006 Annual Price Stability Index/Service Price Index filing
of Denver & Ephrata Telephone & Telegraph Company
P-00981430F1000 and R-00061377**

**DOCUMENT
FOLDER**

Dear Mr. McNulty:

Enclosed please find an original and three copies of the Verizon Companies' Objections to the First Set of Interrogatories of the D&E Companies, in the above-referenced matter.

Do not hesitate to contact me if you have any questions.

Respectfully,

Suzan D. Paiva

VIA E-Mail and UPS Delivery
cc: The Honorable Susan Colwell
Certificate of Service

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ORIGINAL

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

2006 Annual Price Stability Index/	:	
Service Price Index filing of Buffalo	:	P-00981428F1000
Valley Telephone Company	:	R-00061375
2006 Annual Price Stability Index/	:	
Service Price Index filing of Conestoga	:	P-00981429F1000
Telephone & Telegraph Company	:	R-00061376
2006 Annual Price Stability Index/	:	
Service Price Index filing of Denver &	:	P-00981430F1000
Ephrata Telephone & Telegraph Company	:	R-00061377

**THE VERIZON COMPANIES' OBJECTIONS TO THE FIRST SET OF
INTERROGATORIES OF THE D&E COMPANIES**

Pursuant to 52 Pa. Code § 5.341 and § 5.349, Verizon Pennsylvania Inc., Verizon North Inc., Verizon Select Services Inc., Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance, Verizon Global Networks, Inc., MCImetro Access Transmission Services LLC d/b/a Verizon Access Transmission Services, and MCI Communications Services Inc., d/b/a Verizon Business Services (collectively "Verizon") hereby object to the First Set of Interrogatories of Denver & Ephrata Telephone & Telegraph Company, Buffalo Valley Telephone Company and Conestoga Telephone & Telegraph Company (collectively the "D&E companies").

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**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

INTERROGATORY NO. 1:

1. Please provide copies of all testimony regarding access charges and rates previously prepared by or submitted by Verizon witness Mr. Price. If deemed voluminous, in the alternative, please provide copies of all testimony regarding access charges and rates previously prepared by or submitted in Pennsylvania by Verizon witness Mr. Price.

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. Verizon further objects on the ground that the request is overly broad and burdensome in that it is not reasonably limited as to time and to the extent that it is not limited to testimony submitted in Pennsylvania.

Subject to and without waiving these objections, Verizon will provide a response to this interrogatory.

INTERROGATORY NO. 2:

2. Please provide copies of all testimony submitted on behalf of Verizon (collectively and each constituent entity) relating to whether there should be any reduction in access charges and/or relating to the existence of any relationship between access charges and costs.

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. Verizon further objects on the ground that the request is overly broad and would require Verizon to undertake an unduly burdensome special study to compile the requested information, particularly in that it is not reasonably limited as to time and is not limited to testimony submitted in Pennsylvania.

Subject to and without waiving this objection, Verizon will provide a response to this interrogatory for Pennsylvania.

INTERROGATORY NO. 3:

3. Please identify the business of Verizon Select Services Inc. and Verizon Global Networks, Inc., and their interest in this proceeding.

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information, since the presiding officer has already granted these companies' petition to intervene and determined that they have an interest in this matter.

Subject to and without waiving this objection, Verizon will provide a response to this interrogatory.

INTERROGATORY NO. 4:

4. Please provide by each Verizon constituent entity the total rural intrastate access minutes and total urban intrastate access minutes and payments for May 2006 and October 2006. Please provide the detail of rural minutes and related payments for the following categories: Embarq, Windstream, Commonwealth and All Other.

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. As the D&E companies themselves have maintained, "the scope of this proceeding is limited" to the specific issues listed in the Commission's November 9, 2006 Order. *See, e.g.*, D&E Companies' Prehearing Memorandum at 3. This broad request might be suited for the rural carrier access investigation, but the Commission has stayed that investigation at the request of parties including the D&E companies. Verizon's access payments to carriers other than the D&E companies are not relevant to this case.

Verizon further objects on the ground that the request is overly broad and burdensome and would require Verizon to undertake an unduly burdensome special study to compile the requested information, which is not appropriate given that this case does not relate to Verizon's rates and is on an expedited schedule. Furthermore, Verizon does not categorize its access minutes as "rural" and "urban." Thus, the information does not exist in the form requested and a special study would be required to comply with the request.

Verizon will not be providing a response to this interrogatory.

INTERROGATORY NO. 5:

5. Please provide your understanding of all rates that are regulated pursuant to Verizon's annual PCO filing, and identify whether switched access rates are a noncompetitive rate for Verizon.

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. As the D&E companies themselves have maintained, "the scope of this proceeding is limited" to the specific issues listed in the Commission's November 9, 2006 Order. *See, e.g.*, D&E Companies' Prehearing Memorandum at 3. Verizon's annual PCO filings are not at issue. Verizon further objects on the ground that the request for Verizon's "understanding of all rates that are regulated" is vague and ambiguous.

Subject to and without waiving these objections, Verizon will provide a response to this interrogatory.

INTERROGATORY NO. 6:

6. Please identify whether Mr. Price has ever designed PSI increases for any other ILEC within or outside Pennsylvania while not in the employ of that ILEC. Please include in the response all instances in which Mr. Price as an employee of one carrier has been afforded the opportunity to design rates for another carrier in that other carrier's regulatory proceeding before any agency and fully describe the extent of the control Mr. Price exerted over the other carrier(s) and its rates.

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. Verizon further objects on the ground that the question is argumentative and does not seek factual information that would legitimately be the subject of a discovery request. Verizon further objects on the ground that the question is unduly broad in seeking information outside of Pennsylvania.

Subject to and without waiver of these objections, Verizon will provide a response to this interrogatory.

INTERROGATORY NO. 7:

7. Please identify all occasions in which Verizon, as identified in Mr. Price's direct testimony, has sought input from or allowed other ILECs to design Verizon's Price Change Opportunity ("PCO") filing. Please identify all circumstances under which Verizon would seek and agree to abide by the input of other Pennsylvania ILECs in the design of its PCO filing(s).

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. As the D&E companies themselves have maintained, "the scope of this proceeding is limited" to the specific issues listed in the Commission's November 9, 2006 Order. *See, e.g.,* D&E Companies' Prehearing Memorandum at 3. Verizon's annual PCO filings are not at issue. Verizon further objects on the ground that the question is argumentative and does not seek factual information that would legitimately be the subject of a discovery request. Verizon further objects to the question as calling for speculation to the extent that it seeks "all circumstances under which Verizon would seek and agree to abide by the input of other Pennsylvania ILECs." Verizon further objects on the grounds that the question is overly broad and burdensome.

Subject to and without waiving these objections, Verizon will provide a response to this interrogatory.

INTERROGATORY NO. 8:

8. For each Verizon PCO filing to date involving a revenue increase, please identify all rate design scenarios ever considered by Verizon in the allocation of that revenue increase among its noncompetitive services and rate classes.

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. As the D&E companies themselves have maintained, "the scope of this proceeding is limited" to the specific issues listed in the Commission's November 9, 2006 Order. *See, e.g.,* D&E Companies' Prehearing Memorandum at 3. Verizon's annual PCO filings are not at issue. Verizon further objects on the grounds that the question is overly broad and burdensome. Furthermore, the rate increases Verizon actually proposed to implement its 2006 and 2007 PCOs are a matter of public record, having been filed with the Commission. Verizon further objects to the extent that this interrogatory seeks information subject to the attorney-client or other privilege.

Verizon will not be providing a response to this interrogatory.

INTERROGATORY NO. 9:

9. To what extent does Verizon consider competition from alternate service providers a constriction on Verizon's ability to increase its rates?

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. Verizon's rates are not at issue in this limited and expedited proceeding.

Subject to and without waiving this objection, Verizon will provide a response to this interrogatory.

INTERROGATORY NO. 10:

10. Please provide copies of all testimony, including in any regulatory or legislative forum, submitted by Mr. Price specifically, or on behalf of Verizon (as identified by Mr. Price) generally, in which Verizon has addressed the impact of competition in its service territory as constraining Verizon's ability either to increase rates, or to impose further line-item charges on its customers. As an example but not to be limited to, include testimony previously prepared on behalf of Verizon that addressed Verizon's competitive concerns over imposing higher SLCs under any pending federal intercarrier compensation reform proceedings and Verizon's testimony before various legislative fora during the two-year legislative renewal process that culminated in the enactment of Act 183 of 2004 that addressed competitive restraints to implementing fully PCO filings containing a reduced productivity offset pursuant to Act 183.

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. Verizon further objects on the ground that the question is unduly broad and burdensome in seeking information outside of Pennsylvania from literally any legislative or regulatory forum in the world.

Subject to and without waiving this objection, Verizon will provide a response to this interrogatory with respect to Mr. Price in Pennsylvania, only.

INTERROGATORY NO. 11:

11. Does Mr. Price agree that Verizon is estimated to pay a larger percentage of the D&E carriers' increased access charges because as a result of the merger between Verizon and MCI, MCI is no longer a stand-alone competitor of Verizon paying access charges separate and apart from Verizon? If no, please identify fully all grounds for disagreement.

No objection. Verizon will provide a response.

INTERROGATORY NO. 12:

12. Are Verizon's access charges cost based? If yes, please provide the cost basis. If no, please explain why Verizon does not think its rates need to be cost based. Also please provide the access charges for each Verizon constituent entity for each of the past five (5) years.

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. As the D&E companies themselves have maintained, "the scope of this proceeding is limited" to the specific issues listed in the Commission's November 9, 2006 Order. *See, e.g.*, D&E Companies' Prehearing Memorandum at 3. Verizon's access rates are not at issue. Moreover, this limited proceeding does not seek to reduce D&E's access rates to "cost," but only to rescind the most recent increase to D&E's already above-cost access rates.

Subject to and without waiving these objections, Verizon will provide the current access rates of Verizon PA and Verizon North, but not past rates, and will provide a response to the remainder of this interrogatory.

INTERROGATORY NO. 13:

13. Mr. Price compares the D&E Companies to Verizon and cites the number of D&E access lines and access revenues. Please provide Verizon's number of access lines broken down by Verizon constituent entity. Also, please provide Verizon's access revenues broken down by Verizon constituent entity.

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. Verizon further objects to the extent this interrogatory is not limited to Pennsylvania.

Subject to and without waiving these objections, Verizon will provide a response to this interrogatory for Pennsylvania only.

INTERROGATORY NO. 14:

14. On Page 9 of his direct testimony, Mr. Price estimates the Verizon access payments to the D&E Companies as a result of the 2006 PSI filings. Please provide the total most recent 12-month period of Verizon's total access payments in Pennsylvania and identify the percentage of those payments as compared to Verizon's total revenues.

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. As the D&E companies themselves have maintained, "the scope of this proceeding is limited" to the specific issues listed in the Commission's November 9, 2006 Order. *See, e.g.*, D&E Companies' Prehearing Memorandum at 3. Verizon's access payments to other carriers are not at issue.

Verizon will not be providing a response to this interrogatory.

INTERROGATORY NO. 15:

15. Does Mr. Price agree that by serving Pennsylvania's largest metropolitan areas, including but not limited to Philadelphia, Pittsburgh, Erie, Scranton/Wilkes-Barre and Allentown/Bethlehem/Easton, Verizon has less of a need to rely on access revenues to support its local service rates compared to local exchange carriers that do not serve large metropolitan areas? If no, please identify fully all grounds for disagreement.

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. Verizon's need to rely on access revenue is not at issue. The issue is whether, in light of all relevant circumstances, it would be just and reasonable to allow the D&E companies to raise their access rates.

Subject to and without waiving this objection, Verizon will provide a response to this interrogatory.

INTERROGATORY NO. 16:

16. Please identify the dollar amount of the D&E Companies' increase of their switched access rates in the 2006 PSI filing for which those companies were already receiving PA USF compensation and provide all details supporting how the allocation of those USF dollars to the D&E companies coupled with the current switched access increases comprise "double dipping" as alleged by Mr. Price at Page 13 of his direct testimony.

OBJECTION:

Verizon objects on the ground that the question is argumentative and does not seek factual information that would legitimately be the subject of a discovery request. Verizon further objects to this request to the extent that it seeks information already in the possession, custody, or control of the D&E companies.

Subject to and without waiving this objection, Verizon will provide a response to this interrogatory.

INTERROGATORY NO. 17:

17. Does Mr. Price agree generally with the concept that competitors of any kind, whether IXCs, CLECs, or other alternate providers do not compete as vigorously in rural areas because of their high costs and low population density? If no, please identify fully all grounds for disagreement.

No objection. Verizon will provide a response.

INTERROGATORY NO. 18:

18. Does Mr. Price agree that Verizon has never offered local exchange service in the rural areas served by the D&E Companies and that Verizon today is actively attempting to sell rural exchanges? If no, please identify fully all grounds for disagreement.

OBJECTION:

Verizon objects to the request on grounds that it seeks information that is neither relevant to the proceeding nor likely to lead to the production of relevant information. As the D&E companies themselves have maintained, "the scope of this proceeding is limited" to the specific issues listed in the Commission's November 9, 2006 Order. *See, e.g.*, D&E Companies' Prehearing Memorandum at 3. Verizon further objects to this request to the extent that it seeks information concerning service and exchanges outside of Pennsylvania.

