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SECRETARY'S BUREAU

D&E Statement No. 1-R
Docket No. P-00981428F1000, *et al.*

1-17-07

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REBUTTAL TESTIMONY

OF

LEONARD J. BEURER

DENVER AND EPHRATA TELEPHONE AND TELEGRAPH COMPANY

CONESTOGA TELEPHONE AND TELEGRAPH COMPANY

BUFFALO VALLEY TELEPHONE COMPANY

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PUBLIC VERSION

1 **Q. Will you please state for the record your name, business address,**
2 **occupation, and by whom you are employed?**

3 A. My name is Leonard J. Beurer. My business address is 124 East Main
4 Street, Ephrata, PA 17522-0458. I am employed by D&E
5 Communications, Inc. ("D&E") as Vice President – Regulatory Relations
6 and External Affairs.

7 **Q. Are you the same Leonard J. Beurer who previously submitted direct**
8 **testimony on behalf of the D&E carriers in this proceeding?**

9 A. Yes I am.

10 **Purpose**

11 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

12 A. The purpose of my rebuttal testimony is to address the issues raised in the
13 direct testimony of Don Price submitted on behalf of Verizon and identified
14 as Verizon Statement No. 1.0.

15 For the purpose of my rebuttal testimony, I will divide this statement
16 into specific segments. I will address the claim by Mr. Price that the
17 switched access rate increases of the D&E carriers should be rescinded or
18 amended. I will refute the position of Mr. Price that these increases
19 directly conflict with the Pennsylvania Public Utility Commission's
20 ("Commission") stated policies with respect to competition, universal
21 service and switched access rates. I will further refute the claim by Mr.
22 Price that any such switched access rate increases should be rescinded
23 pending the completion of the Commission's generic investigation of rural
24 carrier access charges at Docket No. I-00040105. Furthermore, I will

1 provide evidence that Mr. Price's statements are not only contrary to the
2 policies previously set by this Commission in its Global Order but are also
3 contrary to Verizon's own statements regarding access rates already on
4 record before this Commission. As such, the comments of Mr. Price
5 should be rejected.

6 **Q. Mr. Price claims at page 3 of his direct testimony that the D&E**
7 **carriers' access charges were already, before these increases,**
8 **"higher than the reasonable and Commission-approved rates**
9 **charged by the Verizon ILECs" and that the access charge increases**
10 **of the D&E carriers should be stopped from "getting even further out**
11 **of line" from the rates charged by Verizon? Do you agree?**

12 A. No. First, it is clear from the Orders of the Commission and from
13 Administrative Law Judge Colwell as the presiding officer assigned to this
14 remand proceeding that a comparison of the access rates of the D&E
15 carriers to the access rates of Verizon has no relevance to the issues to
16 be addressed in this proceeding. Second, as I explained in my direct
17 testimony at pages 11-17, the Commission has permitted rural ILECs to
18 mirror their interstate switched access rates and structure to bring
19 intrastate rates closer to cost and to avoid issues of arbitrage. In addition,
20 the Global Order established a \$7.00 benchmark for rural carriers as an
21 appropriate level for the carrier charge. Third, the costs of access for long
22 distance usage as calculated per FCC rules and referenced in my Direct
23 Testimony at pages 55-58 are far greater for the D&E carriers than they
24 are for Verizon.

- 1 Q. **How do the D&E carriers' interstate costs per unit compare to the**
2 **interstate rates of Verizon, the largest carrier in Pennsylvania?**
- 3 A. D&E Exhibit 1-R displays the calculation of Verizon's average composite
4 interstate traffic sensitive ("TS") rate with the composite TS average unit
5 cost of the D&E carriers per settlement data from NECA. The results
6 show that the composite average interstate TS unit cost of the D&E
7 carriers is between 4.49 and 4.71 times the composite average TS
8 interstate rate of Verizon.
- 9 Q. **Is this a valid comparison given that the interstate access rates of**
10 **Verizon are set annually based on the FCC's Price Cap formula?**
- 11 A. Yes, D&E Exhibit 2-R provides the actual 2004 and estimated 2005
12 interstate earnings the Verizon companies have experienced using their
13 revenues developed based on FCC Price Cap rules compared to their
14 interstate access expenses and investments calculated using the same 47
15 CFR Part 36 and Part 69 rules used to calculate the D&E carriers'
16 interstate access costs. The results for 2005 show that the interstate
17 access rates for Verizon Pennsylvania (Exhibit 2-R page 2 of 6) generated
18 a rate of return of 14.51%, far greater than the 11.25% rate of return used
19 by NECA to develop the D&E carriers' interstate access costs. This
20 indicates that had the 2005 interstate access rates of Verizon been
21 calculated based on the same rate of return of 11.25% as the D&E
22 carriers' costs were, Verizon's composite average interstate TS rate would
23 have been lower than \$0.006040 and the multiple between the D&E
24 carriers and Verizon would have been greater than 4.49 to 4.71.

1 Q. Has Verizon made any statements before this Commission that
2 intrastate access rates should be at cost?

3 A. Yes. In MAIN BRIEF ON REMAND OF VERIZON PENNSYLVANIA INC.
4 AND VERIZON NORTH INC., in the matter of AT&T Communications of
5 Pennsylvania, LLC v. Verizon North Inc. at Docket No. C-20027195
6 (“Verizon Main Brief in AT&T complaint”), Verizon made numerous
7 statements arguing that access rates should remain **above** costs. As
8 stated in Verizon Main Brief in AT&T complaint at pages 25-26 (footnotes
9 omitted):

10 As a legal matter, this Commission is well within its
11 discretion to continue to price access rates above cost. As
12 the Commonwealth Court recognized in reviewing this
13 Commission’s access pricing decision from the *Global*
14 *Order*, the Commission is not required to reduce access
15 rates to “cost” (as the IXCs contend here). Rather, it is
16 within this Commission’s sound discretion to determine
17 where to draw the line between reducing access rates, yet
18 still requiring those rates to contribute to the overall costs of
19 the business. The Court cautioned the Commission to
20 consider all relevant interests in drawing that line:

21
22 One of the lessons of this proceeding is that
23 the cost of excessively priced elements must
24 be reduced to a point nearer to actual
25 incremental cost, but not so greatly as to
26 eliminate the support such revenue provides to
27 other areas of the system that need that
28 support.

29
30 The Commonwealth Court opinion is instructive because it
31 rejects the false premise of all of the IXC arguments here –
32 the erroneous contention that the Commission is somehow
33 bound to arrive at “cost based” access rates. The Court
34 emphasized that it would be reasonable for the Commission
35 ultimately to conclude that access rates should never be
36 reduced to “cost,” and that the Commission’s goal is to
37 determine, in the exercise of its sound discretion, where to
38 draw the line so that access is providing neither too little nor
39 too much support to network costs.”

1 I agree with the statements made by Verizon in Verizon Main Brief in
2 AT&T complaint that access rates should not be priced below cost. Cost
3 should only represent a floor and actual access rates should be priced
4 above that floor to continue to maintain affordable local services and
5 maintain existing balances between access revenue and local revenue, as
6 was the attempt in the Global proceeding. As I have demonstrated in my
7 exhibits in my direct testimony, the rates filed in our 2006 PSI Filings meet
8 this requirement.

9 **Q. Mr. Price also claims at pages 5 through 8 of his direct testimony**
10 **that the PSI revenue increases could have been implemented in ways**
11 **other than increasing switched access rates. Do you agree?**

12 A. I agree that pursuant to the Chapter 30 Plans, as amended, the D&E
13 carriers could fulfill their permitted revenue increases by increasing rates
14 of any noncompetitive services. As I explained in my direct testimony on
15 page 47, the D&E carriers have historically been extremely diligent in
16 using those "other ways" to implement the revenue increases authorized
17 under their Chapter 30 Plans. However, those prior filings have resulted
18 in increase after increase to local rates to the point that the D&E carriers
19 determined with their 2006 PSI Filings that it was neither prudent nor in
20 the interest of their ratepayers to insist that local rates be increased yet
21 again. It is telling that Mr. Price only suggests that "other" rates could
22 have been increased without specifically arguing that switched access
23 rates could not.

1 In addition, Mr. Price provides calculations that purport to identify
2 what the impact would be if the D&E carriers' 2006 PSI increases were
3 taken to "all access lines." I disagree with the calculations made by Mr.
4 Price for the exact same reasons Verizon itself provided in its Verizon
5 Main Brief in AT&T complaint. There, Verizon argued that attempts by
6 others to convince the Commission that rate increases to Verizon's end-
7 users could be minimized by spreading the lost revenue over a larger
8 amount of lines were faulty because there was no public benefit as a
9 result of **any** rate increase to end-users. Thus any increase would cause
10 more harm than benefit. In addition, on page 39 of Verizon Main Brief in
11 AT&T complaint, Verizon stated:

12 [*I*]t is not appropriate to propose to increase the rates of all of
13 these lines because not all lines can receive a rate increase
14 and actually produce the revenue necessary to achieve the
15 statutorily-required revenue-neutrality. Lines that are subject
16 to contractual agreements cannot raise their rates, and lines
17 subject to competitive pressures are not subject to rate
18 regulation and cannot be expected to accept an increase
19 without being lost to a competitor. Accordingly, allocating
20 revenue to such lines would not achieve revenue neutrality
21 and would violate 66 Pa. C.S. § 3017.

22
23 Finally, Mr. Price fails to make any statements with regard to the
24 effects on the PaUSF an increase in R-1 and/or B-1 rates would have
25 regarding D&E Telephone. As I alluded to on page 54 of my direct
26 testimony, because D&E Telephone's average R-1 rate is approximately
27 \$17.50, allocating the entire 2006 PSI increase to local rates would have
28 increased the average R-1 rates for D&E Telephone above the \$18.00
29 rate cap requiring the amounts in excess of \$18.00 billed to end users to
30 be credited and collected from the PaUSF. Given the previous voluntary

1 reductions in access rates enjoyed by IXC customers of D&E Telephone,
2 we believed it to be more prudent to implement an adjustment to the prior
3 aggressive voluntary access rate reductions that benefited those specific
4 IXCs rather than to increase the PaUSF, which would have increased the
5 assessment amounts charged to all carriers to fund the PaUSF.

6 **Q. Does Mr. Price contend that an increase to switched access rates is**
7 **a violation of the D&E carriers' Chapter 30 Plans?**

8 A. No. Mr. Price admits on page 16 of his direct testimony that the access
9 rate increases are permissible under the D&E carriers' Chapter 30 Plans.
10 Mr. Price only highlights that the D&E carriers could have allocated these
11 revenue increases to rates other than access rates. I do not disagree with
12 this general statement. However, as I have explained, the D&E carriers,
13 based on very compelling determinations made after reviewing existing
14 rates and the history of its PSI Filings and other rate changes that have
15 impacted its ratepayers over the past number of years, concluded that a
16 further increase in local rates was not feasible in 2006. The D&E carriers
17 made the business decision to increase access rates in this proceeding
18 because it was the prudent thing to do and was not prohibited by any
19 Commission Order or regulation and was not a violation of the D&E
20 carriers' Chapter 30 Plans. The fact that Verizon does not like the
21 increase is not surprising given that they are an access customer of the
22 D&E carriers and will be affected by this increase, just as if local
23 customers and likely the Office of Consumer Advocate and Office of Small

1 Business Advocate would not have liked further increases to local R-1 and
2 B-1 rates.

3 **Q. At pages 8-9 of his direct testimony, Mr. Price compares the D&E**
4 **carriers' total composite access charge per minute of use and then**
5 **contrasts those charges to the access charges of the Verizon ILECs.**
6 **Does such a comparison have any relevance to this proceeding?**

7 A. No, such a comparison is not relevant to this proceeding. Nevertheless,
8 let me address this comparison in order to illustrate the flaws in Mr. Price's
9 comparison. First, Verizon's implication that every other carrier's access
10 charges should be the same as Verizon's access rates is erroneous. Mr.
11 Price cites no authority that establishes that all carriers should have or are
12 expected to have the same access rates. In fact, existing FCC rules have
13 different rates and regulations for rural rate of return carriers than for the
14 larger Price Cap carriers. As the FCC has undertaken the task to reform
15 intercarrier compensation involving potentially both the federal and state
16 switched access rates, both the "ICF" Plan and the "Missoula" Plan filed
17 by large varying sectors of the industry have supported separate and
18 distinct plans for rural carriers from those of the larger Price Cap carriers
19 and include both a provision for rural carriers to mirror intrastate and
20 interstate rates and also provide for different rates for the rural carriers
21 based on the existing FCC cost allocation rules as opposed to an
22 established rate level for the larger Price Cap carriers.

23 Second, the switched access rates on July 1, 2006 identified by Mr.
24 Price mirror the interstate cost based rates that were effective at the time

1 the D&E carriers made their filing. The fact that rates have changed is a
2 reflection that costs have increased over time and that the prior intrastate
3 rates may no longer be reflective of cost. D&E Exhibit 3-R displays the
4 tariff rate history of interstate local switching and tandem switching cost
5 based rates and demonstrates how costs have changed over time.
6 Furthermore, much has been made of the increase in the tandem
7 switching rate for Buffalo Valley. I wish to point out that Buffalo Valley
8 has no physical tandem and thus no billing or revenue impact exists for
9 this rate change. The rate filing simply maintains the intrastate tariff rate
10 at parity with its interstate cost based rate.

11 **Q. Again at page 9 of his direct testimony, Mr. Price notes that the**
12 **Verizon companies are “substantial access customers” of the D&E**
13 **carriers. Is this relevant to the determination of whether the D&E**
14 **carriers are prohibited by their Chapter 30 Plans or any Commission**
15 **Order or regulation from increasing access rates?**

16 **A** No, the impact that the business decision of the D&E carriers to increase
17 access rates has on Verizon's expenses is not relevant to this proceeding.
18 That Verizon may be a “substantial access customer” of the D&E carriers
19 should not be surprising given that Verizon acquired MCI WorldCom which
20 was the second largest IXC in the United States. It is safe to say that the
21 D&E carriers are no different from all other small rural incumbent local
22 exchange carriers in the Commonwealth with regard to Verizon's position
23 as a substantial access customer.

1 **Q. At page 10 of his testimony, Mr. Price claims that the D&E carriers'**
2 **switched access rate increases are “contrary to long-standing**
3 **Commission policy.” Do you agree?**

4 A. No I do not. As stated in my direct testimony on pages 12-16, the Global
5 Order required among other things that the intrastate traffic sensitive
6 switched access rates and structure (including local transport restructure)
7 be converted to mirror interstate switched access rates and structure in
8 effect on July 1, 1998. In addition, the Carrier Common Line Charge
9 ("CCLC"), which is the non-traffic sensitive portion of access rates, was
10 restructured as a flat-rate Carrier Charge ("CC") and reduced to an
11 intrastate rate not exceeding \$7.00 per line and allocated to intrastate toll
12 providers based on their relative minutes of use. At page 21 of my direct
13 testimony I provided further support that the Commission's 2003 Joint
14 Stipulation Order continued this policy by permitting all rural carriers to
15 lower their intrastate traffic sensitive rates to mirror or move closer to their
16 interstate traffic sensitive rates, and simultaneously increase their CC
17 rates by a corresponding revenue neutral amount. This allowed carriers to
18 increase their CC rates well above the initial \$7.00 benchmark established
19 in the Global Order. Thus, while the Global Order had established a cap
20 of no more than \$7.00 for the CC, with instructions to review the rates and
21 investigate whether this rate could be reduced, the Commission in its 2003
22 Joint Stipulation Order allowed increases to the CC. Finally, my direct
23 testimony identified full compliance with Act 183 and the existing Chapter
24 30 Plans and identified no Commission Order or regulation that has been

1 violated. Mr. Price's own direct testimony provided no cite to any
2 Commission Order or regulation that had been violated.