Subject to and without waiving these objections, Verizon will provide a response to this interrogatory for Pennsylvania only.

INTERROGATORY NO. 19:

19. Please provide Mr. Price's full understanding of the Summary Judgment Order at Docket No. M-00031694 referenced in footnote 13 of Mr. Price's testimony and indicates specifically what portion of the order Mr. Price relies on for his *conclusion on page 16, lines 10-11.*

OBJECTION:

Verizon objects to this request on the ground that the referenced summary judgment order is in writing and speaks for itself and it is improper to seek any legal opinions from Mr. Price, a fact witness.

Subject to and without waiving this objection, Verizon will provide a response as to Mr. Price's understanding as a lay person and the portions he relied upon.

Date: January 2, 2007



Suzan DeBusk Paiva (53853)

Verizon

1717 Arch Street, 10th Floor

Philadelphia, PA 19103

(215) 466-4755

Attorney for Verizon

CERTIFICATE OF SERVICE

I, Suzan D. Paiva, hereby certify that I have this day served a copy of the Verizon Companies' Objections to the First Set of Interrogatories of the D&E Companies, upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (related to service by a participant) and 1.55 (related to service upon attorneys).

Dated at Philadelphia, Pennsylvania, this 2nd of January, 2007.

VIA E-MAIL AND UPS DELIVERY


Michael L. Swindler, Esquire
Thomas, Thomas, Armstrong & Niesen
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Counsel for Denver and Ephrata
Telephone and Telegraph Company

Steven Gray, Esquire
Office of Small Business Advocate
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Harrisburg, PA 17102

Joel Cheskis, Esquire
Office of Consumer Advocate
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Fifth Floor, Forum Place
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Robert Eckenrod, Esquire
Office of Trial Staff
Commonwealth Keystone Building
400 North Street
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SECRETARY'S BUREAU



THOMAS, THOMAS,
ARMSTRONG & NIESEN

Attorneys and Counsellors at Law

MICHAEL L. SWINDLER
Direct Dial: 717.255.7609
mswindler@ttanlaw.com

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January 2, 2007

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

VIA HAND DELIVERY

Honorable Susan D. Colwell
Administrative Law Judge
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

In re: 2006 Annual Price Stability Index/Service Price Index Filing of Buffalo Valley Telephone Company
Docket Nos. P-00981428F1000 and R-00061375

2006 Annual Price Stability Index/Service Price Index Filing of Conestoga Telephone and Telegraph Company
Docket Nos. P-00981429F1000 and R-00061376

2006 Annual Price Stability Index/Service Price Index Filing of Denver and Ephrata Telephone and Telegraph Company
Docket Nos. P-00981430F1000 and R-00061377

Dear Judge Colwell:

Enclosed on behalf of Buffalo Valley Telephone Company, Conestoga Telephone and Telegraph Company and Denver and Ephrata Telephone and Telegraph Company are Revised Sheet 3's to Exhibit 5 which replace those sheets included in the distribution of D&E Statement No. 1 and D&E Exhibits 1 through 6 in the above-referenced proceeding by letter dated December 18, 2006. Specifically, the replacement pages are identified the same as the original pages as follows:

Ex. 5, Sheet 3 - BVT
Ex. 5, Sheet 3 - CTTC
Ex. 5, Sheet 3 - D&E

Ex. 5, Sheet 3B - BVT
Ex. 5, Sheet 3B - CTTC
Ex. 5, Sheet 3B - D&E

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PUBLIC UTILITY COMMISSION

Honorable Susan D. Colwell
January 2, 2007
Page 2

This revision is made in order to replace the 2006 data inadvertently provided in the original submission with the intended 2005 data that comports with Exhibit 5, Sheet 2. These replacement pages are marked proprietary and should be treated as such.

Copies of the foregoing are being served in accordance with the attached Certificate of Service.

Sincerely,

THOMAS, THOMAS, ARMSTRONG & NIESEN

By



Michael L. Swindler

Encls.

cc: Certificate of Service
James J. McNulty, Secretary
(Letter and Certificate of Service only)
Leonard J. Beurer (w/encl.)
Jeanne Price (w/encl.)
John Rutkowski (w/encl.)

070102 ALJ Colwell Revised Ex 5 Sh 3.wpd

Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION

2006 Annual Price Stability Index/Service Price Index Filing of Buffalo Valley Telephone Company	:	Docket Nos. P-00981428F1000 and R-00061375
	:	
	:	
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	:	
	:	
2006 Annual Price Stability Index/Service Price Index Filing of Denver and Ephrata Telephone and Telegraph Company	:	Docket Nos. P-00981430F1000 and R-00061377
	:	

CERTIFICATE OF SERVICE

I hereby certify that I have this 2nd day of January, 2007, served true and correct copies of the foregoing document on behalf of Buffalo Valley Telephone Company, Conestoga Telephone and Telegraph Company and Denver and Ephrata Telephone and Telegraph Company, upon the persons and in the manner set forth below:

VIA HAND DELIVERY

Joel H. Cheskis
Assistant Consumer Advocate
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
jcheskis@paoca.org

Robert V. Eckenrod, Esquire
Office of Trial Staff
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Steven Gray, Esquire
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Harrisburg, PA 17101
sgray@state.pa.us

VIA OVERNIGHT DELIVERY

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Assistant General Counsel
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Philadelphia, PA 19103
suzan.d.paiva@verizon.com

VIA FIRST CLASS MAIL

Dr. Robert Loube
Rhoads and Sinon, LLC
10601 Cavalier Drive
Silver Spring, MD 20901
bobloube@earthlink.net



Michael L. Swindler
PA Attorney ID No. 43319

Suzan DeBusk Paiva
Assistant General Counsel



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VIA UPS OVERNIGHT DELIVERY

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
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**RE: 2006 Annual Price Stability Index/ Service Price Index filing
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**2006 Annual Price Stability Index/Service Price Index filing
of Denver & Ephrata Telephone & Telegraph Company
P-00981430F1000 and R-00061377**

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Dear Mr. McNulty:

Enclosed please find the original and three copies of the following Motions being filed by the Verizon Companies in the above-referenced matter: (1) Motion for Admission *Pro Hac Vice* of Leigh A. Hyer, and (2) Motion for Admission *Pro Hac Vice* of Jeffrey A. Rackow.

Do not hesitate to contact me if you have any questions.

Respectfully,


Suzan D. Paiva

VIA E-Mail and UPS Delivery
cc: The Honorable Susan Colwell
Certificate of Service

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CERTIFICATE OF SERVICE

I, Suzan D. Paiva, hereby certify that I have this day served a copy of the Verizon Companies' Motion for Admission *Pro Hac Vice* of Leigh A. Hyer, and Motion for Admission *Pro Hac Vice* of Jeffrey A. Rackow, upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (related to service by a participant) and 1.55 (related to service upon attorneys).

Dated at Philadelphia, Pennsylvania, this 5th of January, 2007.

VIA E-MAIL AND UPS DELIVERY

Michael L. Swindler, Esquire
Thomas, Thomas, Armstrong & Niesen
212 Locust Street, Suite 500
P. O. Box 9500
Harrisburg, Pennsylvania 17108-9500
Counsel for Denver and Ephrata
Telephone and Telegraph Company

Steven Gray, Esquire
Office of Small Business Advocate
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, PA 17102

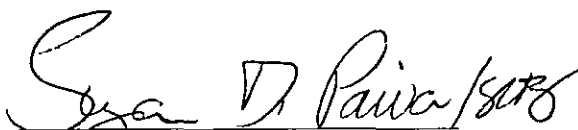
Joel Cheskis, Esquire
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Robert Eckenrod, Esquire
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Ephrata Telephone & Telegraph Company	:	R-00061377

**MOTION FOR ADMISSION PRO HAC VICE
OF LEIGH A. HYER, ESQUIRE**

Pursuant to Rule 301 of the Pennsylvania Rules of Admission and 52 Pa. Code § 1.22(b), I, Suzan DeBusk Paiva, Esquire (“movant”), a member in good standing of the bar of this Commonwealth (Attorney No. 53853), respectfully move for the admission pro hac vice of Leigh A. Hyer, Esquire for the purpose of representing Verizon Pennsylvania Inc., Verizon North Inc., Verizon Select Services Inc., Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance, Verizon Global Networks, Inc., MCImetro Access Transmission Services, LLC d/b/a Verizon Access Transmission Services, and MCI Communications Services Inc. (collectively “Verizon”), in the above-referenced matter. In support hereof, movant states as follows:

1. Ms. Hyer is a member in good standing of the Bars of the State of New York and the District of Columbia.
2. Ms. Hyer is Vice President and General Counsel of Verizon’s Mid-Atlantic North Region, which includes the Commonwealth of Pennsylvania, and has an address at 1 East Pratt Street, 8th Floor, Baltimore, Maryland 21202.

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3. Ms. Hyer has represented Verizon in matters before the Pennsylvania Public Utility Commission.
4. Ms. Hyer has not been subject to any disciplinary action.
5. Ms. Hyer is of good character.

Wherefore, movant respectfully requests this Commission to admit Leigh A. Hyer, Esquire, as counsel for Verizon in the above-captioned action.

Respectfully submitted,



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Counsel for
Verizon Pennsylvania Inc., Verizon North Inc.,
Verizon Select Services Inc., Bell Atlantic
Communications, Inc. d/b/a Verizon Long Distance,
Verizon Global Networks, Inc., MCI metro Access
Transmission Services, LLC d/b/a Verizon Access
Transmission Services, and MCI Communications
Services Inc.

Date: January 5, 2007

**BEFORE THE
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Service Price Index filing of Denver &	:	P-00981430F1000
Ephrata Telephone & Telegraph Company	:	R-00061377

**ORDER GRANTING MOTION FOR ADMISSION
PRO HAC VICE OF LEIGH A. HYER, ESQUIRE**

Upon consideration of Motion for Admission Pro Hac Vice of Leigh A. Hyer, Esquire, it is this _____ day of January, 2007,

ORDERED that the Motion is hereby GRANTED; and it is further

ORDERED that Leigh A. Hyer, Esquire is admitted pro hac vice for the purposes of representing Verizon Pennsylvania Inc., Verizon North Inc., Verizon Select Services Inc., Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance, Verizon Global Networks, Inc., MCImetro Access Transmission Services, LLC d/b/a Verizon Access Transmission Services, and MCI Communications Services Inc. (collectively "Verizon") in the above-captioned action.

Administrative Law Judge

RECEIVED

JAN 05 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

RECEIVED

JAN 05 2007

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

2006 Annual Price Stability Index/	:	
Service Price Index filing of Buffalo	:	P-00981428F1000
Valley Telephone Company	:	R-00061375
2006 Annual Price Stability Index/	:	
Service Price Index filing of Conestoga	:	P-00981429F1000
Telephone & Telegraph Company	:	R-00061376
2006 Annual Price Stability Index/	:	
Service Price Index filing of Denver &	:	P-00981430F1000
Ephrata Telephone & Telegraph Company	:	R-00061377

**MOTION FOR ADMISSION PRO HAC VICE
OF JEFFREY A. RACKOW, ESQUIRE**

Pursuant to Rule 301 of the Pennsylvania Rules of Admission and 52 Pa. Code § 1.22(b), I, Suzan DeBusk Paiva, Esquire ("movant"), a member in good standing of the bar of this Commonwealth (Attorney No. 53853), respectfully move for the admission pro hac vice of Jeffrey A. Rackow, Esquire for the purpose of representing Verizon Pennsylvania Inc., Verizon North Inc., Verizon Select Services Inc., Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance, Verizon Global Networks, Inc., MCI metro Access Transmission Services LLC d/b/a Verizon Access Transmission Services, and MCI Communications Services, Inc. d/b/a Verizon Business Services (collectively "Verizon"), in the above-referenced matter. In support hereof, movant states as follows:

1. Mr. Rackow is a member in good standing of the Bars of the State of New York, the Commonwealth of Virginia, and the District of Columbia.
2. Mr. Rackow is an attorney with Verizon Communications Inc., and has an address at 1515 N. Courthouse Rd., Suite 500, Arlington, VA 22201.
3. Mr. Rackow has represented some of the Verizon and Verizon-affiliated entities

DOCUMENT
FOLDER

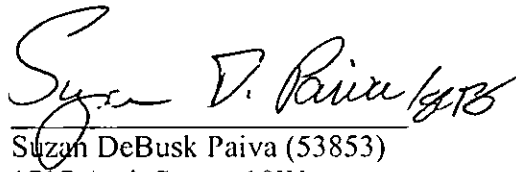
DOCKETED
OCT 25 2007

in matters in various tribunals throughout the nation.

4. Mr. Rackow has not been subject to any disciplinary action.
5. Mr. Rackow is of good character.

Wherefore, movant respectfully requests this Commission to admit Jeffrey A. Rackow, Esquire, as counsel for Verizon in the above-captioned action.

Respectfully submitted,



Suzan DeBusk Paiva (53853)
1717 Arch Street, 10W
Philadelphia, PA 19103
Phone: (215) 466-4755
Fax: (215) 563-2658
E-mail: suzan.d.paiva@verizon.com

Counsel for
Verizon Pennsylvania Inc., Verizon North Inc.,
Verizon Select Services Inc., Bell Atlantic
Communications, Inc. d/b/a Verizon Long Distance,
Verizon Global Networks, Inc., MCImetro Access
Transmission Services LLC d/b/a Verizon Access
Transmission Services, and MCI Communications
Services, Inc. d/b/a Verizon Business Services

Date: January 5, 2007

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITIES COMMISSION**

2006 Annual Price Stability Index/ Service Price Index filing of Buffalo Valley Telephone Company	:	:	P-00981428F1000 R-00061375
2006 Annual Price Stability Index/ Service Price Index filing of Conestoga Telephone & Telegraph Company	:	:	P-00981429F1000 R-00061376
2006 Annual Price Stability Index/ Service Price Index filing of Denver & Ephrata Telephone & Telegraph Company	:	:	P-00981430F1000 R-00061377

**ORDER GRANTING MOTION FOR ADMISSION
PRO HAC VICE OF JEFFREY A. RACKOW, ESQUIRE**

Upon consideration of Motion for Admission Pro Hac Vice of Jeffrey A. Rackow,
Esquire, it is this _____ day of January, 2007,

ORDERED that the Motion is hereby GRANTED; and it is further

ORDERED that Jeffrey A. Rackow, Esquire is admitted pro hac vice for the purposes of representing Verizon Pennsylvania Inc., Verizon North Inc., Verizon Select Services Inc., Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance, Verizon Global Networks, Inc., MCImetro Access Transmission Services LLC d/b/a Verizon Access Transmission Services, and MCI Communications Services, Inc. d/b/a Verizon Business Services (collectively "Verizon") in the above-captioned action.

Administrative Law Judge

RECEIVED

JAN 05 2007

**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**



THOMAS, THOMAS,
ARMSTRONG & NIESEN

Attorneys and Counsellors at Law

MICHAEL L. SWINDLER
Direct Dial: 717.255.7609
mswindler@ttanlaw.com

January 5, 2007

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JAN - 8 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

VIA EMAIL AND HAND DELIVERY

Honorable Susan D. Colwell
Administrative Law Judge
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

In re: 2006 Annual Price Stability Index/Service Price Index Filing of Buffalo Valley Telephone Company
Docket Nos. P-00981428F1000 and R-00061375

2006 Annual Price Stability Index/Service Price Index Filing of Conestoga Telephone and Telegraph Company
Docket Nos. P-00981429F1000 and R-00061376

2006 Annual Price Stability Index/Service Price Index Filing of Denver and Ephrata Telephone and Telegraph Company
Docket Nos. P-00981430F1000 and R-00061377

Dear Judge Colwell:

Enclosed on behalf of Buffalo Valley Telephone Company, Conestoga Telephone and Telegraph Company and Denver and Ephrata Telephone and Telegraph Company is D&E Statement No. 1-R and D&E Exhibits 1-R through 5-R in the above-referenced proceeding. Please note that Exhibit Nos. 1-R, 4-R and 5-R are marked proprietary and should be treated as such. Copies of the foregoing are being served in accordance with the attached Certificate of Service.

DOCUMENT
FOLDER

Sincerely,

THOMAS, THOMAS, ARMSTRONG & NIESEN

By

Michael L. Swindler

Encl.

- cc: Certificate of Service
- James J. McNulty, Secretary
(Letter and Certificate of Service only)
- Leonard J. Beurer (w/encl.)
- Jeanne Price (w/encl.)
- John Rutkowski (w/encl.)

070105 ALJ Colwell.wpd

RECEIVED

JAN - 5 2007

OFFICE OF CALJ
PUBLIC UTILITY COMMISSION

Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION

2006 Annual Price Stability Index/Service Price Index Filing of Buffalo Valley Telephone Company	:	Docket Nos.	P-00981428F1000 and R-00061375
	:		
2006 Annual Price Stability Index/Service Price Index Filing of Conestoga Telephone and Telegraph Company	:	Docket Nos.	P-00981429F1000 and R-00061376
	:		
2006 Annual Price Stability Index/Service Price Index Filing of Denver and Ephrata Telephone and Telegraph Company	:	Docket Nos.	P-00981430F1000 and R-00061377

CERTIFICATE OF SERVICE

I hereby certify that I have this 5th day of January, 2007, served true and correct copies of D&E Statement No. 1-R and attached Exhibits on behalf of Buffalo Valley Telephone Company, Conestoga Telephone and Telegraph Company and Denver and Ephrata Telephone and Telegraph Company, upon the persons and in the manner set forth below:

**VIA EMAIL (*D&E Statement No. 1-R only*)
AND HAND DELIVERY (*D&E Statement No. 1-R and attached Exhibits*)**

Joel H. Cheskis
Assistant Consumer Advocate
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
jcheskis@paoca.org

Robert V. Eckenrod, Esquire
Office of Trial Staff
Pennsylvania Public Utility Commission
Commonwealth Keystone Building, 2 West
P.O. Box 3265
Harrisburg, PA 17105-3265
roeckenrod@state.pa.us

Steven Gray, Esquire
Office of Small Business Advocate
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, PA 17101
sgray@state.pa.us

**VIA EMAIL (*D&E Statement No. 1-R only*)
AND OVERNIGHT DELIVERY (*D&E Statement No. 1-R and attached Exhibits*)**

Suzan D. Paiva
Assistant General Counsel
Verizon Pennsylvania Inc.
1717 Arch Street, 10W
Philadelphia, PA 19103
suzan.d.paiva@verizon.com

VIA FIRST CLASS MAIL
(D&E Statement No. 1-R and attached Exhibits)

Dr. Robert Loube
Rhoads and Sinon, LLC
10601 Cavalier Drive
Silver Spring, MD 20901
bobloube@earthlink.net



Michael L. Swindler
PA Attorney ID No. 43319



OFFICE OF SMALL BUSINESS ADVOCATE
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, Pennsylvania 17101

DOCUMENT
FOLDER

William R. Lloyd, Jr.
Small Business Advocate

January 5, 2007

(717) 783-2525
(717) 783-2831 (FAX)

E-mail and Hand Delivery

Hon. Susan D. Colwell
Administrative Law Judge
Pa. Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

RECEIVED
JAN - 8 2007
ORIGINAL
PA. PUBLIC UTILITY COMMISSION
SECRETARY'S OFFICE

**Re: 2006 Annual Price Stability Index/Service Price Index Filing of
Buffalo Valley Telephone Company
Docket Nos. P-00981428F1000 and R-00061375**

**2006 Annual Price Stability Index/Service Price Index Filing of
Conestoga Telephone & Telegraph Company
Docket Nos. P-00981429F1000 and R-00061376**

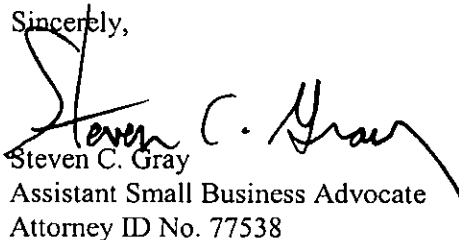
**2006 Annual Price Stability Index/Service Price Index Filing of
Denver & Ephrata Telephone & Telegraph Company
Docket Nos. P-00981430F1000 and R-00061377**

Dear Judge Colwell:

Enclosed please find two copies of the Rebuttal Testimony of Allen G. Buckalew, labeled OSBA Statement No. 1, on behalf of the Office of Small Business Advocate. As evidenced by the enclosed certificate of service, all parties have been served as indicated.

If you have any questions, please contact me.

Sincerely,


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

Enclosure

cc: Parties of Record

Allen G. Buckalew

RECEIVED

JAN - 8 2007

OFFICE OF CALJ
PUBLIC UTILITY COMMISSION

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

2006 Annual Price Stability Index/Service Price :
Index Filing of Buffalo Valley Telephone : Docket Nos. P-00981428F1000,
Company : R-00061375

2006 Annual Price Stability Index/Service Price :
Index Filing of Conestoga Telephone and : Docket Nos. P-00981429F1000,
Telegraph Company : R-00061376

2006 Annual Price Stability Index/Service Price :
Index Filing of Denver & Ephrata Telephone and : Docket Nos. P-00981430F1000,
Telegraph Company : R-00061377

CERTIFICATE OF SERVICE

I certify that I am serving two copies each of the Rebuttal Testimony of Allen G. Buckalew, labeled OSBA Statement No. 1, on behalf of the Office of Small Business Advocate, by e-mail and first class mail (unless otherwise noted) upon the persons addressed below:

Hon. Susan D. Colwell
Administrative Law Judge
Pa. Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265
(717) 787-1191
(717) 787-0481 (fax)
scolwell@state.pa.us
(E-mail and Hand Delivery)

Robert V. Eckenrod, Esquire
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(E-mail and Hand Delivery)

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Office of Consumer Advocate
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(717) 783-7152 (fax)
jcheskis@paoca.org
(E-mail and Hand Delivery)

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1717 Arch Street - 32nd Floor
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(215) 963-6506
(215) 563-2658 (fax)
suzan.d.paiva@verizon.com

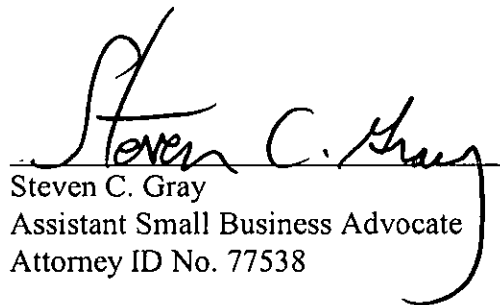
Michael L. Swindler, Esquire
Thomas Thomas Armstrong & Niesen
212 Locust Street - #500
P. O. Box 9500
Harrisburg, PA 171018-9500
(717) 255-7600
(717) 236-8278 (fax)
mwindler@ttanlaw.com

Mark Keffer, Esquire
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Washington, DC 20036
(First class mail only)

Dr. Robert Loube
Rhoads and Sinon, LLC
10601 Cavalier Drive
Silver Spring, MD 20901
(301) 681-0338
bobloube@earthlink.net

Robert C. Barber, Esquire
AT&T Communications of PA, Inc.
Room 3-D
3033 Chain Bridge Road
Oakton, VA 22185
(First class mail only)

Date: January 5, 2007


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

Suzan DeBusk Paiva
Assistant General Counsel



DOCUMENT FOLDER

Verizon Pennsylvania Inc.
1717 Arch Street, Floor 10
Philadelphia, PA 19103

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

January 12, 2007

VIA E-MAIL and UPS OVERNIGHT DELIVERY

Administrative Law Judge Susan Colwell
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

RECEIVED
JAN 12 2007
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**RE: 2006 Annual Price Stability Index/ Service Price Index filing
of Buffalo Valley Telephone Company
P-00981428F1000 and R-00061375**

**2006 Annual Price Stability Index/Service Price Index filing
of Conestoga Telephone & Telegraph Company
P-00981429F1000 and R-00061376**

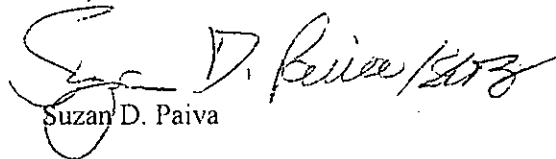
**2006 Annual Price Stability Index/Service Price Index filing
of Denver & Ephrata Telephone & Telegraph Company
P-00981430F1000 and R-00061377**

Dear Judge Colwell:

Enclosed please find the Surrebuttal Testimony of Don Price, which is Statement 1.2 of Verizon Pennsylvania Inc., Verizon North Inc., Verizon Select Services Inc., Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance, Verizon Global Networks, Inc., MCImetro Access Transmission Services, LLC d/b/a Verizon Access Transmission Services, and MCI Communications Services Inc. (collectively "Verizon"), in the above-referenced matter.

Do not hesitate to contact me if you have any questions.

Respectfully,



Suzan D. Paiva

Via UPS Delivery

cc: James J. McNulty (Cover Letter and Certificate only)

Via E-Mail and UPS Delivery

cc: Certificate of Service

RECEIVED

JAN 12 2007

PA PUBLIC UTILITY COMMISSION
VERIZON SERVICE BUREAU

CERTIFICATE OF SERVICE

I, Suzan D. Paiva, hereby certify that I have this day served a copy of Verizon Surrebuttal Testimony, Statement 1.2, upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (related to service by a participant) and 1.55 (related to service upon attorneys).

Dated at Philadelphia, Pennsylvania, this 12th day of January, 2007.