3 **Q. Mr. Price makes statements on page 11 of his direct testimony that**
4 **“small ILECs, including Denver and Ephrata, Conestoga and Buffalo**
5 **Valley, were permitted to draw from the PaUSF to 'offset the**
6 **immediate rate rebalancing revenue needs of the smaller, rural**
7 **exchange carriers.” Do you agree with his statements?**

8 **A.** I do not agree entirely with that statement. I agree the Global proceeding
9 established a PaUSF to offset some of the access reductions made in that
10 proceeding. D&E Telephone however did **not** receive any PaUSF in the
11 Global proceeding for reducing access or toll rates. As stated on page 17
12 of my direct testimony, the amount D&E Telephone received was to
13 reimburse the company for its assessment payments into the fund. The
14 result was that D&E Telephone's receipt from the fund would equal D&E
15 Telephone's payment into the fund, creating a **net zero PaUSF** impact for
16 D&E Telephone.

17 Furthermore, the D&E carriers were **not** part of the group of
18 carriers that received additional PaUSF funding in the 2003 Joint
19 Stipulation Order. Only carriers under 20,000 access lines were allowed
20 to increase their PaUSF by \$2.00 and make a corresponding reduction to
21 their CC.

22 The post-Global voluntary access rate reductions made by the D&E
23 carriers had no impact on the PaUSF and likewise, the partial offset made
24 as an increase in 2006 has no impact on the D&E carriers' PaUSF

1 amounts or on the PaUSF at all. As stated previously, had D&E
2 Telephone increased its local rates only with its 2006 PSI Filing, D&E
3 Telephone would have exceeded the \$18.00 rate cap and an impact on
4 the overall PaUSF would then have occurred.

5 **Q. Do you agree with Mr. Price's statements on pages 12-13 of his direct**
6 **testimony where he states that the D&E companies' increases in**
7 **switched access rates do not comport with the Commission's**
8 **implementation of the PaUSF as established in the Global Order?**

9 A. No. As I stated in my direct testimony at pages 12-16, the PaUSF
10 simply maintained revenue neutrality for the rural ILECs to achieve the
11 Global Order-mandated rate rebalancing. Once the PaUSF was
12 established as a result of the rate rebalancing, the existing PaUSF rules
13 found at 52 Pa. Code §§ 63.161-171 apply to any future changes. As I
14 also stated in my direct testimony at page 48, the D&E carriers' post-
15 Global rate filings had no impact on their PaUSF support levels. While the
16 2003 Joint Stipulation Order did effect the distribution of PaUSF, it only
17 involved rural carriers under 20,000 access lines and Sprint (now
18 Embarq). It did not affect the PaUSF amounts the D&E carriers received.
19 D&E Exhibit 4-R reflects the access rate levels the D&E carriers enjoyed
20 pre-Global, the reduced access rate levels the D&E carriers accepted in
21 lieu of receiving PaUSF support and the access rates in our 2006 PSI
22 Filings. As an example, the exhibit shows for Buffalo Valley that the pre-
23 Global composite rate for the CC was \$10.25 and for the TS was
24 \$0.023089 with a zero PaUSF. The Global Order resulted in a CC of

1 \$7.00 and a TS of \$0.028557 with a PaUSF receipt amount of \$578,541.
2 Reductions made after the Global Order but before the 2006 PSI Filing
3 brought the CC to \$4.20 and the TS to \$0.016130 with no corresponding
4 change to the PaUSF. The 2006 PSI Filing took the CC to \$5.11 (below
5 the Global rate of \$7.00) and the TS to \$0.016377 (below the Global rate
6 of \$0.028557) with no corresponding change to the PaUSF. As this
7 exhibit demonstrates, the voluntary reductions in access rates **after** the
8 Global proceeding had no impact on the PaUSF receipts of the D&E
9 carriers and likewise, the offsetting increase has no affect on the PaUSF
10 receipts of the D&E carriers.

11 **Q. Do you agree with Mr. Price's statements on pages 12-13 of his direct**
12 **testimony that "[B]y increasing switched access rates, thereby**
13 **reversing a portion of the rate reductions previously approved by the**
14 **Commission for which the D&E companies were already**
15 **compensated through PaUSF payments, the D&E companies' actions**
16 **upset the balance and linkage between the mechanisms established**
17 **in the Global Order?**

18 A. Absolutely not. Mr. Price is attempting to confuse the events of the Global
19 proceeding with voluntary actions taken by the D&E carriers long after the
20 Global proceeding. As I have stated previously, D&E Telephone received
21 **no PaUSF for reductions in access rates in the Global proceeding**, so
22 to insinuate that their increase will now "upset the balance and linkage
23 between the mechanisms established in the Global Order" is emphatically
24 wrong. Furthermore, Conestoga and Buffalo Valley's PaUSF

1 compensation amounts were to reduce rates from pre-Global levels to
2 Global levels. Making voluntary reductions in access rates **after** the
3 Global proceeding had absolutely no impact on the PaUSF and likewise
4 making an offset to these prior reductions while still maintaining rates
5 below the Global levels as the D&E carriers did in their 2006 PSI Filings
6 also does not affect the PaUSF nor does it violate the Commission's
7 approach to the mechanisms of the PaUSF. Mr. Price is confusing the
8 events of the Global proceeding with voluntary actions taken by the D&E
9 carriers after the Global proceeding.

10 **Q. What about Mr. Price's claim at page 16 of his direct testimony that**
11 **the D&E carriers' access rate increases are "doubly harmful" to**
12 **Verizon requiring it to fund explicit subsidies to D&E via the PaUSF**
13 **and implicit subsidies through higher access charges?**

14 A. I do not believe that the degree of harm allegedly caused to Verizon by the
15 D&E carriers' business decision to implement a slight adjustment to its
16 prior access rate decreases is an issue that was intended to be within the
17 expressed narrow scope of this remand proceeding. Nevertheless, I again
18 state that Mr. Price is confusing the events of the *Global proceeding*--
19 which lowered pre-Global access rates for all D&E carriers and
20 established an offsetting PaUSF only for Buffalo Valley and Conestoga--
21 with voluntary access rate changes made by the D&E carriers after the
22 Global proceeding. The D&E carriers would have been well within their
23 rights to make no voluntary access reductions through rate rebalancing
24 after the Global proceeding. Had we followed that path, access rates

1 would be **higher** than they are today. Mr. Price provides no calculations
2 showing how Verizon has been harmed since the Global proceeding
3 because Verizon has not been harmed, they have benefited from the post-
4 Global actions of the D&E carriers. Mr. Price fails to identify all of the
5 benefits Verizon received from voluntary access reductions made by the
6 D&E carriers after Global. D&E Exhibit 5-R identifies the benefits received
7 by Verizon totaling in excess of \$8 million dollars since the Global
8 proceeding and the 2006 PSI Filing provided nothing more than a slight
9 adjustment or offset to some of those prior voluntary access reductions to
10 the direct benefit of our local ratepayers.

11 **Q. What about Mr. Price's claim on page 10 of his direct testimony that**
12 **the companies' increases threaten the balance achieved by the**
13 **Commission's integrated approach to resolving issues of local**
14 **competition, universal service, and switched access rate reform?**

15 A. It is my belief that the Global Order was an attempt at restructuring rates
16 for that very purpose. The Global Order encompassed changes to access
17 rates, intralata toll rates, local service rates and established a state
18 Universal Service Fund. Since the Global Order, the D&E carriers have
19 increased their local rates dramatically, as shown in my direct testimony
20 and D&E Exhibit 4. The fact that we have increased local rates
21 dramatically since Global and have decreased access rates below the
22 levels established in the Global Order demonstrates that we are striving to
23 reform our rates while still maintaining a balance between local and
24 access revenues. Our small increases in access rates in 2006 merely

1 offset a small portion of prior years' voluntary reductions and have
2 maintained the access rate balance established in the Global proceeding.
3 I wish to again emphasize that the increases in access rates made in 2006
4 are **based on interstate parity and did not go beyond the carrier**
5 **charge benchmark that was established in the Global Order**. Mr.
6 Price provides no support to his claim that our increase threatens the
7 balance achieved in the Global Order.

8 **Q. Regarding Mr. Price's contentions involving the balance of revenues**
9 **between access, local and USF, have the D&E carriers experienced**
10 **significant reductions in intrastate access revenues since the Global**
11 **Order?**

12 A. Yes. The D&E carriers face in-territory competition today from wireless
13 carriers and Voice over Internet Protocol ("VOIP") carriers. None of these
14 carriers pay access charges to the D&E carriers. As a result, the D&E
15 carriers have experienced significant reductions in intrastate access
16 revenues since the Global Order due to the loss of both access lines and
17 minutes of use.

18 **Q. Is it important to maintain a revenue stream from access services?**

19 A. Yes, when the D&E carriers filed their Amended Chapter 30 Plans, they
20 made a commitment in their Network Modernization Plan section of each
21 Amended Plan to provide and offer advanced services. In addition, they
22 made a commitment to accelerate 100% broadband availability by
23 December 31, 2008. In return, their 2% inflation offset in their PSI was set
24 at zero in order to allow them to maximize annual revenue increases to

1 noncompetitive services. The D&E carriers need to maintain this revenue
2 stream in order to provide the funds necessary to upgrade their networks
3 to meet their Network Modernization Plan commitments and to meet their
4 other public obligations.

5 **Q. What about Mr. Price's claim on page 10 of his direct testimony that**
6 **approval of the switched access increases for these ILECs after**
7 **other ILECs like Verizon have already drastically reduced their**
8 **access rates would be highly discriminatory and that such**
9 **discrimination against or in favor of particular carriers distorts the**
10 **local exchange service marketplace?**

11 A. As stated previously, it is clear from the Orders of the Commission and
12 from Administrative Law Judge Colwell as the presiding officer assigned to
13 this remand proceeding that a comparison of the access rates of the D&E
14 carriers to the access rates of Verizon has no relevance to the issues to
15 be addressed in this proceeding. Nevertheless, let me address this
16 comparison. Verizon's implication that every other carrier's access
17 charges should be the same as Verizon's access rates, and if they are not
18 they are somehow discriminatory, is erroneous. Mr. Price cites no
19 authority that establishes that all carriers should have or are expected to
20 have the same access rates. As I have stated previously, the Global
21 Order and FCC regulations establish different access rates for individual
22 carriers. Billing all IXCs the same rate by an individual ILEC is not and
23 has never been deemed discriminatory. The evidence I have provided
24 shows that the costs of Verizon as the largest carrier in Pennsylvania are

1 far lower than the costs of the rural D&E carriers. Furthermore, access
2 rates are a cost of long distance service, not local exchange service.
3 Each ILEC has its own local service rates and its own access rates.
4 Claims have been made that local service rates in rural areas should be
5 increased due to higher costs in rural areas as opposed to urban areas, to
6 levels far greater than what Verizon itself charges its local service
7 customers in its rural areas. Mr. Price also fails to state that Verizon itself
8 has different local service rates for urban rate bands versus rural rate
9 bands. For Verizon to now argue that the D&E carriers are somehow
10 distorting their local exchange service marketplace through a reversal of a
11 prior reduction in access rates is completely unsupported and should be
12 rejected.

13 **Q. What about Mr. Price's claim on page 10 of his direct testimony that**
14 **the increase in access rates of the D&E carriers will discourage**
15 **competitive entry?**

16 **A.** Mr. Price's claim lacks any support and is contrary to statements made by
17 Verizon in its Verizon Main Brief in AT&T complaint. Specifically at pages
18 18-19 of Verizon Main Brief in AT&T complaint they stated for the record:

19 Indeed, it is logical to expect that the rapid technological
20 changes and industry consolidation that are occurring now
21 are much more likely to impact the prices and products
22 available to end users than would a reduction in intrastate
23 access charges in one state. Indeed, AT&T's affidavit from
24 its merger proceeding with SBC – produced in discovery –
25 explaining its decision to abandon the consumer mass
26 market, demonstrates that forces much larger than intrastate
27 access rates are transforming the communications
28 marketplace at this time. Notably, in all of its explanations
29 of the forces that eroded its consumer business and caused
30 AT&T to refocus its business strategies, not once was the

1 level of Pennsylvania's intrastate access rates mentioned as
2 a factor. (Id.)

3
4 There is no evidence on the record in this proceeding that
5 toll rates in Pennsylvania have decreased as a result of the
6 last rebalancing, and no party has produced any evidence to
7 contradict what this Commission itself found years ago – that
8 “IXCs are setting their rates on a national level using flat
9 rates that have **no relationship with the access rates of**
10 **any specific ILEC,”** so that access reductions are not
11 necessary to spur toll competition. With national pricing
12 strategies, any isolated decrease in Pennsylvania intrastate
13 rates would, at best, be spread over the entire country with
14 minimal to no impact on Pennsylvania end users. Indeed,
15 MCI admits that prices for all inclusive packages allowing for
16 unlimited long distance and local calling “vary slightly from
17 state to state,” effectively conceding that IXCs price their all
18 inclusive packages as uniformly as possible, spreading their
19 costs of doing business nationally, rather than within each
20 particular state (my emphasis added).

21
22 I agree with the statements made by Verizon in their brief which contradict
23 Mr. Price's own statements made in his direct testimony in this
24 proceeding. Changes in the D&E carriers' access rates will have no effect
25 on competition or on toll rates to Pennsylvania end users and do not effect
26 the competitive entry decisions of carriers.

27 **Q. What about Mr. Price's claim on page 10 of his direct testimony that**
28 **the increase in access rates of the D&E carriers will “sharpen the**
29 **historical rural/urban disparity in rates”?**

30 **A.** Mr. Price's claim that the increase in access rates of the D&E carriers will
31 “sharpen the historical rural/urban disparity in rates” has no relevance to
32 the issues to be addressed in this proceeding. Nevertheless, as Verizon
33 itself has stated before this Commission in Verizon Main Brief in AT&T
34 complaint, IXCs are setting their rates on a national level using flat rates
35 **that have no relationship with the access rates of any specific ILEC.**

1 With national pricing strategies, any isolated change in Pennsylvania
2 intrastate rates would, at best, be spread over the entire country with
3 minimal to no impact on Pennsylvania end users. Further, Mr. Price's
4 recommendation to instead increase local rates will only sharpen the
5 disparity between rural and urban local rates.