VIA E-MAIL AND UPS OVERNIGHT DELIVERY

Michael L. Swindler, Esquire
Thomas, Thomas, Armstrong & Niesen
212 Locust Street, Suite 500
P. O. Box 9500
Harrisburg, Pennsylvania 17108-9500
Counsel for Denver and Ephrata
Telephone and Telegraph Company

Joel Cheskis, Esquire
Office of Consumer Advocate
555 Walnut Street
Fifth Floor, Forum Place
Harrisburg, PA 17101-1923

Dr. Robert Loube
10601 Cavalier Drive
Silver Spring, MD 20901
Consultant for Office of Consumer Advocate

Steven Gray, Esquire
Office of Small Business Advocate
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, PA 17102

Robert Eckenrod, Esquire
Office of Trial Staff
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Suzan D. Paiva
Verizon
1717 Arch Street, 10W
Philadelphia, PA 19103
(215) 466-4755

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560 (in PA only)

IRWINA. POPOWSKY
Consumer Advocate

FAX (717) 783-7152
consumer@paoca.org

January 12, 2007

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JAN 16 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**DOCUMENT
FOLDER**

Honorable Susan D. Colwell
Administrative Law Judge
PA Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
Harrisburg, PA 17120

Re: 2006 Annual Price Stability Index/Service
Price Index Filing of Denver & Ephrata
Telephone and Telegraph Company
Docket No. P-00981430F1000; R-00061377

2006 Annual Price Stability Index/Service
Price Index Filing of Buffalo Valley
Telephone Company
Docket No. P-00981428F1000; R-00061375

2006 Annual Price Stability Index/Service
Price Index Filing of Conestoga Telephone
& Telegraph Company
Docket No. P-00981429F1000; R-00061376

Dear Judge Colwell:

Please be advised that the Office of Consumer Advocate will not be filing Surrebuttal
Testimony in the above-referenced matter.

RECEIVED
OFFICE OF CONSUMER
ADVOCATE
PA PUC
07 JAN 16 PM 8:10

Page 2

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

Sincerely,

A handwritten signature in black ink, appearing to read "Joel H. Cheskis". The signature is written in a cursive style with a large, looped initial "J".

Joel H. Cheskis
Assistant Consumer Advocate
PA Attorney I.D. #81617

Enclosures

cc: All parties of record

*91671

CERTIFICATE OF SERVICE

Re: 2006 Annual Price Stability Index/Service Price Index Filing of Denver & Ephrata
Telephone and Telegraph Company
Docket No. P-00981430F1000; R-00061377
2006 Annual Price Stability Index/Service Price Index Filing of Buffalo Valley
Telephone Company
Docket No. P-00981428F1000; R-00061375
2006 Annual Price Stability Index/Service Price Index Filing of Conestoga Telephone &
Telegraph Company
Docket No. P-00981429F1000; R-00061376

I hereby certify that I have this day served a true copy of the foregoing document,
Office of Consumer Advocate's Letter Re: Not Filing Surrebuttal Testimony, 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 12th day of January, 2007.

SERVICE BY INTER-OFFICE MAIL

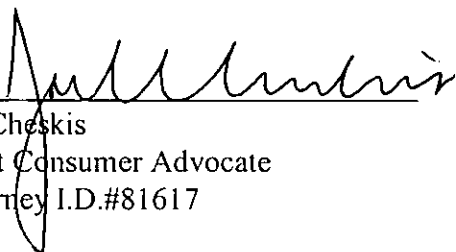
Robert V. Eckenrod, Esq.*
Johnnie E. Simms, Esq.*
Office of Trial Staff
Pa. Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
Harrisburg, PA 17120

SERVICE BY FIRST CLASS MAIL, POSTAGE PREPAID

Michael Swindler, Esq.*
Regina L. Matz, Esq.*
Thomas Thomas Armstrong & Niesen
212 Locust Street, Suite 500
P.O. Box 9500
Harrisburg, PA 17108-9500

Suzan D. Paiva, Esq.*
Verizon Pennsylvania Inc.
1717 Arch Street, Floor 10
Philadelphia, PA 19103

Steven C. Gray, Esq.*
Office of Small Business Advocate
Suite 1102 Commerce Building
300 North Second Street
Harrisburg, PA 17101



Joel H. Cheskis
Assistant Consumer Advocate
PA Attorney I.D.#81617

Counsel for
Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152 *91610

***Receiving Proprietary Information where
applicable**

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF SMALL BUSINESS ADVOCATE

Suite 1102, Commerce Building
300 North Second Street
Harrisburg, Pennsylvania 17101

January 12, 2007

William R. Lloyd, Jr.
Small Business Advocate

(717) 783-2525
(717) 783-2831 (FAX)

E-mail and Hand Delivery

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JAN 16 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

DOCUMENT
FOLDER

Hon. Susan D. Colwell
Administrative Law Judge
Pa. Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: 2006 Annual Price Stability Index/Service Price Index filing of Buffalo Valley Telephone Company
Docket Nos. P-00981428F1000 and R-00061375**

**2006 Annual Price Stability Index/Service Price Index filing of Conestoga Telephone & Telegraph Company
Docket Nos. P-00981429F1000 and R-00061376**

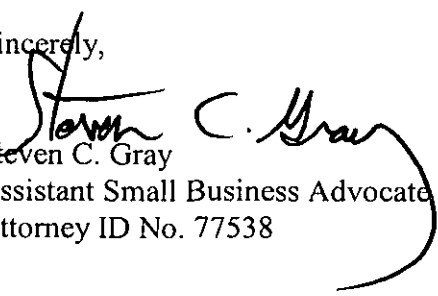
**2006 Annual Price Stability Index/Service Price Index filing of Denver & Ephrata Telephone & Telegraph Company
Docket Nos. P-00981430F1000 and R-00061377**

Dear Judge Colwell:

Please be advised that the Office of Small Business Advocate will not be filing surrebuttal testimony in the above captioned proceeding.

As evidenced by the enclosed certificate of service, all parties have been served as indicated. If you have any questions, please contact me.

Sincerely,


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

Enclosure

cc: Parties of Record

Brian Kalcic

RECEIVED
OFFICE OF C.A.L.J.
07 JAN 12 AM 3:50
PA PUC

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

2006 Annual Price Stability Index/Service Price Index Filing of Buffalo Valley Telephone Company	:	:	Docket Nos. P-00981428F1000, R-00061375
2006 Annual Price Stability Index/Service Price Index Filing of Conestoga Telephone and Telegraph Company	:	:	Docket Nos. P-00981429F1000, R-00061376
2006 Annual Price Stability Index/Service Price Index Filing of Denver & Ephrata Telephone and Telegraph Company	:	:	Docket Nos. P-00981430F1000, R-00061377

CERTIFICATE OF SERVICE

I certify that I am serving two copies each of the foregoing document, on behalf of the Office of Small Business Advocate, by e-mail and first class mail (unless otherwise noted) upon the persons addressed below:

Hon. Susan D. Colwell
Administrative Law Judge
Pa. Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265
(717) 787-1191
(717) 787-0481 (fax)
scolwell@state.pa.us
(E-mail and Hand Delivery)

Joel H. Cheskis, Esquire
Office of Consumer Advocate
555 Walnut Street - Fifth Floor
Harrisburg, PA 17101-1921
(717) 783-5048
(717) 783-7152 (fax)
jcheskis@paoca.org
(E-mail and Hand Delivery)

Michael L. Swindler, Esquire
Thomas Thomas Armstrong & Niesen
212 Locust Street - #500
P. O. Box 9500
Harrisburg, PA 171018-9500
(717) 255-7600
(717) 236-8278 (fax)
mwindler@ttanlaw.com

Robert V. Eckenrod, Esquire
Office of Trial Staff
Pa. Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265
(717) 787-1976
(717) 772-2677 (fax)
roeckenrod@state.pa.us
(E-mail and Hand Delivery)

Suzan DeBusk Paiva, Esquire
Verizon Communications Inc.
1717 Arch Street - 32nd Floor
Philadelphia, PA 19103
(215) 963-6506
(215) 563-2658 (fax)
suzan.d.paiva@verizon.com

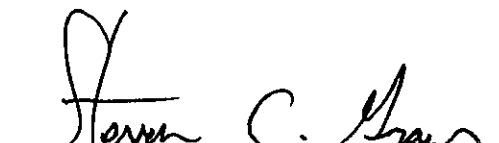
Mark Keffer, Esquire
AT&T Communications of PA
Suite 1000
1120 20th Street, N.W.
Washington, DC 20036
(First class mail only)

Dr. Robert Loube
Rhoads and Sinon, LLC
10601 Cavalier Drive
Silver Spring, MD 20901
(301) 681-0338
bobloube@earthlink.net

Robert C. Barber, Esquire
AT&T Communications of PA, Inc.
Room 3-D
3033 Chain Bridge Road
Oakton, VA 22185
(First class mail only)

Leigh A. Hyer, Esquire
1 East Pratt Street - 8th Floor
Baltimore, MD 21202
(First class mail only)

Jeffrey A. Rackow, Esquire
Verizon Communications, Inc.
1515 N. Courthouse Road - #500
Arlington, VA 22201
(First class mail only)


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

Date: January 12, 2007

OALJ Hearing Report

Please Check Those Blocks Which Apply

Docket No.:	P-00981428F1000, P-00981429, F1000 <i>nl</i>		YES	NO
	P-00981430F1000 P-00981430F1000	Prehearing Held:	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Case Name:	2006 Annual Price Stability Index/Service	Hearing Held:	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Price Index for Buffalo Valley Telephone Company, Conestoga Telephone & Telegraph Company, and Denver & Ephrata Telephone & Telegraph Company		Testimony Taken:	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Location:	Harrisburg	Transcript Due:	<input checked="" type="checkbox"/>	<input type="checkbox"/>
		Hearing Concluded:	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Date:	January 17, 2007	Further Hearing Needed:	<input type="checkbox"/>	<input checked="" type="checkbox"/>
		Estimated Add'l Days:		
ALJ:	Susan D. Colwell	RECORD CLOSED:	<input type="checkbox"/>	<input checked="" type="checkbox"/>
		DATE:		
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JAN 19 2007			DUE 1/26/07 + 2/2/07	
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Reporter's Signature

Note: Completion of this form does not constitute an entry of appearance, see 52 Pa. Code §§1.24 and 1.25.

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**DOCUMENT
FOLDER**

January 22, 2007

VIA HAND DELIVERY

James J. McNulty, Secretary
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Harrisburg, PA 17105-3265

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In re: 2006 Annual Price Stability Index/Service Price Index Filing of Buffalo Valley Telephone Company
Docket Nos. P-00981428F1000 and R-00061375

2006 Annual Price Stability Index/Service Price Index Filing of Conestoga Telephone and Telegraph Company
Docket Nos. P-00981429F1000 and R-00061376

2006 Annual Price Stability Index/Service Price Index Filing of Denver and Ephrata Telephone and Telegraph Company
Docket Nos. P-00981430F1000 and R-00061377

Dear Secretary McNulty:

Pursuant to 52 Pa. Code §5.253(b)(2), Buffalo Valley Telephone Company, Conestoga Telephone and Telegraph Company and Denver and Ephrata Telephone and Telegraph Company, parties in the above-captioned matter, respectfully request that the following corrections be made to the Transcript of the evidentiary hearing held in Harrisburg, Pennsylvania, on January 17, 2007, before Administrative Law Judge Susan D. Colwell:

TRANSCRIPT PAGE/LINE	READS	SHOULD READ
T. 40/5	Proprietary	Proprietary
T. 65/2	IXEs	IXCs
T. 65/3	ILEcs	ILECs
T. 148/23	MR. SWINDLER	MR. RACKOW

58

James J. McNulty, Secretary
January 22, 2007
Page 2

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

Sincerely,

THOMAS, THOMAS, ARMSTRONG & NIESEN

By



Michael L. Swindler

cc: Certificate of Service
Honorable Susan D. Colwell (email and hand delivery)
Leonard J. Beurer

070122 McNulty transcript corr.wpd

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Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION

2006 Annual Price Stability Index/Service Price : Docket Nos. P-00981428F1000
Index Filing of Buffalo Valley Telephone Company : and R-00061375
:
2006 Annual Price Stability Index/Service Price :
Index Filing of Conestoga Telephone and : Docket Nos. P-00981429F1000
Telegraph Company : and R-00061376
:
2006 Annual Price Stability Index/Service Price :
Index Filing of Denver and Ephrata Telephone and : Docket Nos. P-00981430F1000
Telegraph Company : and R-00061377

CERTIFICATE OF SERVICE

I hereby certify that I have this 22nd day of January, 2007, served a true and correct copy of the foregoing letter on behalf of Buffalo Valley Telephone Company, Conestoga Telephone and Telegraph Company and Denver and Ephrata Telephone and Telegraph Company, upon the persons and in the manner set forth below:

VIA EMAIL AND FIRST CLASS MAIL

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Michael L. Swindler
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January 26, 2007

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Re: 2006 Annual Price Stability Index/Service
Price Index Filing of Denver & Ephrata
Telephone and Telegraph Company
Docket No. P-00981430F1000; R-00061377

2006 Annual Price Stability Index/Service
Price Index Filing of Buffalo Valley
Telephone Company
Docket No. P-00981428F1000; R-00061375

2006 Annual Price Stability Index/Service
Price Index Filing of Conestoga Telephone &
Telegraph Company
Docket No. P-00981429F1000; R-00061376

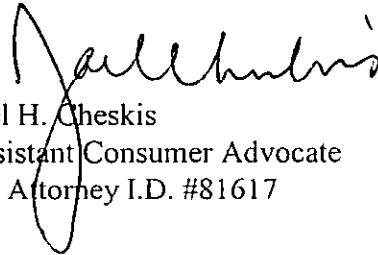
Dear Secretary McNulty:

Enclosed please find for filing an original and nine (9) copies of the Office of
Consumer Advocate's Main Brief in the above-captioned proceeding.

Page 2

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

Sincerely,

A handwritten signature in black ink, appearing to read "Joel H. Cheskis". The signature is written in a cursive style with a large, looping initial "J".

Joel H. Cheskis
Assistant Consumer Advocate
PA Attorney I.D. #81617

Enclosures

cc: All parties of record
Hon. Susan D. Colwell, ALJ
*91609

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

2006 Annual Price Stability Index/Service	:	
Price Index Filing of Denver & Ephrata	:	
Telephone and Telegraph Company	:	
	:	Docket No. P-981430F1000;
	:	R-00061377
2006 Annual Price Stability Index/Service	:	
Price Index Filing of Buffalo Valley	:	
Telephone Company	:	
	:	Docket No. P-981428F1000;
	:	R-00061375
2006 Annual Price Stability Index/Service	:	
Price Index Filing of Conestoga Telephone	:	
& Telegraph Company	:	
	:	Docket No. P-981429F1000;
	:	R-00061376

DOCKETED
JAN 30 2007

MAIN BRIEF
OF THE OFFICE OF CONSUMER ADVOCATE

ORIGINAL

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DATED: January 26, 2007

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I. INTRODUCTION

On June 23, 2006, the Pennsylvania Public Utility Commission (“Commission”) entered an Order regarding the 2006 Annual Price Stability Index/Service Price Index (“PSI”) filings of Denver & Ephrata Telephone & Telegraph Company, Conestoga Company Telephone & Telegraph Company and Buffalo Valley Telephone Company (collectively referred to as “the Companies”). The Companies’ 2006 PSI filings were made pursuant to their respective alternative regulatory plans established under Chapter 30 of the Public Utility Code. 66 Pa.C.S. § 3011, *et seq.* Among other things, in the June 23rd Order, the Commission allowed the Companies the option to raise intrastate access charges as a result of their 2006 PSI filings. Access charges are the rates paid by one telephone company to another to originate or terminate a call on the other company’s network.

On November 15, 2006, the Commission issued an Order referring the proceedings back to the Office of Administrative Law Judge so that it could reconsider its Order of June 23, 2006 pursuant to Section 703(g) of the Public Utility Code. 66 Pa. C.S. § 703(g). The Commission specifically stated that it was reconsidering the June 23rd Order because it allowed the Companies to raise their intrastate access charges. June 23 Order at 14. The Commission directed that further hearings should be held under Section 703(g) “so as to afford the parties due process, and to enable us to reconsider our earlier order in this matter and to determine, based on the record, whether any rescission or amendment would be warranted by the evidence, consistent with our access charge reform and universal service policies and lawful under the companies’ Chapter 30 plans” Id. at 14-15.

On November 17, 2006, the Office of Consumer Advocate (“OCA”) filed a Notice of Intervention and Public Statement. The Office of Small Business Advocates (“OSBA”) filed a

Notice of Intervention on November 20, 2006. Verizon Communications ("Verizon") filed a Petition to Intervene on November 27, 2006.

By Notice dated November 14, 2006, the Commission established a Prehearing Conference for November 28, 2006 before Administrative Law Judge Susan Colwell. During that Prehearing Conference, ALJ Colwell granted Verizon's Petition to Intervene and established a procedural schedule for the reconsideration proceeding. Pursuant to that procedural schedule, the Companies and Verizon filed Direct Testimony on December 18, 2006; the Companies, Verizon, OCA and OSBA filed Rebuttal Testimony on January 5, 2007; and the Companies and Verizon filed Surrebuttal Testimony on January 12, 2007. One day of hearings was held in Harrisburg on January 17, 2007 for the purpose of admitting testimony and exhibits into the record and for cross examination of witnesses.

Pursuant to the procedural schedule, the OCA now files this Main Brief to further articulate its positions on the issues in this proceeding.

II. SUMMARY

The OCA submits that none of the additional evidence submitted in this case should cause the Commission to reverse its prior approval in the June 23rd Order of the D&E Companies' access rate changes. These prior approved access rate changes help to maintain the affordability of local service. The D&E Companies also did not violate Chapter 30 or any Commission Order when allocating their allowed revenue increase as part of their 2006 PSI filings.

In particular, Verizon, the sole party to this proceeding that opposes the D&E Companies' allocations, has failed to demonstrate that the D&E Companies' allocation should be reversed. As discussed further below, there is no reason to conclude that the D&E Companies'

revenue allocation represents a subsidy of local service rates. Nor is there any reason to conclude that the D&E Companies' traffic sensitive access rates or common line charge must be consistent with Verizon's rates, as Verizon has argued in this proceeding. Finally, Verizon's arguments that the D&E Companies' revenue allocation will negatively impact local and long distance competition are without merit and must be rejected, particularly in light of affordability concerns as evidenced by the declining telephone penetration rate in Pennsylvania. As a result, Verizon's arguments in this proceeding are without merit and should be rejected.

The OCA is aware of the Commission's efforts over the past decade to reduce intrastate access rates. Access charge reductions may be worthwhile if the benefits realized were clearly apparent. However, in this proceeding, increases to intrastate access rates are offered in lieu of further increases to basic local service rates. The actions of the D&E Companies comply with the law and should be allowed to remain as part of this reconsidered proceeding.

III. ARGUMENT

A. Verizon's Argument That The D&E Companies' Local Rates Are Subsidized By Its Access Rates Is Without Merit And Should Be Rejected.

Verizon argued in this proceeding that the D&E Companies' intrastate access charge rates subsidize the D&E Companies' local rates. Verizon St. 1.0 at 16. Verizon further argues that the Commission has sought to facilitate access charge reductions to remove implicit and explicit subsidies for local rates by establishing separate mechanisms for the various Pennsylvania telephone companies designed to remove such alleged subsidies. Id. at 11. Verizon claims that such subsidies distort competition because "the competitor without a subsidy cannot compete with a subsidized priced and has no incentive to enter [the market] or, if already in, remain in the market." Id. at 13. Therefore, Verizon argues that the D&E Companies' access charge increases instituted after the Commission's June 23rd Order must be reversed.

However, Verizon's argument is without merit and should be rejected. OCA witness Dr. Robert Loube¹ provided numerous reasons in his testimony in this proceeding why the D&E Companies' local rates are not being subsidized by its access rates. Dr. Loube testified that the generally accepted definition of a subsidy is that "a service is subsidized if its price is less than the incremental cost and the service pays a subsidy if its price is above the standalone cost of service." OCA St. 1-R at 5. Dr. Loube further noted that "an implicit subsidy is a subsidy that is embedded in rates charged, but not disclosed as such" and that "the revenue generated by the above cost rate is used to maintain rates below incremental cost for a second group of services." Id. As a result, the incremental cost of service must be defined. Id. at 6.

Dr. Loube testified that the formal definition of the incremental cost of a service is "the difference between the total cost of providing all of the services and the standalone cost of providing the services other than the service under investigation." Id. This is the definition used by Verizon except that Verizon uses the term Total Service Long Run Incremental Cost, or TSLRIC, rather than incremental cost. Id. The components of TSLRIC for basic local exchange service include the switching and interoffice facilities plus the customer operations and marketing cost associated with basic local exchange service. Id. The loop is not a part of the incremental cost of basic service because it is a shared cost of the many services that use the loop. Id. at 7.

Dr. Loube explained that the loop is used to provide both interstate and intrastate services, as well as other services such as video. Id. Dr. Loube testified: "even if local service

¹ Dr. Robert Loube is the Director of Economic Research at Rhoads and Sinon, LLC. His consulting practice centers on providing expert advice to state agencies involved in telecommunications regulation. Prior to joining Rhoads and Sinon, Dr. Loube worked at the FCC, the Public Service Commission for the District of Columbia and the Indiana Utility Regulatory Commission on issues associated with incremental cost, rate design, competition, universal service and separations. Dr. Loube received his Ph.D in Economics from Michigan State University in 1983. *See*, OCA Exh. RL-1.

were no longer provided, the carrier would still have to provide the loop in order to provide the other services. Thus, the local loop and port are not incremental to the provision of local service.” Id. This Commission has recognized in a prior Verizon rate rebalancing case that 100 percent of the loop costs should not be assigned to basic service. Id. at 8-9; *citing*, Pa. P.U.C., et al v. Bell Atlantic – Pennsylvania, Inc., Opinion and Order, 1996 Pa. PUC Lexis 184 (December 16, 1996) at *20. The Federal Communications Commission (“FCC”) has also acknowledged this relationship when it created total element long run incremental costs to determine the forward-looking cost of unbundled network elements. Id. at 7-8; *citing*, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, First Report and Order, 11 FCC Rcd 15499 (rel. August 8, 1996), ¶ 678.

Furthermore, both the FCC and this Commission have addressed the issue of joint loop costs specifically with regard to access charges. In the Global Order, the Commission stated that “in providing switched access for the completion of a toll call, a LEC will incur both non-traffic sensitive (NTS) costs [*i.e.*, loop costs] and traffic-sensitive costs.” Re Nextlink Pennsylvania, Inc., 93 PaPUC 172, 189, 196 P.U.R.^{4th} 172, 186 (1999) (“Global Order”). Dr. Loube noted that regulators make allocations of these costs and then proceed to determine a method to recover the allocated costs. OCA St. 1-R at 9; *citing*, Id., n6.

Additionally, the FCC has indicated that “non-traffic sensitive costs [*i.e.*, loop costs] – costs that do not vary with the amount of traffic carried over facilities – should be recovered through fixed flat charges, and traffic sensitive costs should be recovered through per minute charges.” In the Matter of the Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Second Report and Order and Further Notice of Proposed Rulemaking, 16 FCC Rcd 19613 (rel.

Nov. 8, 2001) ¶ 17. This Commission reached a similar conclusion in the Global Order. Global Order, 93 PaPUC at 190.

Finally, Dr. Loube testified that Verizon's argument that the D&E Companies' local rates are subsidized by its intrastate access rates is without merit because the D&E Companies impose a per-line carrier charge on interexchange carriers. OCA St. 1-R at 10. Therefore, "because these rates are per-line rates, no subsidy is generated by high-volume users to support costs associated with low-volume users." Id. Additionally, it is not possible to assert the existence of a subsidy in this proceeding because no party to this case filed an incremental cost study. Id. at 10-11. As a result, "it is not possible to determine if local service is receiving a subsidy from other services whenever it is not possible to state that the price is below the incremental cost of service." Id. at 11. Any assertion by Verizon that the D&E Companies' access rates provide a subsidy of local service cannot be supported by the record in this proceeding. If the issue of whether a subsidy exists is not present in this proceeding, then Verizon's argument that access rates should not be increased should be rejected because that argument is based on the assumption that access rates subsidize local service rates.

Verizon's argument that the D&E Companies' local rates are subsidized by the D&E Companies' intrastate access rates is without merit and should be rejected.

B. Verizon's Request To Require The D&E Companies' Intrastate Access Rates And Carrier Charge To Equal Verizon's Access Rates Is Unreasonable And Should Be Rejected.

The ultimate recommendation of Verizon witness Price in this proceeding is that "the [D&E Companies] should rebalance their local rates in order both to bring their access rates into line with the reasonable rates charged by Verizon and to reduce the cost imposed on customers of other carriers who bear the cost of funding the [Pennsylvania Universal Service Fund]."

Verizon St. 1.0 at 17. Mr. Price therefore concludes that permitting the D&E Companies to increase their access rates in this proceeding would be a “step in the wrong direction.” Id. Mr. Price further argues that the D&E Companies’ access rate increases “contravene the Commission’s policy of removing implicit subsidies from access rates and serve to further widen the disparity between the D&E Companies’ access rates and the drastically reduced access rates charged by Verizon.” Id. However, Verizon’s recommendations are without merit and should be rejected. There is no record evidence, nor any valid reason, why the D&E Companies’ intrastate access rates must be brought into line with Verizon’s.

With regard to intrastate traffic sensitive access rates, Verizon bases its assertion that Verizon’s intrastate traffic sensitive access rates are reasonable on the fact that such rates are equal to its interstate access rates. *See*, OCA St. 1-R at 12. This argument should be rejected. There is no reason why the D&E Companies’ intrastate rates should match Verizon’s interstate rates.

Verizon’s interstate traffic sensitive access rates were developed as a result of the FCC’s CALLS proceeding. In the Matter of Access Charge Reform, Sixth Report and Order, 15 FCC Rcd 12962 (rel. May 31, 2000)(“CALLS”). As a result of the CALLS proceeding, Verizon’s traffic sensitive access rates were reduced, its Subscriber Line Charge (“SLC”) rates were increased, the FCC price-cap mechanism was altered and a new universal service fund mechanism was established to support high-cost price-cap regulated carriers. Id. at ¶ 30. The CALLS average traffic sensitive rates were not based on a cost analysis; but, rather, were presented to the Commission as part of a consensus proposal. OCA St. 1-R at 13.