6 **Q. What about Mr. Price's claim on page 10 and on pages 13-16 of his**
7 **direct testimony that the increase in access rates of the D&E carriers**
8 **will harm interexchange carriers, or would harm interexchange**
9 **carriers ("IXCs") who serve both rural and urban subscribers**
10 **because of their general tendency to charge geographically averaged**
11 **toll rates?**

12 A. I disagree with Mr. Price's allegations. Mr. Price has failed to demonstrate
13 with any financial information that the proposed changes will have any
14 material impact on Verizon. Mr. Price also fails to make any statements
15 regarding the D&E carriers' prior voluntary access reductions that the
16 IXCs such as Verizon have benefited from since the Global proceeding.
17 The D&E carriers were well within their rights to never have made any
18 voluntary traffic sensitive switched access reductions after the Global
19 Order. Had the D&E carriers chosen this option, Verizon and other IXCs
20 would be paying higher access rates than what was implemented in the
21 D&E carriers' 2006 PSI Filings. As such, Mr. Price's statements merely
22 reflect that of a customer who wants "the other guy" to pay for any
23 increases.

1 Q. Mr. Price at page 16 of his direct testimony makes reference to
2 “implicit subsidies” through higher switched access rates. Do you
3 agree with his statements?

4 A. No, I do not. Mr. Price again contradicts what Verizon has already stated
5 on the record in its Verizon Main Brief in AT&T complaint. On the issue of
6 implicit subsidies in access rates, Verizon stated on pages 23-24 of their
7 brief that:

8 On the issue of “implicit subsidies that may exist in access
9 charge rates” the Commission recognized that Verizon
10 argued “while the Commission has stated the goal of
11 reducing implicit subsidies in access rates, the Commission
12 has stopped short of declaring that access should be priced
13 at ‘cost’ and that IXCs should be absolved of any
14 contribution to local service. Verizon asserts that the
15 Commonwealth Court approved the Commission’s decision
16 in the *Global Order* to continue to price access **above its**
17 **cost** as a sound exercise of the Commission’s specialized
18 expertise in this area.” (*Id.* at 18) (my emphasis added).

19
20 The D&E carriers’ 2006 PSI Filings for their switched access rates
21 were at or near parity with their cost based interstate rates. To suggest
22 that there is some subsidy in a cost based rate has not been supported by
23 Mr. Price and is in direct contradiction to Verizon’s own statements that
24 access rates are perfectly allowed to be **higher** than cost to assist in the
25 support of other rates. In Verizon Main Brief in AT&T complaint beginning
26 at page 24, Verizon set forth its position that “Access Rates Should
27 Continue To Contribute To The Costs Of The Company” and included the
28 subheading, “There Is No Legal Or Factual Requirement That Access
29 Rates Be Reduced To Or Near ‘Cost.’”

1 Furthermore on page 5 of Verizon Main Brief in AT&T complaint,
2 Verizon noted that the Commonwealth Court has ruled that the carrier
3 access charge should be priced above cost. Verizon stated:

4 [C]ontrary to the IXCs' persistent refrain that "subsidies"
5 must immediately be eliminated and access should be priced
6 at "cost," the Commonwealth Court had ruled that it is well
7 within this Commission's discretion to determine that carrier
8 access charges, like rates for all other services, should
9 continue to be priced *above* cost to help defray the costs of
10 providing affordable and universal service.¹

11
12 Verizon continued at page 8 of its brief:

13
14 As Commonwealth Court noted, "[t]he record here confirms
15 the soundness of the PUC's view, based on evidence from
16 consumer witnesses, that users of all services, including
17 access, should share in the payment of total network costs,
18 **with the cost of the local loop included as an element of**
19 **that total network**" (my emphasis added).

20
21 **Q. Was it proper for Mr. Price to focus his attention on this one instance**
22 **of increasing access rates as contravening the Commission's policy**
23 **of removing implicit subsidies?**

24 **A.** No, Mr. Price should be looking at the broader picture which shows that,
25 while the D&E carriers implemented increases in access rates in their
26 2006 PSI Filings, they have in fact, since the Global Order, implemented
27 overall decreases in access rates. Consequently, when looking at all of
28 the action taken by the D&E carriers since the Global proceeding, the D&E
29 carriers have in fact –consistent with the general policy of the Commission
30 – decreased access rates.

¹ See, e.g., *Bell Atlantic-Pennsylvania, Inc. v. Pennsylvania Public Utility Commission*, 763 A.2d 440, 480 (Pa. Commw. 2000).

1 **Q. Would the Commission be “changing course” as claimed by Mr.**
2 **Price on page 17 of his direct testimony if it were to approve the**
3 **access rate increases implemented by the D&E carriers in their 2006**
4 **PSI Filings?**

5 A. Not at all. The increases made to access rates implemented in the D&E
6 carriers' 2006 PSI Filings are not changing course, but rather continue to
7 allow the D&E carriers the flexibility provided in their Chapter 30 Plans as
8 mandated by Act 183 to increase all noncompetitive rates. Furthermore,
9 the rates do not contradict the written policy of mirroring interstate
10 switched access cost based rates that was established in the Global
11 Order, nor do the rates for the carrier charge exceed those rates
12 established in the Global proceeding. As previously stated, had the D&E
13 carriers not implemented voluntary reductions in access rates after the
14 Global proceeding their existing rates would be higher than what was
15 proposed in their 2006 PSI Filings. These changes are well within the
16 D&E carriers' rights in accordance with the above-referenced written
17 Orders and state law and should be allowed.

18 **Q. Are there any shortcomings to the recommendations made by Mr.**
19 **Price on page 17 of his direct testimony?**

20 A. Mr. Price has failed to mention the benefits long distance carriers,
21 including Verizon, have realized as a result of the voluntary access
22 reduction efforts made by the D&E carriers since the Global proceeding.
23 D&E Exhibit 5-R demonstrates that over the last six years, the D&E
24 carriers have reduced access revenues by voluntarily reducing access

1 rates **after** the Global proceeding by more than \$30 million dollars. Of this
2 amount, the Verizon long distance carriers have enjoyed a reduction of
3 over \$8 million dollars. Had D&E elected not to make voluntary reductions
4 after the Global proceeding as many other rural carriers chose to do, long
5 distance carriers including the Verizon companies would have paid a great
6 deal more in access charges.

7 Mr. Price has also failed to recognize the continuous increases the
8 D&E carriers' end users have experienced since the Global proceeding.
9 Residential end users have experienced increases in the D&E carriers'
10 territory from over 60% to over 100% since Global. Increases in local
11 rates have occurred almost every year since Global and rates for D&E
12 Telephone residential end users are now among the highest in the state.

13 In addition, Mr. Price states on page 2 of his direct testimony that
14 he represents, among others, Verizon Pennsylvania Inc., and Verizon
15 North Inc. Yet his testimony is in total opposition to the position of Verizon
16 Pennsylvania Inc. and Verizon North Inc. set forth in Verizon Main Brief in
17 AT&T complaint involving Verizon's own local exchange carrier access
18 rates. It is apparent from Mr. Price's testimony that Verizon hopes to
19 "have its cake and eat it too" in this proceeding, that is to say they want
20 access rates above cost for their own local exchange carriers but access
21 rates far below cost for rural carriers like the D&E carriers.

22 Finally, Mr. Price has confused the Global proceeding with post
23 Global voluntary access reductions, making misrepresentations of fact
24 regarding D&E Telephone's PaUSF. The PaUSF was established in the

1 Global proceeding and access rates were reduced to Global levels to
2 generate those fund requirements. Voluntary reductions made after the
3 Global proceeding had absolutely no effect on the PaUSF. Likewise, the
4 small increase in access rates that merely offsets prior post-Global
5 voluntary reductions also has absolutely no effect on the PaUSF. Mr.
6 Price's recommendations made in his direct testimony should be rejected
7 for all of these reasons.

8 **Q. Does that complete your rebuttal testimony?**

9 **A.** Yes, at this time.

D&E EXHIBIT 1-R

PROPRIETARY

1. Name and Address of Reporting Company VERIZON TELEPHONE COMPANIES (VERIZON FCC TARIFF NO. 1 and NO. 11) 140 WEST ST NEW YORK, NY 10007	2. Reporting Calendar Year (A) From: Jan 2004 To: Dec 2004 (B) First Report Filed: 4/1/2005 (C) Final Report Filed: 3/31/2006
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FCC 492A PRICE CAP REGULATION
RATE OF RETURN MONITORING REPORT
(Read Instructions on the Reverse Before Completing)
 Dollar Amounts Shown in Thousands

3. Items	Total Interstate Services Subject to Price Cap Regulation		
	First Report Col A	Final Report Col B	Difference Col C = (B-A)
1. Total Revenues	4,980,017	4,983,426	3,409
2. Total Expenses and Taxes	4,027,759	4,028,952	1,193
3. Operating Income (Net Return) (Ln1-Ln2)	952,258	954,474	2,216
4. Rate Base (Avg Net Investment)	8,488,293	8,488,293	0
5. Rate of Return (Ln3/Ln4)	11.22%	11.24%	0.03%
6. Sharing/Low End Adjustment Amount	0	0	0
7. FCC Ordered Refund - Amortized for Current Period	N/A	N/A	N/A

REMARKS

1. Data shown in Column A has been adjusted for the removal of \$3.02 billion in revenues and associated costs for excluded services not subject to Price Cap incentive regulation in accordance with the Commission's Price Cap incentive regulation in accordance with the Commission's Price Cap Plan and Tariff Review Plans (TRP).

4. CERTIFICATION: I certify that I am the chief financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date	Type Name of Person Signing	Title of Person Signing	Signature
3/31/06	Robert J. Barish Telephone # 908-559-1629	Sr. VP and CFO Domestic Telecom	

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS REPORT FORM CAN BE PUNISHED BY FINE OR IMPRISONMENT UNDER THE PROVISIONS OF THE U.S. CODE, TITLE 18, SECTION 1001.

FCC 492A
September 2004

1. Name and Address of Reporting Company VERIZON TELEPHONE COMPANIES (VERIZON FCC TARIFF NO. 1 and NO. 11) 140 West St NEW YORK, NY 10007	2. Reporting Calendar Year	
	(A) From: Jan 2005	To: Dec 2005
	(B) First Report Filed:	3/31/2006
	(C) Final Report Filed:	

FCC 492A PRICE CAP REGULATION
RATE OF RETURN MONITORING REPORT
(Read Instructions on the Reverse Before Completing)
Dollar Amounts Shown In Thousands

3. Items	Total Interstate Services Subject to Price Cap Regulation		
	First Report Col A	Final Report Col B	Difference Col C = (B-A)
1. Total Revenues	4,728,372	N/A	N/A
2. Total Expenses and Taxes	3,608,741	N/A	N/A
3. Operating Income (Net Return) (Ln1-Ln2)	1,119,631	N/A	N/A
4. Rate Base (Avg Net Investment)	7,715,794	N/A	N/A
5. Rate of Return (Ln3/Ln4)	14.51%	N/A	N/A
6. Sharing/Low End Adjustment Amount	0	N/A	N/A
7. FCC Ordered Refund - Amortized for Current Period	N/A	N/A	N/A

REMARKS

1. Data shown in Column A has been adjusted for the removal of \$3.4 billion in revenues and associated costs for excluded services not subject to Price Cap incentive regulation in accordance with the Commission's Price Cap incentive regulation in accordance with the Commission's Price Cap Plan and Tariff Review Plans (TRP).

4. CERTIFICATION: I certify that I am the chief financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date	Type Name of Person Signing	Title of Person Signing	Signature
3/31/06	Robert J. Barish Telephone # 908-559-1629	Sr. VP and CFO Domestic Telecom	<i>Robert J. Barish</i>

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS REPORT FORM CAN BE PUNISHED BY FINE OR IMPRISONMENT UNDER THE PROVISIONS OF THE U.S. CODE, TITLE 18, SECTION 1001.

1. Name and Address of Reporting Company VERIZON NORTH INC. (PENNSYLVANIA - GTPA) 140 WEST ST - 29th FLOOR NEW YORK NY 10007	2. Reporting Calendar Year (A) From: January 2005 To: December 2005 (B) First Report Filed: Apr 01, 2006 (C) Second Report Filed:
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FCC 492A PRICE CAP REGULATION
 RATE OF RETURN MONITORING REPORT
 (Read instructions on reverse before completing)


Dollar Amounts Shown in Thousands
 Total Interstate Services Subject to Price Cap Regulation

3. Items	First Report Col A	Final Report Col B	Difference Col C = (B - A)
1 Total Revenues	71,851		
2 Total Expenses and Taxes	15,939		
3 Operating Income (Net Return) (Ln1 - Ln2)	55,912		
4 Rate Base (Avg. Net Invest)	103,475		
5 Rate of Return (Ln3 / Ln4)	54.03		
6 (Sharing) / Low End Adjustment	0		
7 FCC Ord. Refund - Amort. for Current Period	0		

Remarks

Data shown in Column A has been adjusted for the removal of \$27,819K in revenues and associated costs for excluded services not subject to Price Cap incentive regulation in accordance with the Commission's Price Cap incentive regulation and in accordance with the Commission's Price Cap Plan and Tariff Review Plan (TRP).

4. CERTIFICATION: I certify that I am the chief financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date	Typed Name of Person Signing	Title of Person Signing	Signature
Apr. 01, 2006	Robert J. Barish	Senior Vice President and CFO	
	Telephone No. 908-559-1629		

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS REPORT FORM CAN BE PUNISHED BY FINE OR IMPRISONMENT UNDER THE U.S. CODE, TITLE 18, SECTION 1001.

FCC 492A
 September 2001

1. Name and Address of Reporting Company VERIZON NORTH INC. (COPA + COQS = COPT) 140 WEST ST - 29th FLOOR NEW YORK NY 10007	2. Reporting Calendar Year (A) From: January 2004 To: December 2004 (B) First Report Filed: Apr 01, 2005 (C) Second Report Filed: Apr 01, 2006
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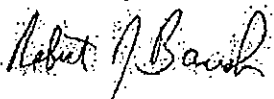
FCC 492A PRICE CAP REGULATION
 RATE OF RETURN MONITORING REPORT
 (Read instructions on reverse before completing)

Dollar Amounts Shown in Thousands
 Total Interstate Services Subject to Price Cap Regulation _____

3. Items	First Report Col A	Final Report Col B	Difference Col C = (B - A)
1. Total Revenues	17,868	17,860	(8)
2. Total Expenses and Taxes	11,611	11,602	(9)
3. Operating Income (Net Return) (Ln1 - Ln2)	6,257	6,257	0
4. Rate Base (Avg. Net Invest)	19,029	19,029	0
5. Rate of Return (Ln3 / Ln4)	32.88	32.88	0.00
6. (Sharing) / Low End Adjustment	0	0	0
7. FCC Ord. Refund - Amort. for Current Period	0	0	0

Remarks
 Data shown in Column A has been adjusted for the removal of \$3,059K in revenues and associated costs for excluded services not subject to Price Cap incentive regulation in accordance with the Commission's Price Cap incentive regulation and in accordance with the Commission's Price Cap Plan and Tariff Review Plan (TRP).

4. CERTIFICATION: I certify that I am the chief financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date	Typed Name of Person Signing	Title of Person Signing	Signature
Apr. 01, 2006	Robert J. Barish	Senior Vice President and CFO	
	Telephone No. 908-559-1629		

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS REPORT FORM CAN BE PUNISHED BY FINE
 OR IMPRISONMENT UNDER THE U.S. CODE, TITLE 18, SECTION 1001.