Dr. Loubé noted that the CALLS proceeding did not require all carriers to have the same interstate average traffic sensitive rates but, instead, established three rates based on the size of

the carrier. Id. at 13-14. Dr. Loube added that Verizon's current interstate average traffic sensitive rate does not equal the rate set for Verizon in the CALLS proceeding and that Verizon has applied for and received access rate increases since CALLS was adopted. Id. at 14. Furthermore, Verizon receives additional funding from an Interstate Access Support Mechanism that is not reflected in the traffic sensitive interstate rate. Id. at 14-15. In response, Verizon argues that Dr. Loube miscalculated Verizon's interstate rates and the CALLS targets. Verizon St. 1.2 at 16. However, Verizon does not refute Dr. Loube's substantive point that it is not reasonable to compare Verizon's interstate access rates to D&E's interstate access rates.

Significantly, to further support this point, Dr. Loube explained that the D&E Companies' interstate access rates were established as a result of their participation in the National Exchange Carrier Association ("NECA") pool. OCA St. 1-R at 15. The NECA rates allow pool participants to recover their costs and an 11.25 percent return on capital. Id. Still, Dr. Loube noted that the D&E Companies are average schedule companies and, therefore, do not submit cost information. Id. Instead, NECA develops a proxy cost for the D&E Companies based on a sample of the cost for carriers that file cost studies. Id. at 15-16. The NECA pooled rates are not set equal to the costs or proxy costs of any individual carrier. Instead, the rates reflect the average of the costs and proxy costs of similarly situated carriers. The result of this process for the D&E Companies is that the gross settlement received from NECA (*i.e.*, the sum of traffic sensitive rates times traffic sensitive minutes for all traffic sensitive rate elements) on a per-minute basis is below their proxy cost of service. Id. at 16.

As such, Verizon's contention that the D&E Companies' intrastate access rates should be "in line" with Verizon's intrastate access rates is unfounded. Verizon's access rates are based on rates agreed to by the CALLS coalition, and adopted by the FCC, years ago. Id. at 11. On the

other hand, the D&E Companies' rates are based on a proxy cost method. Id. As Dr. Loube testified, "there is no reason to expect that the two diverse methods of determining rates would reach the same answer" such that one rate should be "in line" with the other. Id. Furthermore, Dr. Loube added that the Commission has not attempted to apply a single ratemaking goal to this large group of companies that have very different size and cost characteristics. Id. at 16.

With regard to the carrier charge, Verizon witness Price noted that Denver and Ephrata and Buffalo Valley increased their common line rates and argued that these increases "contravene the Commission's policy of removing implicit subsidies from access rates and serve to further widen the disparity between the D&E Companies' access rates and the drastically reduced access rates charged by Verizon." Verizon St. 1.0 at 17. In response to this argument, Dr. Loube testified that the carrier charge is an efficient method to recover the shared cost of the loop from the interexchange carriers. OCA St. 1-R at 17. Dr. Loube testified that the FCC has recognized the efficiency of these flat rated charges. Id. at 17-18; *quoting*, In the Matter of Access Charge Reform, First Report and Order, 12 FCC Rcd 15982 (rel. May 16, 1997) at ¶ 6.

Dr. Loube testified that, similar to the reasons why there is no justification for the D&E Companies' intrastate traffic sensitive access rates to be the same, there is no reason to expect that the D&E Companies' carrier charge be the same as Verizon's carrier charge. Id. at 18. Dr. Loube testified that "each carrier recovers its revenue from its customers based on the ability of the carrier to obtain revenue from a variety of sources, including the rate for local service, and their own cost characteristics." Id. In fact, if the Commission were to require Denver and Ephrata to adopt Verizon's proposed basic local rate increases as a result of this proceeding, then the Denver and Ephrata rates would be higher than Verizon's basic local rates. Id. at 18-19.

Verizon's argument that the D&E Companies' carrier charges should be identical to Verizon's carrier charge is without merit and should be rejected. It is not possible to determine whether the D&E Companies' common line costs are higher than Verizon's common line costs. Id. at 19. Dr. Loube again reiterated that the D&E Companies do not file cost studies because they are average schedule carriers under the NECA system. Id. However, the D&E Companies' proxy costs are greater than Verizon's costs and, therefore, the cost differential could contribute to the fact that the D&E Companies have a higher common line rate. Id.

Therefore, Verizon's argument that the D&E Companies' intrastate traffic sensitive access rates and carrier charge should be "in line" with Verizon's intrastate access rates is without merit and should be rejected.

C. Verizon's Argument That The D&E Companies' Intrastate Access Rate Increases Are Harmful To Local and Long Distance Competition Is Without Merit And Should Be Rejected.

Verizon argues in this proceeding that the D&E Companies' intrastate access charge increases should be rejected because high access charges discourage entry of competitors into local and long distance markets. Verizon argues: "If subsidies are used by a carrier to keep basic local service rates artificially low, that discourages would-be competitors." Verizon St. 1.0 at 13. Verizon has also argued that the Companies' intrastate access charge increases should be rejected because they would reduce long distance competition because "increasing the disparity between urban and rural access rates will discourage [long distance companies'] entry into rural markets." Id. at 16.

Verizon fails to recognize that local competitors charge access rates as well. Dr. Loube testified that the profit a competitor could earn in a particular market is dependent on *all* the revenues that the competitor would receive from serving a customer. OCA St. 1-R at 20. The

FCC has also recognized that the ability to enter a market is dependent on the entire revenue that the competitor can earn. The FCC explained: “We consider *all* the revenue opportunities that a competitor can reasonably expect to gain over the facilities, from providing all possible services that an entrant could reasonably expect to sell...” In the Matter of the Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, 18 FCC Rcd 16978 (rel. Aug. 21, 2003) ¶100 (emphasis in original). This includes access charge revenue.

Revenue from access charges is one of many revenue opportunities for a local competitor. And, since the competitor can charge the same access rates that the D&E Companies charge under the Commission rules, there is no advantage to the D&E Companies, or potential competitors, in raising intrastate access charges. OCA St. 1-R at 20. Likewise, Dr. Loube added that “simply as a matter of competitive entry, even if local rates were too low, it would not affect local competition because the carrier entering the market could also establish a low local service rate and charge the hypothetically subsidizing access rate.” Id. at 21.

Verizon’s argument is also inconsistent with other arguments that Verizon had made on this issue in other proceedings. Dr. Loube noted that Verizon has advocated in other proceedings that across-the-board rate increases in order to reduce access charges no longer makes sense for local exchange carriers. Id. Dr. Loube testified that in the recent Pennsylvania Missoula workshop Verizon’s witness Dennis Weller explained that the “the window is closing on us to a large degree on the extent to which we can continue to re-engineer these plans on the basis of across-the-board rate increases whether you call them SLCs or anything else.” Id. at 21-22; *quoting*, PA PUC Missoula Plan Workshop, Docket No. M-00061972, Sept. 11, 2006, Tr. 120. Mr. Weller added that such action was an antiquated approach that may have made sense six

years ago but is no longer a legitimate course of action. Id. at 22. In response to this position, Mr. Price noted that Mr. Weller attempted to distinguish Verizon from small and rural companies on this issue. Verizon St. 1.2 at 7-9. Nonetheless, Mr. Price should likewise recognize that access rate rebalancing is no longer an appropriate mechanism to achieve such regulatory goals for all carriers.

With regard to long distance competition, Verizon's arguments are also without merit because, as Dr. Loube testified, Verizon has not presented any evidence that confirms that long distance carriers are leaving rural markets and serving only urban markets as a result of intrastate access increases. Id. at 23. Therefore, there is no evidence that the increases will harm long distance competition. Id. Dr. Loube added that, because the D&E Companies generate only 2.4 percent of the Pennsylvania interstate access minutes, their access rates would not govern the business strategies of long distance carriers. Id. at 23-24. Additionally, Dr. Loube testified that Verizon's argument should be rejected because long distance carriers can, as AT&T does, charge different long distance rates to customers of independent local exchange carriers to recover any differential access charges that the independent carriers may charge. Id.; *citing*, Exhibit RL-2.

Dr. Loube testified that competition in the long distance market has already been reduced, and long distance rates have already increased, as a result of the elimination of the former long distance titans AT&T and MCI, not as a result of an increase in access charges. Id. at 24-27. In the federal regulatory proceedings involving the acquisition of AT&T and MCI by SBC Communications and Verizon, respectively, AT&T and MCI stated several reasons for their decreased competitive ability and thus support for the acquisitions, including competition from intermodal carriers and the elimination of the unbundled network element – platform (“UNE-P”) service. Id. (citations omitted). However, neither carrier mentioned high intrastate access

charges as a fundamental concern in their decision to leave the market. Id. at 27. Dr. Loube testified that “now that the major carriers that pay those access charges have left the consumer market, and have in fact been acquired by the major incumbent LECs, much of the reason for reducing the access charges has also been removed.” Id. It therefore makes no sense to increase basic local service rates to respond to an argument that is no longer relevant.

Finally, Dr. Loube testified that Verizon’s argument that long distance competition will somehow be harmed by the D&E Companies’ intrastate access charge rate increases is without merit because long distance companies generally set their rates based on national considerations and not the specific factors in any one area. Id. at 23.

Ultimately, access rate rebalancing based upon the hope of greater competition is insufficient to support higher local rates and reduced access charges. It does not make sense, and would be no benefit to consumers, to raise a rate by 20%, for example, just so that a competitor can be encouraged to enter a market and offer a 10% reduction in rates. Competition should not be encouraged merely for the sake of competition but, rather, to provide real benefits to consumers.

As such, Verizon’s argument that the D&E Companies’ intrastate access rate increases will harm local and long distance competition is without merit and should be rejected. Verizon has failed to provide any evidence that supports those arguments.

D. Verizon’s Argument That The D&E Companies’ Additional PSI Revenue Should Be Spread Evenly Over Basic Local Service Rates Should Be Rejected.

Verizon argues in this proceeding that, in lieu of raising its intrastate access rates, the D&E Companies should have allocated the increase in revenue to basic rates spread evenly across the companies’ access lines. Verizon St. 1.0 at 4-8. Verizon continues this argument by claiming that the D&E Companies “could have allocated some of the revenue to other

noncompetitive services besides basic rates to lessen the per-line increase or allocated more to one category of basic rates and less to another.” Id. at 6. Verizon then provides the approximate monthly increase per line for each D&E Company if such an approach were taken. Verizon also argues that the D&E Companies could have allocated some of the revenue to other noncompetitive services beside basic rates to lessen this per line increase, or allocated more to one category of basic rates and less to another. *See e.g., Id.* at 5. Presumably, Verizon’s argument is that the revenue could have been allocated to other noncompetitive services, *other than intrastate access rates* as currently is the case. Therefore, Verizon argues that the increased revenue should be collected from rates other than those rates that Verizon pays: access rates.

Verizon’s argument is without merit and should be rejected because, among other things, Verizon fails to recognize the impact on consumers of allocating the increased revenue to basic rates. As Dr. Loube noted, the telephone penetration rate in Pennsylvania has declined from as high as 98.0 percent in 2002 to 94.8 percent in March, 2006. OCA St. 1-R at 27-28; *citing, Alexander Belinfante, Telephone Subscribership in the United States (Data through March 2006)*, Industry Analysis and Technology Division, FCC (rel. October 2006). Dr. Loube testified that “one factor that may be contributing to the decrease is the fact that the rate for local service has been increasing.” Id. at 28. Dr. Loube added: “To prevent further declines in telephone penetration it may be necessary to limit future basic service rate increases.” Id. Therefore, access rates increases can increase the affordability of local service. Id.

Additionally, when asked during examination by ALJ Colwell, Verizon witness Price could not identify an allocation of the revenue that he thought would result in rates that are just and reasonable as an alternative to what the D&E Companies implemented in response to the June 23rd Order. Tr. 132-141. Instead, Mr. Price testified that “the only way I can honestly

address that is almost by negative implication.” Tr. 132. This is clearly contrary to his testimony which advocates for the increased revenue to be allocated to the basic local rate. *See e.g., Verizon St. 1.0 at 6.* The D&E Companies have rightfully determined not to make such allocation because of their views concerning competitive pressures on the basic local rates.

Therefore, Verizon’s argument that the D&E Companies’ additional revenues should be spread evenly over basic local service rates is without merit and should be rejected. Verizon’s argument seeks to have the D&E Companies’ additional revenue allowed under their 2006 PSI filings allocated over rates other than the rate that Verizon itself pays: access rates. This argument should be rejected.

E. The Positions Advocated By Verizon In This Proceeding Will Put An Unnecessary Strain On The Pennsylvania Universal Service Fund.

The impact on affordability of the D&E Companies’ increase in intrastate access rates must also be viewed in light of the current \$18 cap on average rates that can be charged by the D&E Companies to residential customers for local service. As discussed above, Verizon advocates that, in lieu of the D&E Companies allocating their PSI revenues to intrastate access charges, such additional revenues should be spread evenly over the basic local rate in the form of an increase to the monthly charge. Verizon’s argument, however, fails to recognize the unnecessary strain such actions would put on the Pennsylvania Universal Service Fund (“PA USF”) and should be rejected.