FCC 492A
 September 2001

1. Name and Address of Reporting Company
VERIZON NORTH INC. (COPA + COQS = COPT)
140 WEST ST - 29th FLOOR
NEW YORK NY
10007

2. Reporting Calendar Year
(A) From: January 2005 To: December 2005

(B) First Report Filed: Apr 01, 2006
(C) Second Report Filed:

FCC 492A
PRICE CAP REGULATION
RATE OF RETURN MONITORING REPORT
(Read instructions on reverse before completing)

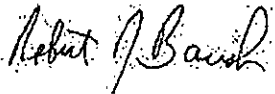
Dollar Amounts Shown in Thousands
Total Interstate Services Subject to Price Cap Regulation

3. Items	First Report Col A	Final Report Col B	Difference Col C = (B - A)
1 Total Revenues	19,178		
2 Total Expenses and Taxes	13,061		
3 Operating Income (Net Return) (Ln1 - Ln2)	6,116		
4 Rate Base (Avg. Net Invest)	15,641		
5 Rate of Return (Ln3 / Ln4)	39.10		
6 (Sharing) / Low End Adjustment	0		
7 FCC Ord. Refund - Amort. for Current Period	0		

Remarks

Data shown in Column A has been adjusted for the removal of \$1,231K in revenues and associated costs for excluded services not subject to Price Cap incentive regulation in accordance with the Commission's Price Cap incentive regulation and in accordance with the Commission's Price Cap Plan and Tariff Review Plan (TRP).

4. CERTIFICATION: I certify that I am the chief financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date	Typed Name of Person Signing	Title of Person Signing	Signature
Apr. 01, 2006	Robert J. Barish	Senior Vice President and CFO	
	Telephone No. 908-559-1629		

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS REPORT FORM CAN BE PUNISHED BY FINE OR IMPRISONMENT UNDER THE U.S. CODE, TITLE 18, SECTION 1001.

FCC 492A
September 2001

NECA TARIFF RATE HISTORY OF INTERSTATE LOCAL SWITCHING AND TANDEM SWITCHING COST BASED RATES

NECA HANDBOOK

TARIFF RATE CHRONOLOGY: FG-D PREMIUM (EQUAL ACCESS OFFICES)

	July 1, 1998	Jan. 1, 1999	July 1, 1999	Jan. 1, 2000	July 1, 2000	Jan. 2, 2001	July 3, 2001	Jan. 1, 2002	July 2, 2002	July 1, 2003	July 1, 2004	July 1, 2005	July 1, 2006
Local Switching (per MOU)													
Band 1	\$0.015431	\$0.015699	\$0.009412	\$0.009211	\$0.006901	\$0.006786	\$0.007238	\$0.005276	\$0.006139	\$0.006089	\$0.005798	\$0.005351	\$0.005745
Band 2	0.018003	0.018316	0.011766	0.011514	0.009201	0.009048	0.009651	0.007034	0.008185	0.008119	0.007731	0.007135	0.007661
Band 3	0.020575	0.020932	0.014119	0.013817	0.011502	0.011310	0.012064	0.008793	0.010231	0.010149	0.009664	0.008919	0.009577
Band 4	0.023147	0.023549	0.016472	0.016120	0.013802	0.013571	0.014477	0.010551	0.012277	0.012178	0.011597	0.010702	0.011492
Band 5	0.025719	0.026165	0.018825	0.018422	0.016102	0.015833	0.016890	0.012310	0.014323	0.014208	0.013530	0.012486	0.013407
Band 6			0.021178	0.020725	0.018402	0.018095	0.019302	0.014068	0.016370	0.016238	0.015462	0.014270	0.015322
Band 7			0.023531	0.023028	0.020703	0.020357	0.021715	0.015827	0.018416	0.018267	0.017395	0.016053	0.017238
Band 8					0.023003	0.022619	0.024128	0.017585	0.020462	0.020297	0.019328	0.017837	0.019153

	July 1, 1998	Nov. 16, 1998	Jan. 1, 1999	June 22, 1999	July 1, 1999	Jan. 1, 2000	July 1, 2000
Tandem Switching (per MOU, per tandem)	0.002763	0.002087	0.002366	0.002366	0.003507	0.003920	0.004077

	July 3, 2001	Jan. 1, 2002	July 2, 2002	July 1, 2003	July 1, 2004	July 1, 2005	June 1, 2006	July 1, 2006
Tandem Switching (per MOU, per tandem)	0.005389	0.005601	0.004206	0.002743	0.002956	0.002787	0.002787	0.002888

D&E EXHIBIT 4-R

PROPRIETARY

D&E EXHIBIT 5-R

PROPRIETARY

D&E Statement No. 1-SR
Docket No. P-00981428F1000, *et al.*

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JAN 22 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

SURREBUTTAL TESTIMONY

OF

LEONARD J. BEURER

DENVER AND EPHRATA TELEPHONE AND TELEGRAPH COMPANY

CONESTOGA TELEPHONE AND TELEGRAPH COMPANY

BUFFALO VALLEY TELEPHONE COMPANY

**DOCUMENT
FOLDER**

DOCKETED

JUN 18 2007

PUBLIC VERSION

1 Q. Will you please state for the record your name, business address,
2 occupation, and by whom you are employed?

3 A. My name is Leonard J. Beurer. My business address is 124 East Main
4 Street, Ephrata, PA 17522-0458. I am employed by D&E
5 Communications, Inc. ("D&E") as Vice President – Regulatory Relations
6 and External Affairs.

7 Q. Are you the same Leonard J. Beurer who previously submitted direct
8 and rebuttal testimony on behalf of the D&E carriers in this
9 proceeding?

10 A. Yes I am.

11 **Purpose**

12 Q. What is the purpose of your surrebuttal testimony in this
13 proceeding?

14 A. The purpose of my surrebuttal testimony is to address the issues raised in
15 the rebuttal testimony of Don Price submitted on behalf of Verizon and
16 identified as Verizon Statement No. 1.1.

17 Q. Mr. Price claims at page 2 of his rebuttal testimony that rescinding
18 the D&E carriers' access charge increases would be consistent with
19 Chapter 30 and the Companies' Chapter 30 Plans. Do you agree?

20 A. No. As I have stated in my rebuttal testimony at page 7, Mr. Price admits
21 on page 16 of his direct testimony that the access rate increases are
22 permissible under the D&E carriers' Chapter 30 Plans. Mr. Price only
23 highlights that the D&E carriers could have exercised their discretion
24 differently and allocated these revenue increases to rates other than

1 access rates. Mr. Price has provided no reference to any language in our
2 Chapter 30 Plans that prohibits an increase in access rates.

3 **Q. Mr. Price claims on page 2 of his rebuttal testimony that D&E**
4 **carriers' access charge increases must be rescinded in order to**
5 **maintain the status quo during the stay of the rural access**
6 **investigation. On pages 22-23 of his rebuttal testimony, Mr. Price**
7 **asks whether it is "fair" to have an increase in access rates while at**
8 **the same time deferring any future potential change in access rates**
9 **until the FCC makes a decision in their intercarrier compensation**
10 **reform proceeding. Do you have any comments?**

11 **A.** Let me respond first by saying that we do not operate in an industry that
12 stands still while decisions that may change access compensation are
13 debated before regulators. We are tasked with making decisions every
14 day to run our businesses, to meet our commitments to our customers and
15 to address strategic initiatives to combat the decisions of our competitors.
16 Our Chapter 30 obligations do not stand still either. Costs must be
17 recovered and I have proven that the information the FCC accepts as our
18 interstate cost recovery, which the Commission has accepted in prior
19 access review proceedings, exceeds the rates we were charging for
20 intrastate access prior to our 2006 PSI Filings. Failure to increase access
21 rates would mean that other customers would be required to recover these
22 costs. Since our Chapter 30 Plans do not prohibit us from increasing
23 access charges and the 2003 Joint Stipulation Order allowed for increases
24 in rates to recover costs and for all of the other reasons I have already

1 stated in my testimony, it was fair for D&E to adjust its access rates
2 accordingly.

3 Q. **What about Mr. Price's claim at page 3 of his rebuttal testimony that**
4 **"D&E's unprecedented access increases fly in the face of this**
5 **Commission's policy to remove implicit subsidies to achieve the**
6 **goals of efficiency and encouraging competition"** and that the
7 **Commission may rebalance revenue by reducing access rates**
8 **pursuant to 66 Pa. C.S. § 3017(a)?**

9 A. As I stated in my rebuttal testimony beginning on page 21, the D&E
10 carriers' 2006 PSI Filings reflected switched access rates that were at or
11 near parity with their cost-based interstate rates. To suggest that there is
12 an "implicit" subsidy in a cost-based rate has not been supported by Mr.
13 Price and is in *direct* contradiction to Verizon's own statements in Verizon
14 Main Brief in AT&T complaint, cited at page 4 of my rebuttal testimony,
15 that access rates are perfectly allowed to be higher than cost to assist in
16 the support of other rates. Mirroring of interstate traffic sensitive switched
17 access rates for intrastate purposes was adopted in the Global Order and
18 resulted in both decreases and increases in intrastate traffic sensitive
19 switched access rates. It was further permitted in the 2003 Joint
20 Stipulation Order. I also believe Mr. Price misunderstands the purpose of
21 66 Pa. C.S. § 3017(a). Clearly, companies rebalance rates, not the
22 Commission. What Section 3017(a) says is that the Commission may not
23 require a company to decrease access rates without allowing the
24 company to make up the resulting revenue shortfall elsewhere so as to

1 make the exercise revenue neutral. As such, Section 3017(a) is not
2 applicable.

3 **Q. Do you disagree with Mr. Price's statement on page 3 of his rebuttal**
4 **testimony that the Commission has the authority under Section**
5 **3019(h) to determine whether proposed increases are just and**
6 **reasonable?**

7 A. I agree that Section 3019(h) provides such authority. However, in making
8 its determination of whether increases are just and reasonable, I believe it
9 is appropriate to consider all of the facts of the specific request including,
10 in this instance, whether there is any express prohibition, by Commission
11 Order or otherwise, precluding intrastate access charge changes. Given
12 Mr. Price's testimony, it appears that he concedes that no such prohibition
13 exists.

14 **Q. At the top of page 4 of his rebuttal testimony, Mr. Price states that "it**
15 **is not just and reasonable to allow D&E to further increase its**
16 **already high access rates." Do you agree with his statement?**

17 A. No I do not agree with his statement or with his characterization of the
18 D&E carriers' access rates. First, by stating "further increase", Mr. Price is
19 implying that the D&E carriers have made prior increases and that the
20 2006 PSI Filings are a "further increase" in access rates. Nothing could
21 be farther from the truth. As I have identified in my direct and rebuttal
22 testimony, the D&E carriers have made nothing but access reductions
23 since the Global Order and the long distance carriers, including Verizon
24 affiliates, have enjoyed reductions in excess of \$30 million dollars. In

1 addition, Mr. Price's implications that D&E's rates are not "just and
2 reasonable" and are "already high" are based on the erroneous premise
3 that the D&E carriers' access rates must be equal to Verizon's access
4 rates. Mr. Price ignores the fact that use of a company's own interstate
5 traffic sensitive switched access rates has been accepted by the
6 Commission as a valid presumption of justness and reasonableness and
7 should continue to be accepted. In addition, \$7.00 has already been
8 established by this Commission as a reasonable rate to aid in the recovery
9 of costs and maintain affordable local service. Many of the rural ILECs
10 increased their CC rate above \$7.00 in the 2003 Joint Stipulation Order.
11 Any attempt by Verizon to claim that increases in the D&E carriers' carrier
12 charge ("CC") to levels that remain **below** the level established in the
13 Global Order and below the interstate calculated costs must be rejected.

14 **Q. Mr. Price again claims at pages 4, 16-18 and 20-23 of his rebuttal**
15 **testimony that the PSI revenue increases could have been**
16 **implemented in ways other than increasing switched access rates.**
17 **Do you agree?**

18 A. As I stated in my rebuttal testimony when I responded to this claim the first
19 time Mr. Price made it in his direct testimony at page 7, I agree that
20 pursuant to the Chapter 30 Plans, as amended, the D&E carriers could
21 fulfill their permitted revenue increases by increasing rates of any
22 noncompetitive services. As I explained in my direct testimony on page
23 47, the D&E carriers have historically been extremely diligent in using
24 those "other ways" to implement the revenue increases authorized under

1 their Chapter 30 Plans. However, those prior filings have resulted in
2 increase after increase to local rates to the point that the D&E carriers
3 determined with their 2006 PSI Filings that it was neither prudent nor in
4 the interest of their end user customers to insist that local rates be
5 increased yet again.

6 In addition, Mr. Price mischaracterizes my testimony on numerous
7 occasions claiming that I stated the D&E carriers had "no choice" but to
8 increase access rates. A thorough reading of my testimony, including my
9 direct testimony at pages 48-55 and my rebuttal testimony at pages 5-7,
10 reveals that the D&E carriers weighed their options and felt that, after
11 looking at all of their options, that the access charge increases were the
12 most prudent way to proceed. Chapter 30 and its ratemaking
13 methodology was added in part to provide incumbent local exchange
14 carriers with the opportunity from a ratemaking standpoint to meet their
15 competitive challenges and the law gives the companies the right to
16 exercise their discretion as to which protected services' rates they believe
17 should be increased within the parameters of their Chapter 30 Plans to
18 meet their competitive challenges.

19 **Q. Mr. Price states on page 6 of his rebuttal testimony that, "even if the**
20 **Commission believed that \$7.00 was a reasonable carrier charge for**
21 **ILECs like the D&E companies under the circumstances that existed**
22 **in 1999, that does not mean that the Commission still views \$7.00 as**
23 **a reasonable carrier charge today, seven years later after further**

1 **reductions to the access charges have been made.” Do you have**
2 **any comments regarding this statement?**

3 A. Yes, the Commission initiated this remand proceeding to consider whether
4 the intrastate access charge increases filed by the D&E carriers on June
5 28, 2006, are consistent with the Commission’s access service reform
6 policy as enunciated in the Global Order entered September 30, 1999, at
7 Docket Nos. P-00991648 and P-00991649. Whether the Commission
8 views \$7.00 or \$10.00 or \$50.00 as a reasonable CC today is not at issue
9 in this proceeding. The only relevant issue is that the D&E carriers have
10 not exceeded the CC benchmark that was established in the Global Order
11 and that the NECA interstate cost data supports the rate increases.

12 **Q. Mr. Price at the bottom of page 6 of his rebuttal testimony makes**
13 **additional comments that the Commission’s statements to “reduce**
14 **access charges toward levels that come closer to costs” (Global**
15 **Order) and to replace “implicit subsidies” with “explicit and**
16 **sufficient support mechanisms” makes it unreasonable to interpret**
17 **the Global Order’s \$7.00 rate as being reasonable today. Do you**
18 **agree with these statements?**

19 A. I agree that maintaining intrastate traffic sensitive switched access rates at
20 or near their interstate counterpart keeps these rates closer to cost for rate
21 of return carriers only. I also agree that when these rates are at their cost-
22 based interstate counterpart, subsidies do not exist. I completely agree
23 with Verizon’s own statements in their Main Brief in AT&T complaint that I
24 alluded to on pages 21-22 of my rebuttal testimony. For Mr. Price to now

1 suggest that there is some "illegal" subsidy in a cost-based interstate rate
2 is in direct contradiction to the Global Order and to Verizon's own
3 statements that access rates are perfectly allowed to be higher than cost
4 to assist in the support of other rates. In Verizon Main Brief in AT&T
5 complaint, Verizon set forth its position that "There Is No Legal Or Factual
6 Requirement That Access Rates Be Reduced To Or Near 'Cost.'"

7 Verizon also noted that the Commonwealth Court has ruled that the
8 carrier access charge should be priced above cost. Rural carriers have
9 been permitted to increase their CC in the 2003 Joint Stipulation Order to
10 levels much higher than \$7.00. The D&E carriers have kept their CC rates
11 below the levels established in Global and, based on interstate cost
12 recovery through NECA, the current rates filed in the 2006 PSI Filings are
13 below the levels the D&E carriers receive for interstate cost recovery.

14 **Q. At pages 7-9 of his rebuttal testimony, Mr. Price compares the D&E**
15 **carriers' access charge reductions to those of the Verizon ILECs and**
16 **others. Do you have any comments?**

17 A. As I stated in my rebuttal testimony at page 17, it is clear from the Orders
18 of the Commission and from Administrative Law Judge Colwell as the
19 presiding officer assigned to this remand proceeding that a comparison of
20 the access rates of the D&E carriers to the access rates of Verizon has no
21 relevance to the issues to be addressed in this proceeding. Nevertheless,
22 let me address this comparison in order to illustrate the flaws in Mr. Price's
23 comparison. Verizon claims they have made significant reductions in
24 access. Taking their \$140 million amount and dividing by working lines of

1 6,092,636 per a report from the Universal Service Administration
2 Company (USAC) which is attached as D&E Exhibit 1-SR yields a
3 reduction of \$22.98 per line over this seven-year time period by the
4 Verizon ILECs. Taking the \$30 million reduction of the D&E carriers and
5 dividing by 139,226 lines pulled from the same USAC report yields a
6 reduction per line of \$215.48 over this same seven-year time period. To
7 compare Verizon's \$22.98 per line reduction to D&E's \$215.48 per line
8 reduction is embarrassing. But this proceeding is not about comparing the
9 D&E carriers' rates or revenues or efforts since Global to that of the
10 Verizon companies.

11 **Q. At the bottom of page 8 of his rebuttal testimony, Mr. Price states, "A**
12 **review of their tariffs indicates that each of these companies has**
13 **residential end user rates at or close to the \$18.00 level which was**
14 **the benchmark set in this Commission's July 15, 2003 Order in**
15 **Docket No. M-00021596." He further states at the top of page 9, "two**
16 **of the three companies have residential dial tone rates that still**
17 **remain well below the \$18.00 benchmark. One wonders how the**
18 **Frontier carriers can operate in evidently rural territory with this rate**
19 **structure, while the D&E companies and other ILECs claim that they**
20 **cannot." Do you agree with his statements?**

21 **A.** Again, I do not believe that a comparison of the rates of the D&E carriers
22 to the rates of Verizon or any other carrier has any relevance to the issues
23 to be addressed in this proceeding. Nevertheless, I would correct Mr.
24 Price by stating that the \$18.00 rate is not a benchmark but a cap, a

1 maximum rate that can be charged to residential end users. This \$18.00
2 rate was initially \$16.00 as established in the Global Order. On page 192
3 of the Global Order the Commission stated:

4 [w]e conclude that as to all non BA-PA ILECs, a rate ceiling
5 will be implemented which caps the one-party residential
6 local rates of each such ILEC, including charges for dial
7 tone, touchtone, and local usage, at \$16.00 per month until
8 December 31,2003. As set forth below, if such ILEC's one-
9 party residential rate is above \$16.00 per month, and is
10 found to be just and reasonable by the Commission, the
11 revenue associated with the difference between the rate
12 ceiling and the approved rate will be recovered from the
13 Pennsylvania USF.

14
15 The 2003 Joint Stipulation Order, at page 18 of the joint stipulation,
16 increased the amount from \$16.00 to \$18.00 but continued to reference
17 the rate as a cap. Mr. Price at the bottom of page 10 of his rebuttal
18 testimony even refers correctly to the rate as a cap. Therefore, in
19 accordance with these two Orders, the \$18.00 residential rate should be
20 viewed as a ceiling or cap or maximum amount that can be billed and
21 collected from residential end users and not a "benchmark." In addition,
22 as I have already stated, comparison of the rates of a large, multi-state,
23 FCC Price Cap regulated carrier such as Frontier to a much smaller,
24 single state, FCC rate-of-return carrier such as D&E is unwarranted.

25 **Q. On pages 9-11 of his rebuttal testimony, Mr. Price discusses the 2003**
26 **Joint Stipulation Order at Docket No. M-00021596 and suggests that**
27 **your direct testimony at page 46 where you stated that had the D&E**
28 **carriers elected not to do any voluntary access reductions in 2001,**
29 **2002 and 2003, their access rates would be much higher than they**
30 **are today yet still be in accordance with all PaPUC orders "does not**

1 fully comport with the facts” and that each ILEC was required to
2 make access reductions which “does not tell the whole story in
3 characterizing the D&E companies’ rate rebalancing.” Do you
4 agree?

5 A. No I do not. I agree that rural carriers were required to increase local
6 service rates depending on where their local rates were at based on the
7 language in the stipulation. I also agree that rural carriers were permitted
8 to reduce their traffic-sensitive switched access rates to parity with their
9 interstate counterpart again and that the reduction in switched access
10 rates would be offset by an increase in the CC. This is precisely why so
11 many rural carriers now have CC rates well above the rates set in Global
12 as displayed in my direct testimony, at D&E Exhibit 1, Sheet 2. What Mr.
13 Price fails to comprehend is had the D&E carriers not increased local rates
14 and made offsetting reductions to their intrastate switched access and/or
15 CC rates in 2001, 2002 and 2003, the D&E carriers in 2003, per the Joint
16 Stipulation, would have reduced their switched access rates and
17 increased their CC to levels far above the \$7.00 CC amount. While the
18 2003 Joint Stipulation would have required larger increases in local rates
19 and reductions in the CC under this scenario, the end result is the D&E
20 carriers’ CCs would be higher as evidenced by other rural carriers whose
21 current CC rate exceeds their Global CC rate, some by very large
22 amounts. This is even true after the smaller rural carriers of 20,000
23 access lines or less, per the 2003 Joint Stipulation, received an additional
24 \$2.00 in PaUSF and reduced their CC rate by the same amount per line,

1 an event that did not affect the D&E carriers because they were not
2 included in that smaller rural carrier group. The fact that the D&E carriers'
3 CC rates are below and not above the rates established in Global proves
4 my statement at page 46 of my direct testimony that "had the D&E carriers
5 elected not to do any voluntary access reductions, their access rates
6 would be much higher than they are today yet would still be in accordance
7 with all PaPUC orders."

8 **Q. On page 11 of his rebuttal testimony, Mr. Price states , "While parsing**
9 **the meaning of the Commission's stay order is a matter for legal**
10 **briefing, I do note that Mr. Beurer nowhere addresses the inequity to**
11 **the D&E companies' access customers of allowing increases to rates**
12 **that the Commission has already found are too high while at the**
13 **same time obtaining a stay insulating those rates from any**
14 **comprehensive substantive investigation." Do you agree?**

15 **A.** No, Mr. Price's statement that the Commission has "already found" the
16 D&E carriers' rates to be too high is erroneous. Mr. Price fails to support
17 his claim that access rates of the D&E carriers prior to the 2006 PSI
18 Filings or after the filings were too high or that the increases in the 2006
19 Filings violate the companies' Chapter 30 plans or the Global Order or the
20 2003 Joint Stipulation Order. The real inequity is the history of large
21 increases incurred by end user customers since Global, while access
22 customers like Verizon have reaped the benefits of more than \$30 million
23 dollars in reductions.

1 Q. Again on page 11 of his rebuttal testimony, Mr. Price states "By
2 initiating their investigation of these compensation issues, both this
3 Commission and the FCC have recognized that high RLEC access
4 rates present a problem that need to be addressed." Do you agree
5 with this statement?

6 A. No. As I stated on page 8 of my rebuttal testimony, both the "ICF" Plan
7 and the "Missoula" Plan filed by large varying sectors of the industry with
8 the FCC have supported separate and distinct plans for rural carriers from
9 those of the larger Price Cap carriers and include both a provision for rural
10 carriers to mirror intrastate and interstate rates and also provide for
11 different rates for rural rate of return carriers based on existing FCC cost
12 allocation rules. The Global Order on page 52 was very clear in
13 establishing policy when it stated:

14 Since there is no functional difference between access
15 provided on an interstate or intrastate basis, any pricing
16 differential that may exist will give an incentive to IXCs, upon
17 whom ILECs rely to identify the volume of terminating
18 interstate and intrastate traffic, to report lesser usage in the
19 higher cost venue. In sum, 'in order to avoid arbitrage, it is
20 *extremely important* that intrastate access charges mirror
21 their federal counterpart.' Id. at 8 (emphasis added).
22

23 Global Order at 52 (my emphasis italicized).
24

25 Since the Global Order and the 2003 Joint Stipulation Order have both
26 accepted interstate rates and information as representative of costs to
27 establish intrastate access rates in those proceedings, the use of
28 interstate rates and interstate settlement information as filed by the D&E
29 carriers fairly represents cost data supporting the increase in access rates

1 in the 2006 PSI Filings and do not present any "problem that needs to be
2 addressed."

3 **Q. Mr. Price suggests on page 12 of his rebuttal testimony that the D&E**
4 **carriers have implied "that the Commission should not be**
5 **concerned" about its access increases. Do you agree with this**
6 **characterization?**

7 A. No. Mr. Price has again mischaracterized my prior testimony. Our access
8 increases are deemed "small" compared to the giant steps made in
9 reducing those rates and access revenues that the D&E carriers have
10 taken since the Global Order. D&E understands that concerns exist over
11 this minor reversal of prior actions and D&E appreciates this
12 Commission's desire to undertake this review. However as I previously
13 explained, we elected to make such a change to implement our 2006 PSI
14 revenue increases because local increases had been substantial over the
15 past seven years, access reductions have been substantial over the past
16 seven years and access costs as calculated by FCC rules for interstate
17 purposes have increased. I would never suggest, implicitly or otherwise,
18 that this Commission would not be concerned about such increases. We
19 respect the Commission's concern and have done our best to provide the
20 Commission with all of the information necessary to show that the action
21 taken by the D&E carriers in making these latest access charge increases
22 was appropriate.

1 Q. On page 13 of his rebuttal testimony, Mr. Price provides a table
2 identifying “Projected Revenue from Access Increases (Price Exhibit
3 1, 3 and 5). Do you have any comments?

4 A. I do not believe that this table has any relevance to this proceeding but let
5 me respond by stating that Mr. Price has inaccurately characterized this
6 column as representing “projected” revenues from access increases. This
7 information came from data provided to Verizon and from the D&E
8 carriers’ amended PSI filing, identified in that filing as “Annual Revenue
9 Impact.” In data provided to Verizon, I specifically stated that the revenue
10 amounts were calculated using a “historical snapshot” of usage. It in no
11 way represents any projection of future revenue from access increases.
12 Future projections of revenues will be below the awarded amounts due to
13 decreases in future minutes and lines from the historical “snapshot” of
14 minutes and lines used to develop the new rates.

15 Q. On pages 14-20 of his rebuttal testimony, Mr. Price repeatedly makes
16 allegations that the 2006 PSI increases were “to fund its broadband
17 commitments”, arguing that the need to fund broadband
18 commitments does not justify these access rate increases. Would
19 you care to comment?

20 A. Our broadband commitments are not our only commitments in serving our
21 customers that require a revenue stream to recover those expenditures.
22 As I stated in my direct testimony on page 10, “The D&E carriers, in good
23 faith, sought to utilize their effective Chapter 30 plans to provide additional
24 annual revenues to assist in providing funds necessary to provide service

1 to new developments within our certificated service areas in accordance
2 with our carrier of last resort obligations, to provide improvements in our
3 networks to meet the service quality requirements our customers expect
4 and that are required of us by PaPUC regulations and to assist in carrying
5 out this network modernization to bring universal broadband availability to
6 our rural customers by December 31, 2008.” All of these expenditures
7 require a revenue stream to recover those expenses, as well as revenues
8 to cover the costs of capital of monies previously expended for similar
9 improvements. The need for the D&E carriers to fund their Chapter 30
10 broadband deployment commitments was addressed in order to explain
11 the need for revenue increases to be implemented as opposed to banking
12 the revenue increase. Nowhere in my testimony do I claim that the D&E
13 carriers have “an unfettered ability to raise access rates.” It appears that
14 Mr. Price has again embellished my actual direct testimony at page 41
15 where I state that the D&E carriers “retained the right under their
16 Amended Chapter 30 Plans to increase rates for protected services under
17 the PSI/SPI, which as earlier explained included the right to increase
18 intrastate access charges as a protected service.”

19 **Q. Do you agree with Mr. Price’s statements on pages 14-15 of his**
20 **rebuttal testimony that the D&E carriers’ switched access rate**
21 **increases contradict D&E’s SEC Form 10-K?**

22 **A.** Absolutely not. The companies’ explanation in its Form 10-K as cited by
23 Mr. Price accurately reflects the fact that proceedings exist in both the

1 federal and state jurisdictions that could affect the access rates of the D&E
2 carriers. In our SEC Form 10-K, we stated:

3 "these reforms are designed to move these network access
4 charges over time to lower rate levels and structures. These
5 changes will reduce access charges and could shift recovery
6 to end-user customers rather than long distance carriers. As
7 a result, the aggregate amount of network access charges
8 paid by long distance carriers to access providers, such as
9 our RLECs, will likely decrease."

10
11 This statement is a direct reference to the proposals before the FCC in
12 their intercarrier compensation reform proceeding. Both the ICF plan and
13 the Missoula Plan filed in that proceeding proposed increases in the
14 subscriber line charge billed to end users and a mirroring of interstate and
15 intrastate traffic sensitive switched access rates with all other access
16 revenues moved to a very large federal USF that would need to be funded
17 by another increase to end users, as well as monies from other proposed
18 funds. We are required to notify our shareholders of any potential impact
19 that may occur as a result of an open proceeding before the FCC or
20 Commission. The statements made in no way demonstrate our belief that
21 we are not able to increase intrastate access rates in accordance with our
22 Chapter 30 Plan and prior Commission Orders.

23 **Q. On pages 16-19 of his rebuttal testimony, Mr. Price again offers
24 various scenarios for allocating D&E's revenue increases. Can you
25 comment?**

26 **A.** The issue before us is whether access rate increases made by the D&E
27 carriers after years of access reductions that took rates below cost-based
28 interstate levels are permitted under the companies' Chapter 30 Plans and

1 whether these increases violate any prior Commission Orders, specifically
2 the Global Order or the 2003 Joint Stipulation Order. As I have stated in
3 my rebuttal testimony, while the D&E carriers had the right to increase
4 local service rates, years of local rate increases and access reductions
5 coupled with the fact interstate access rates have increased and the cost
6 settlements from interstate exceeds the intrastate rate levels led the D&E
7 carriers to firmly conclude they not only were allowed to increase access
8 rates but that it was the right decision. It strikes me as quite incongruous
9 that Verizon would argue vehemently in their own access proceeding that
10 their access rates can be priced above their cost while at the same time in
11 this proceeding argue that the D&E rural carriers should maintain
12 intrastate access rates below their cost and instead increase local service
13 rates further. Mr. Price apparently is undaunted by the thought that an
14 increase in local rates will force more end users to leave D&E, an event
15 that would automatically result in a loss of toll revenue for Verizon given
16 that the majority of D&E's end users subscribe to Verizon for their toll
17 service. That is, unless the customer would then take service from
18 Verizon's wireless affiliate.