This Commission has established the \$18 benchmark as an average rate over which Pennsylvania telephone companies cannot charge their customers. Access Charge Investigation Per Global Order of September 20, 1999, Docket Nos. M-00021596, *et al.*, Opinion and Order (entered July 15, 2003). To the extent a local exchange company’s rates exceed that benchmark, the Company may only charge the end user the \$18 average rate and must draw the additional

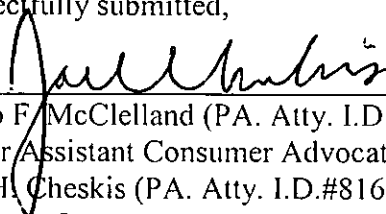
funds from the PA USF. In light of Verizon's argument in this proceeding that the D&E Companies' additional revenue should be spread evenly over basic local rates, some of the D&E Companies' basic local rates would exceed that \$18 benchmark. Such additional funding would then be drawn from the PA USF, not from local ratepayers and reduce the size of the PA USF. Such actions could jeopardize universal service for other Pennsylvania telecommunications users.

Therefore, the Commission must recognize that Verizon's argument with regard to the allocation of the additional revenues would affect not only the rate paid by the D&E Companies' consumers, but withdrawals from the PA USF as well.

IV. CONCLUSION

WHEREFORE, the Pennsylvania Office of Consumer Advocate respectfully submits that the Commission should not reverse the D&E Companies' intrastate access rate increases that were implemented following the Commission's Order entered June 23rd. Verizon has failed to submit sufficient evidence to compel the Commission to reverse its June 23rd Order. There is no record evidence in this proceeding that would support reversing the Commission's June 23rd Order.

Respectfully submitted,



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Docket No. P-00981430F1000; R-00061377
2006 Annual Price Stability Index/Service Price Index Filing of Buffalo Valley Telephone Company
Docket No. P-00981428F1000; R-00061375
2006 Annual Price Stability Index/Service Price Index Filing of Conestoga Telephone & Telegraph Company
Docket No. P-00981429F1000; R-00061376

I hereby certify that I have this day served a true copy of the foregoing document, Office of Consumer Advocate's Main Brief, 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 26th day of January, 2007.

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**Re: 2006 Annual Price Stability Index/Service Price Index Filing of
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Docket Nos. P-00981428F1000 and R-00061375**

**2006 Annual Price Stability Index/Service Price Index Filing of
Conestoga Telephone & Telegraph Company
Docket Nos. P-00981429F1000 and R-00061376**

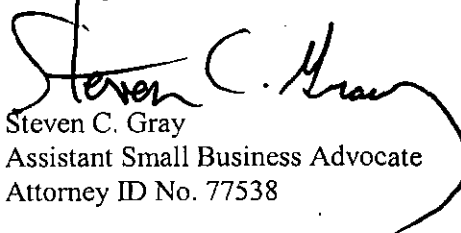
**2006 Annual Price Stability Index/Service Price Index Filing of
Denver & Ephrata Telephone & Telegraph Company
Docket Nos. P-00981430F1000 and R-00061377**

Dear Secretary McNulty:

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

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

Sincerely,


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Enclosures

cc: Parties of Record

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32

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

2006 Annual Price Stability Index/Service Price :
Index Filing of Buffalo Valley Telephone : Docket Nos. P-00981428F1000,
Company : R-00061375

2006 Annual Price Stability Index/Service Price :
Index Filing of Conestoga Telephone and : Docket Nos. P-00981429F1000,
Telegraph Company : R-00061376

2006 Annual Price Stability Index/Service Price :
Index Filing of Denver & Ephrata Telephone and : Docket Nos. P-00981430F1000,
Telegraph Company : R-00061377

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

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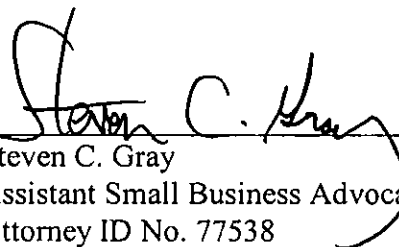
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2006 Annual Price Stability Index/ : Docket Nos. P-00981428F1000
Service Price Index filing of Buffalo : R-00061375
Valley Telephone Company :

2006 Annual Price Stability Index/ : Docket Nos. P-00981429F1000
Service Price Index filing of Conestoga : R-00061376
Telephone & Telegraph Company :

2006 Annual Price Stability Index/ : Docket Nos. P-00981430F1000
Service Price Index filing of Denver & : R-00061377
Ephrata Telephone & Telegraph :
Company :

MAIN BRIEF
ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE

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I. Introduction

On May 3, 2006, the Denver and Ephrata Telephone and Telegraph Company (“Denver and Ephrata”) submitted its 2006 Price Stability Index/Service Price Index (“PSI/SPI”) filing pursuant to the requirements set forth in 66 Pa. C.S. §§ 3011 – 3019 (“New Chapter 30”) and Denver and Ephrata’s Amended Network Modernization Plan (“Amended NMP”).

On May 3, 2006, the Buffalo Valley Telephone Company (“Buffalo Valley”) submitted its 2006 PSI/SPI filing pursuant to New Chapter 30 and Buffalo Valley’s Amended NMP.

On May 3, 2006, the Conestoga Telephone and Telegraph Company (“Conestoga”) submitted its 2006 PSI/SPI filing pursuant to New Chapter 30 and Conestoga’s Amended NMP.

On June 23, 2006, the Pennsylvania Public Utility Commission (“Commission”) entered an Order allowing the Denver and Ephrata 2006 PSI/SPI filing to go into effect, subject to the use of “actual 2005 annual year-end revenue for the calculation of revenue increase.” *2006 Annual Price Stability Index / Service Price Index Filing of Denver and Ephrata Telephone and Telegraph Company*, Docket No. R-00061377 (Order entered June 23, 2006), at 14, Ordering Paragraph 2 [Compendium at I-12].

On June 23, 2006, the Commission entered an Order allowing the Buffalo Valley 2006 PSI/SPI filing to go into effect, subject to the use of “actual 2005 annual year-end revenue for the calculation of revenue increase.” *2006 Annual Price Stability Index / Service Price Index Filing of Buffalo Valley Telephone Company*, Docket No. R-

00061375 (Order entered June 23, 2006), at 14, Ordering Paragraph 2 [Compendium at G-12].

On June 23, 2006, the Commission entered an Order allowing the Conestoga 2006 PSI/SPI filing to go into effect, also subject to the use of “actual 2005 annual year-end revenue for the calculation of revenue increase.” *2006 Annual Price Stability Index/ Service Price Index Filing of Conestoga Telephone & Telegraph Company*, Docket No. R-00061376 (Order entered June 23, 2006), at 14, Ordering Paragraph 2 [Compendium at H-12].

On July 10, 2006, Denver and Ephrata, Buffalo Valley, and Conestoga (collectively, the “D&E Companies”) filed Petitions for Reconsideration of the Commission’s three June 23, 2006, Orders.

On July 21, 2006, the Commission granted the three Petitions for Reconsideration pending consideration on the merits.

On July 24, 2006, Verizon Pennsylvania Inc., Verizon North Inc., MCImetro Access Transmission Services, LLC d/b/a Verizon Access Transmission Services, MCI Communications Services Inc., and Verizon Select Services Inc. (“Verizon”) filed “Verizon’s Response as *Amicus Curiae* to Petition for Reconsideration.”

On July 31, 2006, Denver and Ephrata filed a “Motion to Strike or Dismiss *Amicus Curiae* Response of Verizon.”

On August 10, 2006, Verizon submitted a “letter in lieu of a more formal response” to the Denver and Ephrata Motion to Strike or Dismiss *Amicus Curiae* Response of Verizon.

On November 15, 2006, the Commission entered an order in *Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers and the Pennsylvania Universal Service Fund*, Docket No. I-00040105 (Order entered November 15, 2006) (“*Rural Access Order*”) [Compendium at M-1]. In addition to continuing a stay of the underlying investigation at that docket, the *Rural Access Order* required the Office of Administrative Law Judge to “conduct expedited hearings pursuant to 66 Pa.C.S. §703(g) reconsidering our orders of June 23, 2006, which had allowed Denver & Ephrata Telephone & Telegraph Company, Conestoga Telephone Company and Buffalo Valley Telephone Company to raise intrastate access charges.” *Rural Access Order*, at 18, Ordering Paragraph 6 [Compendium at M-19].

On November 20, 2006, the Office of Small Business Advocate (“OSBA”) filed a Notice of Intervention in the Denver and Ephrata, Buffalo Valley, and Conestoga 2006 PSI/SPI filing dockets.

On November 28, 2006, and pursuant to the *Rural Access Order*, a prehearing conference was held before Administrative Law Judge (“ALJ”) Susan D. Colwell.

On November 28, 2006, ALJ Colwell issued her Scheduling Order.

On December 7, 2006, the Commission entered an Order that denied the Buffalo Valley Petition for Reconsideration on the merits. *See 2006 Annual Price Stability Index / Service Price Index Filing of Buffalo Valley Telephone Company*, Docket No. R-00061375 (Order entered December 7, 2006), at 16-17 [Compendium at N-14 to N-15]. The Commission ordered that “this matter be marked closed upon entry of the final Order resulting from the limited and expedited rural access charge proceeding initiated by

Commission Order entered November 15, 2006, at Docket No. I-00040105, *et al.*” *Id.*, at 17, Ordering Paragraph 3 [Compendium at N-15].

On December 7, 2006, the Commission entered an Order that denied the Conestoga Petition for Reconsideration on the merits. *See 2006 Annual Price Stability Index / Service Price Index Filing of Conestoga Telephone & Telegraph Company*, Docket No. R-00061376 (Order entered December 7, 2006), at 15-16 [Compendium at O-12 to O-13]. The Commission ordered that “this matter be marked closed upon entry of the final Order resulting from the limited and expedited rural access charge proceeding initiated by Commission Order entered November 15, 2006, at Docket No. I-00040105, *et al.*” *Id.*, at 16, Ordering Paragraph 3 [Compendium at O-13].

On December 8, 2006, the Commission entered an Order that denied the Denver and Ephrata Petition for Reconsideration on the merits. *See 2006 Annual Price Stability Index / Service Price Index Filing of Denver and Ephrata Telephone and Telegraph Company*, Docket No. R-00061377 (Order entered December 8, 2006), at 17-19 [Compendium at P-15 to P-16]. The Commission ordered that “this matter be marked closed upon entry of the final Order resulting from the limited and expedited rural access charge proceeding initiated by Commission Order entered November 15, 2006, at Docket No. I-00040105, *et al.*” *Id.*, at 19, Ordering Paragraph 4 [Compendium at P-16].

On December 18, 2006, the D&E Companies served written direct testimony. On that same date, Verizon also served written direct testimony.

On January 5, 2007, the OSBA served written rebuttal testimony. On that same date, the Office of Consumer Advocate (“OCA”), the D&E Companies, and Verizon also served written rebuttal testimony.

On January 12, 2007, the D&E Companies served written surrebuttal testimony.

On that same date, Verizon also served written surrebuttal testimony.

On January 17, 2007, an evidentiary hearing was held before ALJ Colwell.

The OSBA submits this main brief in compliance with ALJ Colwell's Scheduling Order.

II. Scope of the Proceeding

On May 3, 2006, the D&E Companies submitted their respective 2006 PSI/SPI filings pursuant to both New Chapter 30 and their various Amended NMPs. The PSI/SPI filings set forth the D&E Companies' Price Stability Mechanisms ("PSMs") which allowed the D&E Companies to increase their noncompetitive service revenue based upon recent changes to the Gross Domestic Product Price Index. D&E Statement No. 1, at 5. To recover the calculated increases in noncompetitive service revenue, the D&E Companies elected to allocate the rate increases to "various non-basic local service rates," "basic local services" (for Conestoga alone), and "switched intrastate access services charges." *Id.*, at 5-6.

The Commission, in the original June Orders addressing the D&E Companies' PSI/SPI filings, gave the D&E Companies three options regarding how to collect the increased noncompetitive service revenue calculated in their 2006 PSI/SPI filings. *See, e.g., 2006 Annual Price Stability Index / Service Price Index Filing of Denver and Ephrata Telephone and Telegraph Company*, Docket No. R-00061377 (Order entered June 23, 2006), at 14, Ordering Paragraphs 4 and 6 [Compendium at I-12]. One of those options was to permit the proposed access charges "to go into effect as filed subject to any final determinations on access reform, including the pending intrastate access reform proceeding in Docket No. I-0004015 as it now exists or changes made by the Commission or at the federal level." *Id.* [Compendium at I-12]. The D&E Companies chose this third option, and the Commission allowed their compliance tariffs (with the access charge rate increases in place) to go into effect on July 1, 2006.

Shortly thereafter, the D&E Companies filed Petitions for Reconsideration of the Commission's three June 23, 2006, Orders. On July 24, 2006, Verizon filed a response to the Petitions for Reconsideration, complaining about the access charge rate increases that were imposed as a result of the D&E Companies' PSI/SPI filings.

At a different docket, the Commission has initiated a generic investigation regarding whether to change the level of rural incumbent local exchange ("ILEC") access charges. See generally *Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers and the Pennsylvania Universal Service Fund*, Docket No. I-00040105 [Compendium at D-1]. In its November *Rural Access Order*, the Commission (while deciding to further stay the investigation) was apparently convinced by some of Verizon's arguments, and on its own motion decided to look again at whether the D&E Companies should have been allowed to raise their access charges as part of their 2006 PSI/SPI filings. See *Rural Access Order*, at 14-15 [Compendium M-15 to M-16].