19 **Q. Mr. Price repeatedly makes reference on pages 17-18 of his rebuttal**
20 **testimony to "\$18 benchmark" and "affordability level" and**
21 **"affordability benchmark" when discussing residential rates. He**
22 **further calculates an impact on residential rates. Do you agree with**
23 **the comments of Mr. Price and his calculations?**

1 A. Definitely not. As I stated previously, the \$18.00 rate is not a benchmark
2 and it definitely does not represent an affordability level or affordability
3 benchmark. Using these terms is misleading and erroneous. The \$18.00
4 rate represents a maximum rate that may be charged to residential end
5 users for universal funding purposes. This \$18.00 rate was initially \$16.00
6 as established in the Global Order. The 2003 Joint Stipulation Order
7 increased the cap amount from \$16.00 to \$18.00 but continued to
8 reference the rate as a cap. Therefore in accordance with these two
9 Orders, the \$18.00 residential rate should be viewed as a ceiling or cap or
10 maximum amount that may be billed to residential end users for the
11 purpose of establishing universal service funding and not a benchmark or
12 affordability rate or affordability benchmark. It represents the amount at
13 which any increase above this amount would require a rural carrier to
14 receive PaUSF and credit the residential end user. Furthermore, I
15 disagree with Mr. Price's calculations of taking the increases targeted to
16 access and moving them to all local lines as reported by the D&E carriers
17 in their 2006 PSI Filings. This is blatantly invalid for the reasons I outlined
18 in my rebuttal testimony on page 6. As I quoted Verizon:

19 [I]t is not appropriate to propose to increase the rates of all of
20 these lines because not all lines can receive a rate increase
21 and actually produce the revenue necessary to achieve the
22 statutorily-required revenue-neutrality. Lines that are subject
23 to contractual agreements cannot raise their rates, and lines
24 subject to competitive pressures are not subject to rate
25 regulation and cannot be expected to accept an increase
26 without being lost to a competitor. Accordingly, allocating
27 revenue to such lines would not achieve revenue neutrality
28 and would violate 66 Pa. C.S. § 3017."
29

1 On page 54 of my direct testimony I accurately provide the impacts to
2 residential one-party rates had the increases been assigned to local
3 services. Verizon argued the same policy in their own access proceeding
4 and should take the same position in this proceeding.

5 **Q. What about Mr. Price's claim on page 18 of his rebuttal testimony**
6 **that you admit at page 35 of your direct testimony that the**
7 **companies' Chapter 30 Plans "contemplate" local rate increases as**
8 **large as \$3.50 per month and that, as such, allocating the increases**
9 **to local rates here would have been inconsequential?**

10 A. I noted that the Chapter 30 Plans contain consumer protections, including
11 that residential and business rates will not increase in one year by an
12 amount in excess of \$3.50 per month. That is certainly not the same as
13 saying that one "contemplates" local rate increases of that magnitude.
14 Instead, the \$3.50 is a consumer protection.

15 **Q. Mr. Price contends on page 21 of his rebuttal testimony that the D&E**
16 **carriers have provided no "factual basis" or "analysis" to support its**
17 **election to increase access rates over other available options. Can**
18 **you respond?**

19 A. Yes. As I have stated in rebuttal to other statements made by Mr. Price, I
20 believe the issue before the ALJ is whether the access rate increases
21 made by the D&E carriers were in accordance with our Chapter 30 Plans
22 and whether they violated any Commission access charge or universal
23 service policies. As I have demonstrated, increasing access rates are
24 permissible per our Chapter 30 Plans and do not violate any access or

1 USF policies as developed in the Global Order and 2003 Joint Stipulation
2 Order. Mr. Price, however, continues to argue other issues in an attempt
3 to justify his position that access rates should not be increased. Mr. Price
4 now suggests that a small rural carrier needs a team of statistical and
5 economic analysts on staff to scrutinize and develop positions on issues of
6 pricing that no doubt include supply, demand, price elasticity and
7 inelasticity, alternative services, affordability, and who knows what else.
8 *Chapter 30 Plans do not require rural carriers to hire teams of consultants*
9 *to perform analyses regarding pricing of noncompetitive services.*
10 Certainly, discussion with other members of D&E directly involved in
11 customer service activities is the best way of finding out what D&E's
12 customers are saying. But data already provided to Verizon also proves
13 that increasing local rates at this time was not viable. The D&E carriers'
14 historical loss of access lines tells a key story. From 2002 to 2003 we lost
15 **[BEGIN PROPRIETARY . . . ____ . . . END PROPRIETARY]** of our
16 residential lines. From 2003 to 2004 we lost **[BEGIN PROPRIETARY . . .**
17 **____ . . . END PROPRIETARY]** of our residential lines. From 2004 to
18 2005 we lost **[BEGIN PROPRIETARY . . . ____ . . . END PROPRIETARY]**
19 of our residential lines. The data confirms that access line losses are
20 increasing. Add to that the information I provided as D&E Exhibit 4 to my
21 direct testimony that showed that residential rates were increased in 2002
22 by 14%-17%, in 2003 by another 10%-21% and in 2005 by yet another
23 5%-10%. To summarize, the D&E carriers lost **[BEGIN PROPRIETARY .**
24 **.._____ . . . END PROPRIETARY]**of their residential access lines

1 during this period of time in which they increased residential rates by
2 almost 40%. It becomes apparent from this data that the increases in local
3 rates have had a direct causation with increases in residential line losses.
4 Mr. Price's allegations should be rejected.

5 **Q. On page 23 of his rebuttal testimony, Mr. Price states that your**
6 **testimony "suggests that there is an ongoing obligation for carriers**
7 **to revise their intrastate access rates as interstate access rates**
8 **change." Do you agree?**

9 **A.** Let me respond to clarify the misconception of Mr. Price. I have never
10 stated that carriers are required to change their intrastate access rates
11 every year to mirror their interstate rates. What I have stated is that in
12 both the Global and 2003 Joint Stipulation proceedings, the Commission
13 has accepted the mirroring of interstate traffic sensitive switched access
14 rates for intrastate purposes. I have also stated that the 2003 Joint
15 Stipulation provided:

16 [O]n or after January 1 of each year beginning in 2005 each
17 ILEC may request such rate changes or rate rebalancing as
18 are permitted by any Chapter 30 Plans and/or applicable
19 statutory and regulatory provisions.
20

21 * * * *

22
23 Each ILEC reserves the right, subject to Chapter 30 Plan
24 requirements, to change its access rates to ensure that each
25 access rate element at least recovers its cost and the ILEC's
26 service price index continues to be equal to or less than the
27 ILEC's price stability index, in the event the ILEC's access
28 rates are determined to be below cost based upon the
29 development of a cost study."
30

31 2003 Joint Stipulation Order at 19.
32

1 This language clearly gave rural carriers the right, if changes were
2 deemed necessary by the rural carrier, to change access rates and the
3 language definitely suggests that rates would increase to ensure cost
4 recovery. The use of interstate rates, which are the only cost-based
5 information any rural carrier has, was the basis approved by the
6 Commission in prior proceedings to support such rates and should
7 continue to be used if a rural carrier makes such a request.

8 **Q. At the top of page 24 of his rebuttal testimony, Mr. Price responds to**
9 **your testimony that mirroring interstate rates can avoid jurisdictional**
10 **arbitrage. Do you agree with his response?**

11 A. Again, I do not believe the issue of whether or not the mirroring concept
12 avoids arbitrage is within the scope of this proceeding but let me respond
13 by stating that my statements were direct quotes from the Commission's
14 Global Order. As I previously stated, on page 52 of the Global Order the
15 Commission stated, "In sum, in order to avoid arbitrage, it is extremely
16 important that intrastate access charges mirror their federal counterpart."
17 The Global Order required mirroring of interstate traffic sensitive switched
18 access rates for this very purpose. The 2003 Joint Stipulation Order
19 further permitted the mirroring of interstate traffic sensitive switched
20 access rates. I believe these facts totally refute the comments of Mr.
21 Price.

22 **Q. At the bottom of page 24 through page 26 of his rebuttal testimony,**
23 **Mr. Price states that mirroring interstate traffic sensitive access rates**

1 is meaningless because “no IXC would look at only certain portions
2 of a bill.” Do you agree with these statements?

3 A. Again, I do not believe that this issue is within the scope of this proceeding
4 but let me respond by stating that the mirroring of interstate traffic
5 sensitive switched access rates and not any other rates such as common
6 line or special access was a direct objective of both the Global Order and
7 the 2003 Joint Stipulation Order. Both of these Orders provided for the
8 mirroring of interstate switched access rates only. Mr. Price’s comments
9 attempt to change what the Global and Joint Stipulation Orders provided.
10 Furthermore, Mr. Price’s statement that “no IXC would look at only certain
11 portions of a bill” is interesting given that Verizon, the largest carrier in the
12 state by whom most IXCs tailor their processes to, does not bill the CC on
13 the same bill that it bills the switched access charges. Thus, Mr. Price’s
14 comments are not only irrelevant in this proceeding but they contradict
15 Verizon’s own procedure for billing intrastate access charges.

16 **Q. On page 26 of his rebuttal testimony, Mr. Price makes statements
17 regarding the “Transport Interconnection Rate or TIC.” Do you have
18 any comments regarding his statements?**

19 A. Yes, the TIC or Interconnection Charge is a valid rate element in the FCC
20 rules and regulations and can be found in 47 CFR Part 61. Specifically,
21 the FCC rules state at § 61.26(3):

22 Interstate switched exchange access services shall include
23 the functional equivalent of the ILEC interstate exchange
24 access services typically associated with following rate
25 elements: carrier common line (originating); carrier common
26 line (terminating); local end office switching; interconnection
27 charge; information surcharge; tandem switched transport

1 termination (fixed); tandem switched transport facility (per
2 mile); tandem switching.” (my emphasis added)

3
4 D&E Exhibit 5, Sheets 3 and 3B for each company provide the NECA
5 settlement information in detail by month for 2005 and clearly demonstrate
6 a TIC revenue amount on NECA's line 14. I do not disagree that this TIC
7 revenue amount for interstate purposes is being recovered from the
8 federal USF via the Interstate Common Line Support or ICLS fund as
9 opposed to billing to IXCs. Should the Commission choose to adopt the
10 cost recovery process adopted by the FCC for this switched access cost,
11 the D&E carriers will zero out their intrastate TIC rate and recover these
12 moneys either from the intrastate CC or the PaUSF. However, I
13 respectfully submit that this is not an issue for this proceeding.

14 **Q. On pages 26-27 of his rebuttal testimony, Mr. Price states that an**
15 **increase in the traffic sensitive rates must be offset by decreases in**
16 **the carrier charge. Do you agree?**

17 **A.** No. Mr. Price ignores the fact that changes in rates can occur between
18 access and local rates and in fact have occurred. This filing addresses
19 the D&E carriers' Chapter 30 PSI Filings that allow for increases in
20 revenues. To argue that changes in access rates can only be
21 implemented on an "access revenue neutral" basis ignores the right of any
22 carrier to increase its rates to recover costs pursuant to the terms of its
23 Amended Chapter 30 Plan.

24 **Q. On pages 27-29 of his rebuttal testimony, Mr. Price states that D&E's**
25 **interstate rates are not "cost based" and that they are "misleading**
26 **by confusing the disbursements that the companies receive via the**

1 **average schedule process with the ‘costs’ they incur.” Would you**
2 **please comment on this allegation?**

3 A. The FCC’s rules and regulations totally disagree with Mr. Price and the
4 actions taken by the Commission in the Global and 2003 Joint Stipulation
5 proceedings also refute his statements. I do agree with Mr. Price that the
6 FCC rules establish a simplified process for average schedule companies
7 by requiring NECA to do all of the work to develop calculations that will
8 determine the cost recovery amounts that are to come from interstate
9 rates for average schedule companies. However, to state that these
10 settlement amounts do not represent costs incurred is absolutely incorrect.
11 The calculations made by NECA and filed with the FCC annually utilize
12 the actual financial data of cost companies and average schedule
13 companies. The traffic usage factors and investment and expense
14 categorization factors are taken from similar sized cost companies to
15 develop cost recovery formulas for average schedule companies. NECA’s
16 2005 average schedule filing is a very detailed and exhaustive process
17 and contains an extensive amount of cost information and analysis. To
18 state that NECA’s calculations do not generate an interstate cost amount
19 specific to each average schedule company based on each company’s
20 access lines, minutes of use, toll trunks, circuit miles, number of
21 exchanges, etc. is completely wrong. In accordance with FCC rules, the
22 settlement amounts of average schedule companies are used to develop
23 *interstate rates* in the very same manner as cost companies using their
24 cost separations studies, if a company chooses to file its own tariff. As the

1 FCC rules state at 47 CFR Part 61, § 61.39(b):

2 Explanation and data supporting tariff changes. The
3 material to be submitted to either a tariff change or a new
4 tariff which affects rates or charges must include an
5 explanation of the filing in the transmittal as required by §
6 61.33. The basis for ratemaking must comply with the
7 following requirements. Except as provided in paragraph
8 (b)(5) of this section, it is not necessary to submit this
9 supporting data at the time of filing. However, the local
10 exchange carrier should be prepared to submit the data
11 promptly upon reasonable request by the Commission or
12 interested parties.

13 (1) For a tariff change, the local exchange carrier that
14 is a cost schedule carrier must propose Tariff Sensitive rates
15 based on the following: (i) For the first period, a cost of
16 service study for Traffic Sensitive elements for the most
17 recent 12 month period with related demand for the same
18 period. (ii) For subsequent filings, a cost of service study for
19 Traffic Sensitive elements for the total period since the local
20 exchange carrier's last annual filing, with related demand for
21 the same period.

22 (2) For a tariff change, the local exchange company
23 that is an average schedule carrier must propose Traffic
24 Sensitive rates based on the following: (i) For the first period,
25 the local exchange carrier's most recent annual Traffic
26 Sensitive settlement from the National Exchange Carrier
27 Association pool. (ii) For subsequent filings, an amount
28 calculated to reflect the Traffic Sensitive average schedule
29 pool settlement the carrier would have received if the carrier
30 had continued to participate, based upon the most recent
31 average schedule formulas approved by the Commission.
32 (my emphasis added)
33

34 As I have previously stated, the Commission, in the Global and
35 2003 Joint Stipulation Orders, accepted the use of interstate rates
36 developed based on FCC rules and regulations in determining the rates
37 charged for intrastate access and has allowed all Pennsylvania rural
38 carriers, including all average schedule companies such as the D&E
39 carriers, to use this interstate information to support their intrastate traffic
40 sensitive access rates.

1 **Q. On page 30 of his rebuttal testimony, Mr. Price states that your**
2 **testimony provides no support for a claim that intrastate access**
3 **rates need to be increased to bring those rates above cost. He**
4 **further states that Verizon sought cost support and was advised by**
5 **D&E that no cost support existed. Would you please comment?**

6 A. In Verizon's first set of discovery requests, number 1-7, which Verizon has
7 identified as its rebuttal exhibit 7, Verizon asked: "For each of the
8 companies D&E, Buffalo Valley and Conestoga, please provide the most
9 recent available study of the cost of providing switched access service. If
10 no such study exists, please so state." In my response, I explained that
11 the D&E companies are average schedule companies and that we utilized
12 and relied on the rates and tariff services of NECA. As I have stated
13 previously, as an average schedule company in accordance with FCC
14 rules, 47 CFR Part 69, § 69.606, the D&E carriers do not prepare cost
15 studies. Rather, NECA performs all cost calculations on our behalf and
16 files them annually with the FCC. What we do have are the interstate
17 rates we are entitled to bill, which this Commission has authorized us to
18 utilize as our intrastate access rates in both the Global and 2003 Joint
19 Stipulation proceedings, and the cost settlement information from NECA
20 which represents revenues required to recover the costs of interstate
21 access in accordance with FCC rules and which can be used to establish
22 a company's own access rates in accordance with 47 CFR Part 61 rules of
23 the FCC. This supporting data justifies the requested increase in access
24 rates made in our 2006 PSI Filings.

- 1 **Q.** On page 31 of his rebuttal testimony, Mr. Price states that if D&E's
2 increases in intrastate access rates are allowed, then a
3 corresponding reduction in their PaUSF is required to "maintain the
4 same level of explicit subsidy through the PaUSF." Do you agree?
- 5 **A.** No. As I stated in my rebuttal testimony on page 12 and at D&E Exhibit 4-
6 R, D&E Telephone received no PaUSF for access reductions so Mr.
7 Price's claim that Verizon is making explicit support payments to D&E
8 Telephone for prior access reductions is in error. Furthermore, for Buffalo
9 Valley and Conestoga, the PaUSF receipts were a result of reductions in
10 toll revenues and in CC revenues from pre-Global levels above \$7.00 to
11 the \$7.00 Global level. The voluntary reductions made in 2001, 2002 and
12 2003 by Buffalo Valley and Conestoga to further reduce their access rates
13 had no impact on the PaUSF. As such the 2006 increases to offset a
14 portion of those reductions also have no impact on the PaUSF, as
15 evidenced by the fact that these carriers' CC rates are still well below
16 \$7.00. Mr. Price's comments distort the actual facts of Global and all rate
17 reductions that followed prior to the increases in our 2006 PSI Filings.
- 18 **Q.** Does that complete your surrebuttal testimony?
- 19 **A.** Yes.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
 High Cost Loop Support Projected by State by Study Area
 Fourth Quarter 2006

State	SAC	Study Area Name	Rural	Type	HCL	Certified	Working Loops
PA	170145	THE BENTLEYVILLE TEL. CO.	R	A	Y	Y	3,246
PA	170149	FRONTIER COMM. OF BREEZEWOOD, INC.	R	C	Y	Y	4,341
PA	170151	BUFFALO VALLEY TEL. CO.	R	A	Y	Y	22,258
PA	170152	FRONTIER COMM. OF CANTON, INC.	R	C	Y	Y	4,177
PA	170156	CITIZENS TEL. CO. OF KECKSBURG	R	A	Y	Y	5,213
PA	170161	COMMONWEALTH TELEPHONE ENTERPRISES, INC.	R	A	Y	Y	320,200
PA	170162	THE CONESTOGA TEL. AND TEL. CO.	R	A	Y	Y	59,012
PA	170165	DENVER AND EPHRATA TEL. & TEL. CO.	R	A	Y	Y	57,956
PA	170168	FRONTIER COMM. OF PA, INC.	R	C	Y	Y	27,553
PA	170169	VERIZON NORTH INC.-PA	N	C	Y	N	541,967
PA	170170	VERIZON NORTH INC.-PA (CONTEL)	R	C	Y	N	64,972
PA	170171	HICKORY TEL. CO.	R	A	Y	Y	1,328
PA	170175	IRONTON TEL. CO.	R	A	Y	Y	5,566
PA	170176	ALLTEL PENNSYLVANIA, INC.	R	C	Y	Y	230,148
PA	170177	LACKAWAXEN TEL. CO.	R	C	Y	Y	3,940
PA	170178	FRONTIER COMM.-LAKEWOOD, INC.	R	C	Y	Y	1,544
PA	170179	LAUREL HIGHLAND TEL. CO.	R	A	Y	Y	6,150
PA	170183	MAHANAY & MAHANTONGO TEL. CO.	R	C	Y	Y	4,125
PA	170185	MARIANNA-SCENERY HILL TEL. CO.	R	C	Y	Y	2,713
PA	170189	ARMSTRONG TEL. CO.-PA	R	C	Y	Y	1,663
PA	170191	THE NORTH EASTERN PA. TEL. CO.	R	A	Y	Y	12,252
PA	170192	NORTH PENN TEL. CO.	R	C	Y	Y	5,641
PA	170193	NORTH PITTSBURGH TEL. CO.	R	A	Y	Y	74,007
PA	170194	FRONTIER COMM.-OSWAYO RIVER, INC.	R	C	Y	Y	2,322
PA	170195	ARMSTRONG TEL. CO. NORTH	R	A	Y	Y	525
PA	170196	PALMERTON TEL. CO.	R	A	Y	Y	13,256
PA	170197	PENNSYLVANIA TEL. CO.	R	A	Y	Y	1,408
PA	170200	PYMATUNING IND. TEL. CO.	R	A	Y	Y	2,201
PA	170201	VERIZON NORTH INC.-PA (QUAKER STATE)	R	C	Y	N	49,836
PA	170204	SOUTH CANAAN TEL. CO.	R	A	Y	Y	3,002
PA	170206	SUGAR VALLEY TEL. CO.	R	C	Y	Y	1,160
PA	170209	UNITED TEL. CO. OF PA	R	C	Y	Y	372,727
PA	170210	VENUS TEL. CORP.	R	A	Y	Y	1,406
PA	170215	YUKON-WALTZ TEL. CO.	R	A	Y	Y	985
PA	170277	WEST SIDE TEL. CO.-PA	R	A	Y	Y	41
PA	175000	VERIZON PENNSYLVANIA INC.	N	C	Y	N	5,435,861

D&E Communication, Inc.
Impact of 2003 Joint Stipulation Order
Assuming "NO" Other Rate Rebalancing after Global Order

PART 1 - MIRROR INTERSTATE SWITCHED ACCESS RATES

	2003 Filing Year		
	BVT	CTT	D&E
Interstate Access Rates, per 07/01/03			
Local Switching, Premium, per MOU	\$ 0.014208	\$ 0.020297	\$ 0.020297
Information Surcharge, Premium, per MOU	\$ 0.000206	\$ 0.000206	\$ 0.000206
Tandem Switched Facility	\$ 0.000169	\$ 0.000169	\$ 0.000169
Tandem Switched Termination	\$ 0.000833	\$ 0.000833	\$ 0.000833
Tandem Switching	\$ -	\$ 0.002743	\$ 0.002743
Interstate Access Rate	\$ 0.015416	\$ 0.024248	\$ 0.024248
State Access Rates, per 04/01/00 (assumes no voluntary changes)	\$ 0.027521	\$ 0.025429	\$ 0.035366
State Access Rate Decrease	\$ (0.012105)	\$ (0.001181)	\$ (0.011118)
Annual State Access MOUs	54,217,300	155,041,186	121,248,369
Annual State Access Revenue Decrease	\$ (656,300)	\$ (183,104)	\$ (1,348,039)
CC Increase due to State Access Revenue Decrease divided by Annual Access Lines	\$ 656,300 284,664	\$ 183,104 737,164	\$ 1,348,039 736,776
Monthly Carrier Charge Increase - PART 1	\$ 2.31	\$ 0.25	\$ 1.83

PART 2 - INCREASE LOCAL SERVICE RATES

	2003 Filing Year		
	BVT	CTT	D&E
Joint Stipulation Order Local Rate Target	\$ 10.83	\$ 10.83	\$ 10.83
Ave Local Rate, per Global Order (assumes no voluntary changes)	\$ 7.00	\$ 7.44	\$ 9.99
Local Rate Increase per 2003 Joint Stipulation	\$ 3.83	\$ 3.39	\$ 0.84
1-R Access Lines (Dec 31, 2003)	16,314	46,335	42,437
Monthly Local Revenue Increase	\$ 62,483	\$ 157,076	\$ 35,647
CC Decrease due to Local Revenue Increase divided by Access Lines (Dec 31, 2003)	\$ (62,483) 22,547	\$ (157,076) 60,284	\$ (35,647) 59,968
Monthly Carrier Charge Decrease - PART 2	\$ (2.77)	\$ (2.61)	\$ (0.59)

CARRIER CHARGE COMPARISONS

	BVT	CTT	D&E
Monthly Carrier Charge, per Global Order	\$ 7.00	\$ 7.00	\$ 6.11
2003 Order Carrier Charge Increase - PART 1	\$ 2.31	\$ 0.25	\$ 1.83
2003 Order Carrier Charge Decrease - PART 2	\$ (2.77)	\$ (2.61)	\$ (0.59)
Monthly CARRIER CHARGE Revised, Global & 2003 Orders only	\$ 6.53	\$ 4.64	\$ 7.35
Monthly CARRIER CHARGE, per 2006 PSI Filing	\$ 5.11	\$ 4.44	\$ 5.17
DIFFERENCE	\$ (1.42)	\$ (0.20)	\$ (2.18)
% DIFFERENCE	-27.87%	-4.57%	-42.07%

SWITCHED ACCESS COMPARISONS

	BVT	CTT	D&E
SWITCHED ACCESS Revised, Global & 2003 Orders only	\$ 0.015416	\$ 0.024248	\$ 0.024248
SWITCHED ACCESS, per 2006 PSI Filing	\$ 0.010998	\$ 0.021783	\$ 0.021799
DIFFERENCE	\$ (0.004418)	\$ (0.002465)	\$ (0.002449)
% DIFFERENCE	-40.18%	-11.31%	-11.24%

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D&E Exhibit 1-RJ

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RESPONSE OF VERIZON COMMUNICATIONS INC. TO D&E COMPANIES QUESTION
NO. 9, DATED DECEMBER 26, 2006, SUBMITTED IN DOCKET NO. R-00061375,
R-00061376 AND R-00061377 BEFORE THE PA PUC (D&E REMAND PROCEEDING)

ANSWERED BY: Don Price

POSITION: Verizon Business - Director - State Regulatory Policy

REQUEST:

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.

RESPONSE:

Verizon does consider it possible for competition from alternative service providers to constrain Verizon's ability to increase rates.

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D&E Cross Examination
Exhibit No. 1

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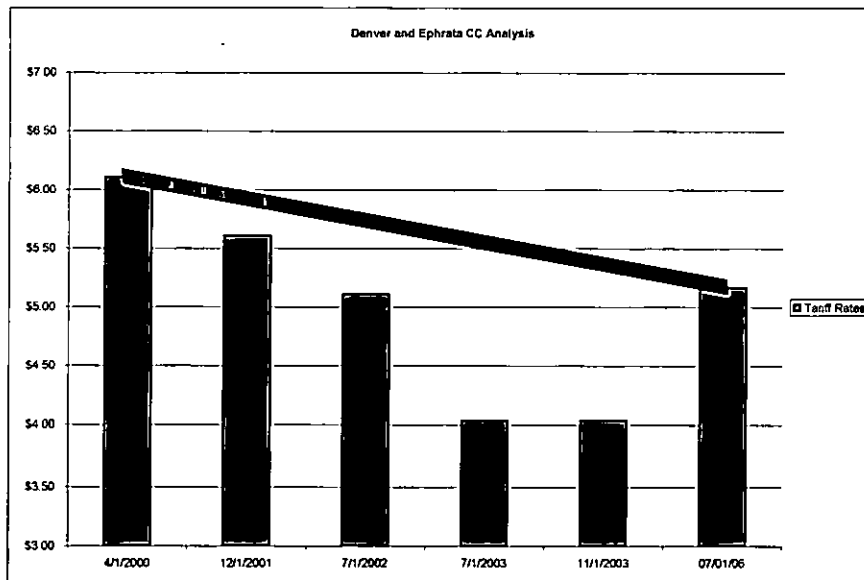
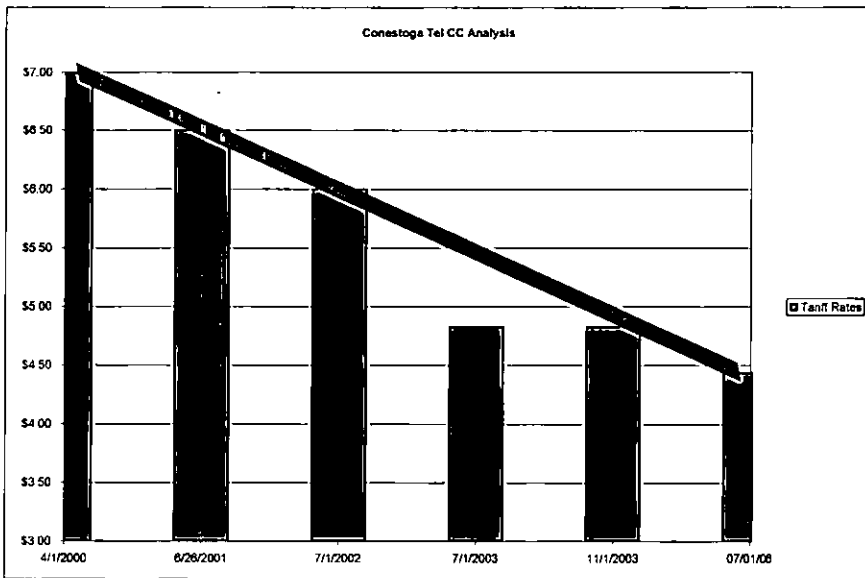
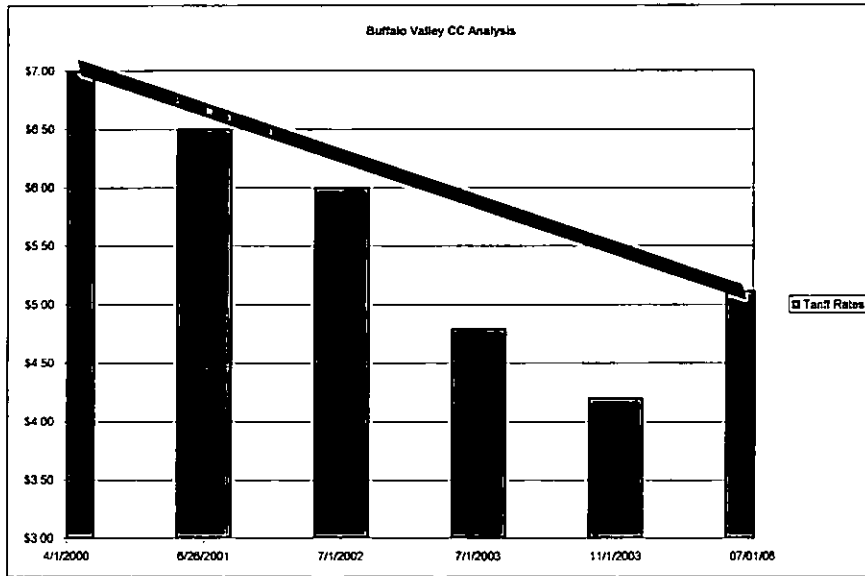
D&E Cross Examination