The OSBA observes that access charges have a detailed, complicated, and extensive history in the Commonwealth. Consequently, care must be taken to make certain that only the issues properly before the ALJ and the Commission in this proceeding are addressed. Specifically, the Commission ordered:

That the Office of Administrative Law Judge will conduct expedited hearings pursuant to 66 Pa.C.S. §703(g) reconsidering our orders of June 23, 2006, which had allowed Denver & Ephrata Telephone & Telegraph Company, Conestoga Telephone Company and Buffalo Valley Telephone Company to raise intrastate access charges.

Rural Access Order, at 18, Ordering Paragraph 6 [Compendium at M-19]. The

Commission provided additional guidance in the body of the *Rural Access Order*:

Therefore, pursuant to express statutory authority at 66 Pa.C.S. § 703(g), we are hereby reconsidering our orders of June 23, 2006, which allowed Denver & Ephrata Telephone & Telegraph Company, Conestoga Telephone Company and Buffalo Valley Telephone Company to raise intrastate access charges. In light of our concerns, ***we shall hold further hearings*** under Section 703(g) so as to afford the parties due process, and ***to enable us to reconsider our earlier order in this matter and to determine, based on the record, whether any rescission or amendment would be warranted by the evidence, consistent with our access charge reform and universal service policies, and lawful under the companies' Chapter 30 plans.***

Rural Access Order, at 14-15 (emphasis added) [Compendium M-15 to M-16].

It is significant that in the three June 23, 2006, Orders, the Commission concluded that the access charge increases in the D&E Companies' 2006 PSI/SPI filings did not violate New Chapter 30; did not violate the D&E Companies' respective Amended NMPs; and did not violate any Commission order which prohibited access charge rate increases. In fact, the Commission addressed this last point as follows:

Even though our Orders did not explicitly impose a ban on proposing increases to access charges, as previously discussed, the Commission's *Global Order* strongly expressed a policy and schedules for further access charge reductions. Furthermore, this matter is being addressed in our Access Charge Investigation for rural ILECs [Incumbent Local Exchange Carriers] at Docket No. I-00040105.

2006 Annual Price Stability Index / Service Price Index Filing of Denver and Ephrata Telephone and Telegraph Company, Docket No. R-00061377 (Order entered December 8, 2006), at 9-10 (emphasis added) [Compendium at P-8].

Therefore, increasing access charges is not prohibited by New Chapter 30, by the Amended NMPs of the D&E Companies, or by any Commission Order. However, the Commission has “expressed a policy . . . for further access charge reductions.” Consequently, the sole issue before the ALJ and the Commission is whether the D&E Companies’ lawful increase in access charges should be set aside because of an “access charge policy that has been in place for over twenty years since the first access charge tariffs were approved in 1984.” *Id.*, at 8 [Compendium at P-7].

III. New Chapter 30 and the D&E Companies' Amended NMPs

There is no statutory basis for any claim that the D&E Companies' raising of access charges violated new Chapter 30. Section 3017 of the Public Utility Code, 66 Pa. C.S. § 3017, prohibits the Commission from requiring "a local exchange telecommunications company to *reduce* access rates except on a revenue-neutral basis." (emphasis added) However, nowhere in new Chapter 30 are access charge *increases* prohibited.

Furthermore, under the current D&E Companies' Amended NMPs, only noncompetitive service revenue is to be included in the historic year revenue total used in their PSM calculations. *See* Denver and Ephrata Amended NMP, at 8-16; Buffalo Valley Amended NMP, at 8-15; Conestoga Amended NMP, at 8-15.

New Chapter 30 includes this definition:

'Protected Service.' The following telecommunications services provided by a local exchange telecommunications company *unless the commission has determined the service to be competitive*:

- (1) Service provided to residential consumers or business consumers that is necessary to complete a local exchange call.
- (2) Touch-tone service.
- (3) Switched access service.
- (4) Special access service.
- (5) Ordering, installation, restoration and disconnection of these services.

66 Pa. C.S. § 3012 (emphasis added). The Commission has not determined that switched access service is competitive. Therefore, by definition, access charges are a noncompetitive service, and the revenue obtained by the D&E Companies from access charges is properly included in their PSM noncompetitive revenue total.

New Chapter 30 was enacted on November 30, 2004. The legislature was clear with regard to access charges. First, as set forth above, access charges were deemed a “protected service” under Section 3012, and thus were determined to be a noncompetitive service. Second, the legislature explicitly stated that:

a local exchange telecommunications company with an alternative form of regulation containing a price stability mechanism that files an amended network modernization plan under section 3014(b)(1), (2) or (3) (relating to network modernization plans) shall be subject to a modified inflation offset in its *price stability mechanism in adjusting its rates for noncompetitive services*.

66 Pa. C.S. Section 3015(a)(1) (emphasis added).

In addition, the legislature emphasized in Section 3011 of the Public Utility Code, 66 Pa. C.S. § 3011, its commitment to the “accelerated provision of advanced services and deployment of a universally available, state-of-the-art, interactive broadband telecommunications network in rural, suburban and urban areas.”

As explained by OSBA witness Buckalew:

A primary reason for enacting the new Chapter 30 was to accelerate broadband development in Pennsylvania. The Legislature did not carve out access as a service that was excluded from new Chapter 30 increases; in fact, access was included as a protected service that is part of the new Chapter 30 revenue stream. Clearly the Legislature included access in its broadband development plan under new Chapter 30 and expected access service to contribute to the development of the broadband network, not get a free ride.

OSBA Statement No. 1, at 5.

Therefore, the legislature’s stated goal of accelerating broadband deployment and the clear language of New Chapter 30 regarding access should take precedence over “reducing intrastate access charges in the rural ILEC territories to gradually mirror

interstate access charges in order to bring about greater competition in those areas.”

Rural Access Order, at 14 [Compendium at M-15].

IV. Change Needed in the Access Charge General Public Policy Rule

The Commission has held onto its general policy of reducing access charges for over twenty years in an effort to “spur competition.”¹ However, one need only turn on television to take judicial notice of the plethora of Voice over Internet Protocol (“VOIP”) telephone providers, the popularity of cellular telephones of all types, stunning new wireless offerings from such non-traditional entities as Apple Inc., and attractive “triple play” (i.e., high-speed internet service, telephone service, and digital cable television service) offers from cable providers such as Comcast. In short, the telecommunications world has changed immeasurably since 1984, and has even changed radically since the Commission’s 1999 *Global Order*.² Therefore, the OSBA respectfully submits that the Commission’s access charge policy has been overtaken by events.

OSBA witness Buckalew explained how times have changed:

[T]he economic environment has changed. The economic rationale for access reductions was that toll services were paying more than their fair share of the cost of the local network. This was claimed to hinder the development of competitive toll services and local exchange services, but this is no longer true. The competitive market, at least for toll, has sorted itself out. Toll carriers have been merged into local exchange companies. Indeed, Verizon acquired MCI and SBC acquired AT&T (and then retained the AT&T corporate name for all of its operations).

OSBA Statement No. 1, at 9. Mr. Buckalew continued:

¹ The Commission has characterized its movement toward lower access charges as a “general public policy rule.” *Rural Access Order*, at 14 [Compendium at M-15]. However, that rule has been only a “general” one. In addition to the June 23, 2006, Orders allowing the D&E Companies to increase their access rates, the Commission has deviated from that rule on numerous other occasions. *See, e.g.*, OSBA Statement No. 1, at 13, and D&E Companies Statement No. 1, Exhibit 1.

² *Re Nextlink Pennsylvania, Inc.*, Docket Nos. P-00991648; P-00991649, 93 PaPUC 172 (Order entered September 30, 1999) (“*Global Order*”); 196 P.U.R. 4th 172, *aff’d sub nom. Bell Atlantic-Pennsylvania, Inc. v. Pennsylvania Public Utility Commission*, 763 A.2d 440 (Pa.Cmwlth. 2000), *alloc. granted*.

The two biggest competitive threats to telephone companies are over different networks: wireless carriers over their own networks, and VOIP over broadband networks. In the FCC's February 5, 2006, Remand Order of the Triennial Review Order (commonly called the 'TRRO'), the FCC made it clear that markets were open and moving toward competition: 'we recognized the marketplace realities of robust broadband competition and increasing competition from intermodal sources, and thus eliminated most unbundling requirements for broadband architectures serving the mass market.' (Page 2 of the TRRO.) Telephone companies, like these Companies, need the ability to set their rates with these new 'marketplace realities' in mind.

OSBA Statement No. 1, at 10 (citation in original) (footnotes omitted).

Thus, the "new marketplace realities" are a compelling reason to abandon the general public policy rule favoring access charge reductions. The competition that the Commission so steadfastly sought through access charge reform has manifested itself in the form of a dynamic, intermodal marketplace wherein the old MCI WorldCom and AT&T have gone the way of the dinosaurs.

The irony is that further Commission action to lower access charges is simply not needed as a practical matter. As Mr. Buckalew explained, access charge reductions to date have had a significant impact:

Commissions, including this one, have historically moved access rates lower in an attempt to spur toll competition. Some would argue that toll was recovering too much of the cost of access. I have always disagreed with that claim based on the fact that the cost of the loop was directly impacted by the provision of toll service. In any case, the price of access has gone down substantially in recent years under the philosophy that toll was recovering too much.

OSBA Statement No. 1, at 10. Consequently, a broad, industry-wide push by the Commission to drive down access charges is simply not needed. Mr. Buckalew concluded:

[T]he shift of most of the loop cost to local exchange service has been accomplished; access rates do not need to be decreased any further. One need only look at [D&E Companies' witness] Mr. Beurer's Exhibit 1 to see the massive changes in access that have already taken place.

OSBA Statement No. 1, at 12.

Furthermore, the Commission policy of access charge "reform" faces a difficult hurdle in light of the enactment of New Chapter 30. OSBA witness Buckalew explained:

Finally, it is time to step back and examine the policies that the legislature created in the new Chapter 30. The legislature did not exclude access from increases, did not treat access as something special outside of the protected category, and did not say that access and toll users are exempt from contributing to the broadband network it hoped to create. New Chapter 30 eliminated most, if not all, of the productivity offset even though the telecommunications industry continues to have declining per unit costs. Therefore, the annual PCO [Price Change Opportunity] revenue increase is not cost-based in the traditional regulatory sense.

OSBA Statement No. 1, at 12. The legislature, as evidenced by the enactment of New Chapter 30, wants all citizens of the Commonwealth to have broadband access. In order to accelerate that process, the legislature provided ILECs, such as the D&E Companies, with the option of eliminating the productivity offset from the ILECs' PSM in exchange for accelerating broadband deployment. In essence, the legislature provided additional noncompetitive service revenue, on an annual basis, so that the ILECs could fund this accelerated deployment.

Moreover, the ILECs can collect that additional noncompetitive service revenue from only one source: noncompetitive services. Unfortunately, the list of noncompetitive services that can be the source of this additional revenue is limited, and includes local exchange rates and access charges.

Mr. Buckalew explained the ramifications if a source of that revenue, access charges, is removed by Commission policy:

Because all protected services benefit from the development of broadband, all protected services should bear part of the cost of developing broadband. By including access as a protected service for purposes of calculating the PCO revenue increase and not excluding access from the resulting rate increase, the legislature recognized that access should help pay for the development of broadband.

The only way for toll to contribute to the development of broadband in Pennsylvania is through access rates. If access is excluded, then toll users get a free ride over the new broadband system.

OSBA Statement No. 1, at 17-18. That “free ride” will not promote the primary goal of New Chapter 30 as enacted by the legislature: accelerate broadband deployment across the Commonwealth. Instead, that free ride will reduce certain costs for toll carriers, making them incrementally more profitable, and will cause ILECs to increase local exchange rates higher than would otherwise be the case.

On the one hand, the Commission has a general public policy rule favoring access charge reductions, and under Section 3017, access charge reductions mean local exchange rate increases. On the other hand, the legislature has made it clear that broadband deployment is to be accelerated but that rates for noncompetitive services

(including local exchange) are not to become excessive. Specifically, New Chapter 30's Declaration of Policy states as follows"

. . . it is the policy of this Commonwealth to:

* * *

(3) Ensure that customers pay only reasonable charges for protected services which shall be available on a nondiscriminatory basis.

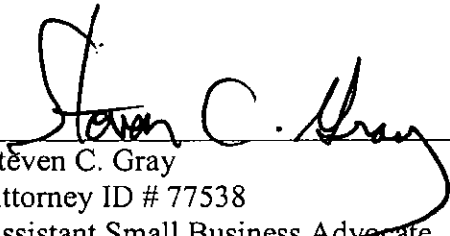
66 Pa. C.S. § 3011(3).

Consequently, the Commission's general public policy rule regarding access charges appears to be at cross purposes with the legislature's decision to accelerate the deployment of broadband throughout the Commonwealth without unreasonably increasing local exchange rates. Consistent with New Chapter 30, it is time for the Commission to change that general public policy rule.

V. Conclusion

Therefore, the OSBA respectfully requests that the ALJ and the Commission uphold the June 23, 2006, Denver and Ephrata, Buffalo Valley, and Conestoga Orders, whereby the Commission permitted the D&E Companies to raise their access charges.

Respectfully submitted,


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Dated: January 26, 2007