Exhibit No. 2

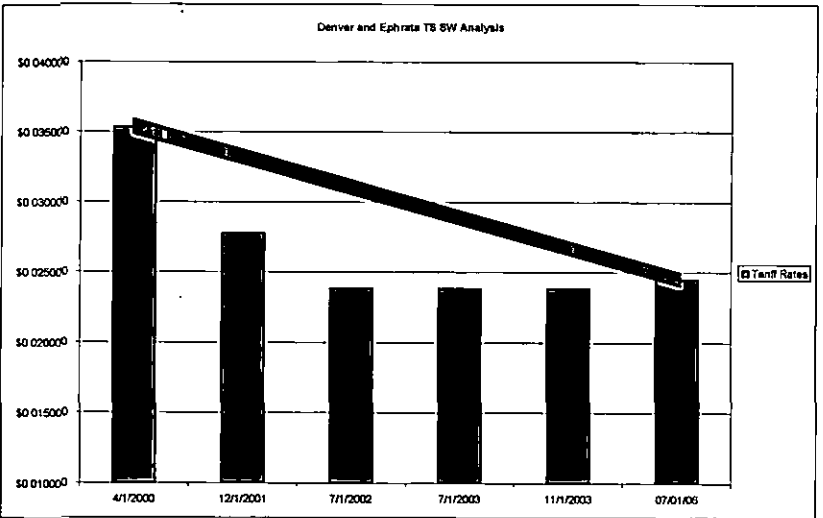
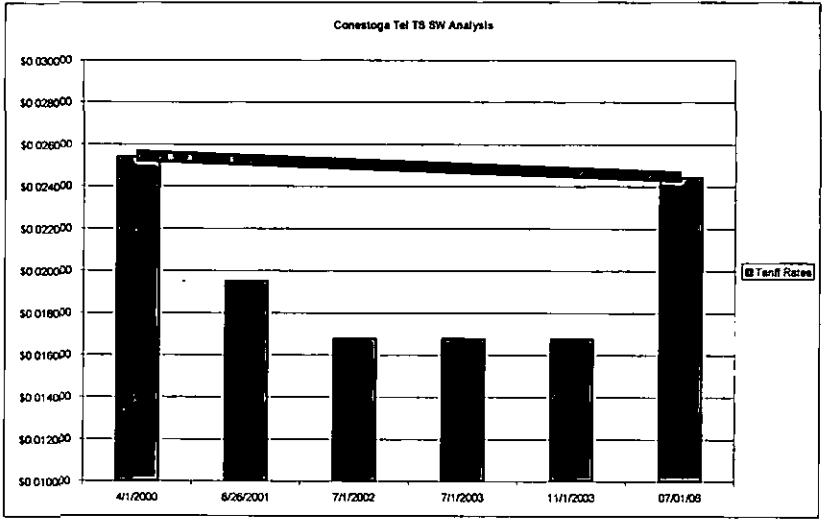
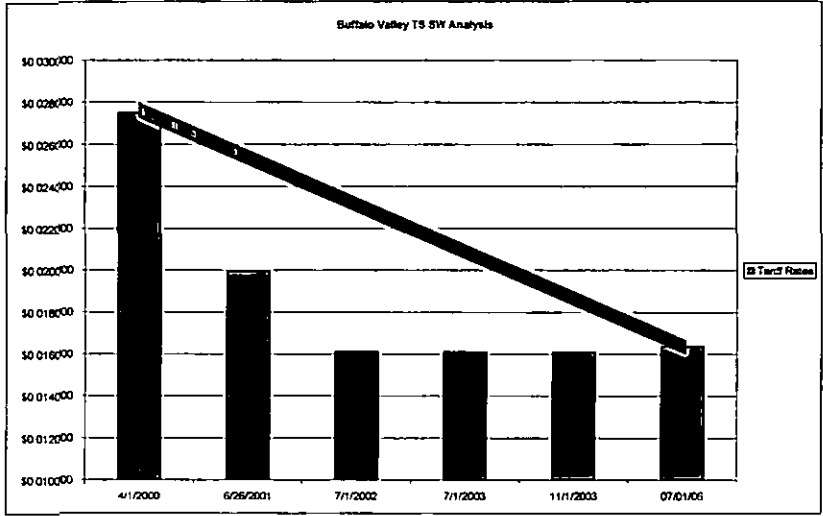
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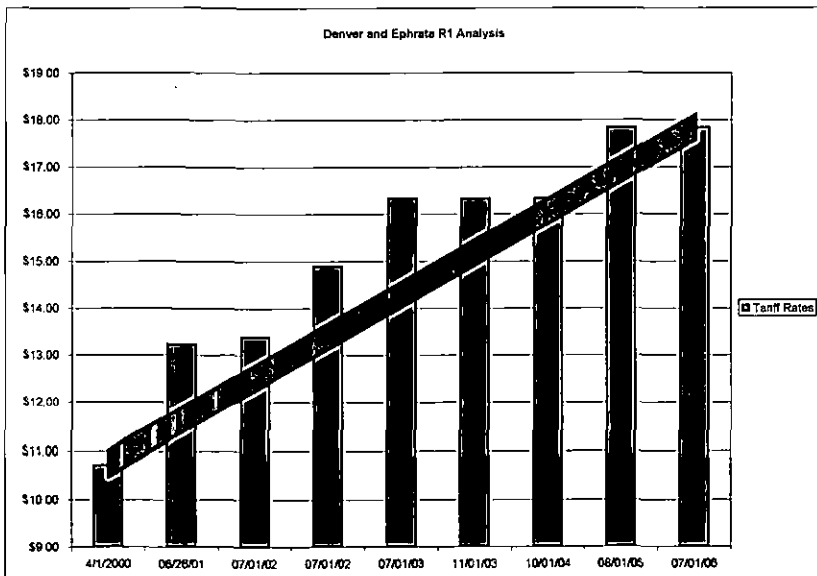
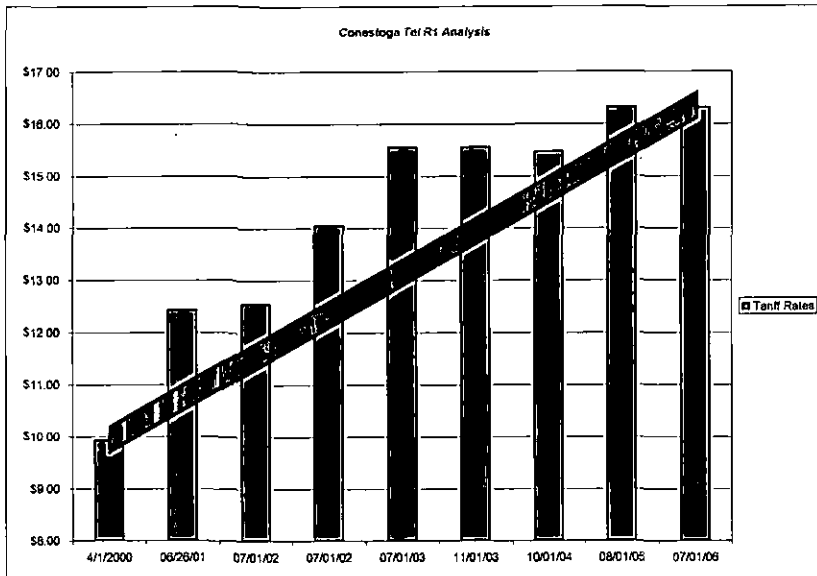
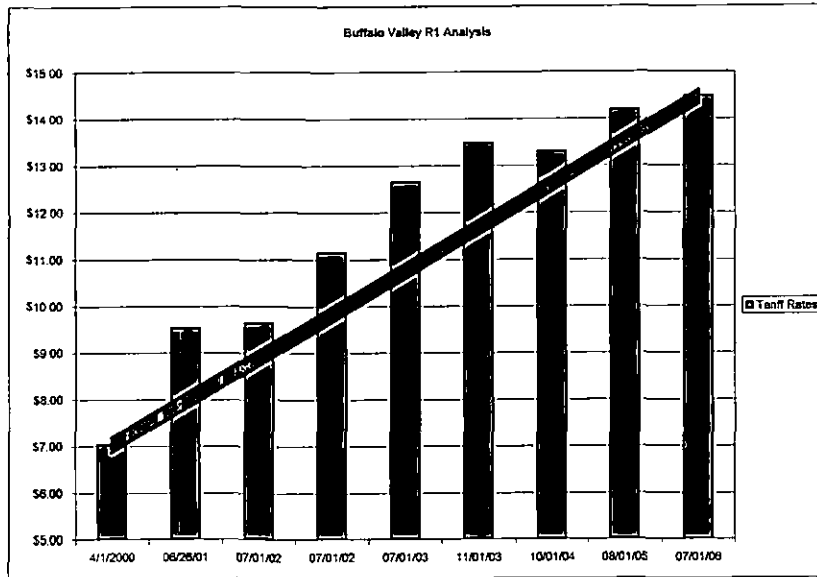
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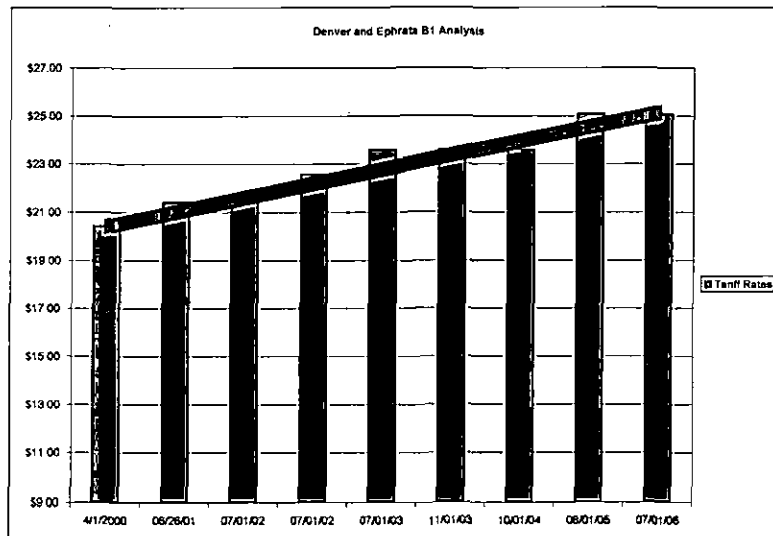
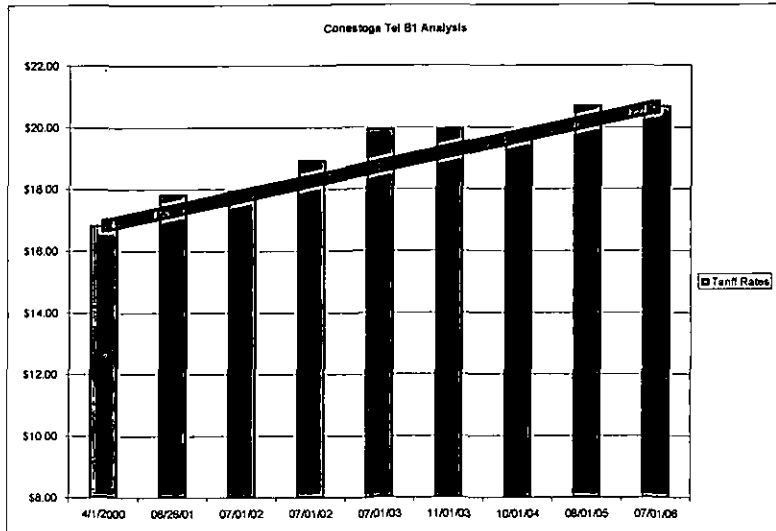
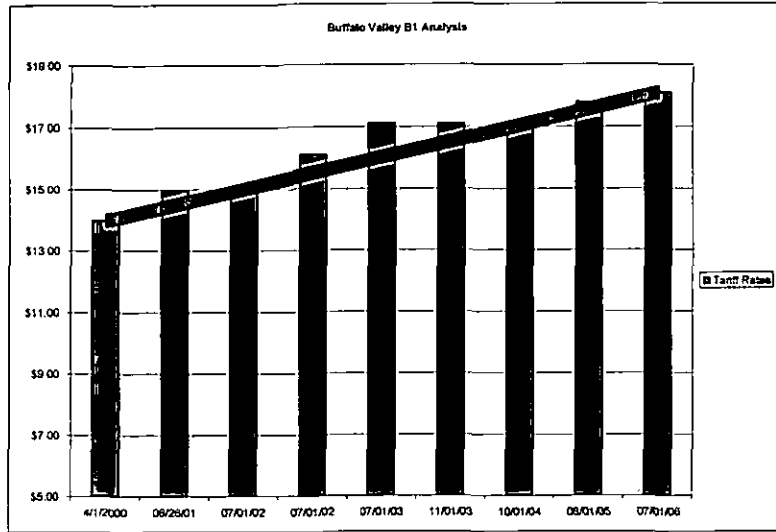
CC ANALYSIS



TS ANALYSIS









Business Solutions | Home Solutions | Customer Care | Technical Support | Investor Relations

- Business Solutions
- Home Solutions
- Customer Care
- Technical Support
- Investor Relations
- About Us
 - > Mission Statement
 - > In the news
 - > Events at D&E
 - > Careers
 - > Tariffs
 - > Annual Report

Combined Company Information

On May 24, 2002, D&E Communications, Inc., acquired Conestoga Enterprises, Inc., creating one of the nation's 20 largest independent telephone companies.

By putting these two businesses together, we have created a company with even greater experience in providing local and long distance telephone services; dial-up and high-speed Internet access; web site hosting; and voice and data network systems integration services throughout central and eastern Pennsylvania. In addition, our company provides cable TV and cable modem services in the State College area.

For customers of the former D&E and Conestoga operations, our merger has created a stronger communications partner with a broader team of engineering and customer service staff. It has improved our ability to provide reliable communications services. Our Network Operations Center is staffed 24 hours a day - every day of the year - with technicians available to answer any special service calls that may arise.

Here are a few statistics about D&E Communications, Inc., as of December 31, 2002:

- 145,310 lines** Served by our telephone companies based in Birdsboro, Ephrata and Lewisburg.
- 30,200 lines** Served by our competitive operations in Lancaster, Harrisburg, Reading, Pottstown, State College, Altoona and Williamsport.
- 12,652** Dial-up Internet Subscribers.
- 5,615** DSL Subscribers.
- 651** Web Hosting Customers.

Questions?
Ask D&E. That's what communication is all about.

Call 1-877-4DE-Today

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D&E Communications[®]

Delivering Excellence



Lewisburg
70 South Second Street
Lewisburg, PA 17837



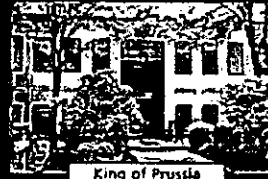
State College
411 Science Park Road
State College, PA 16803



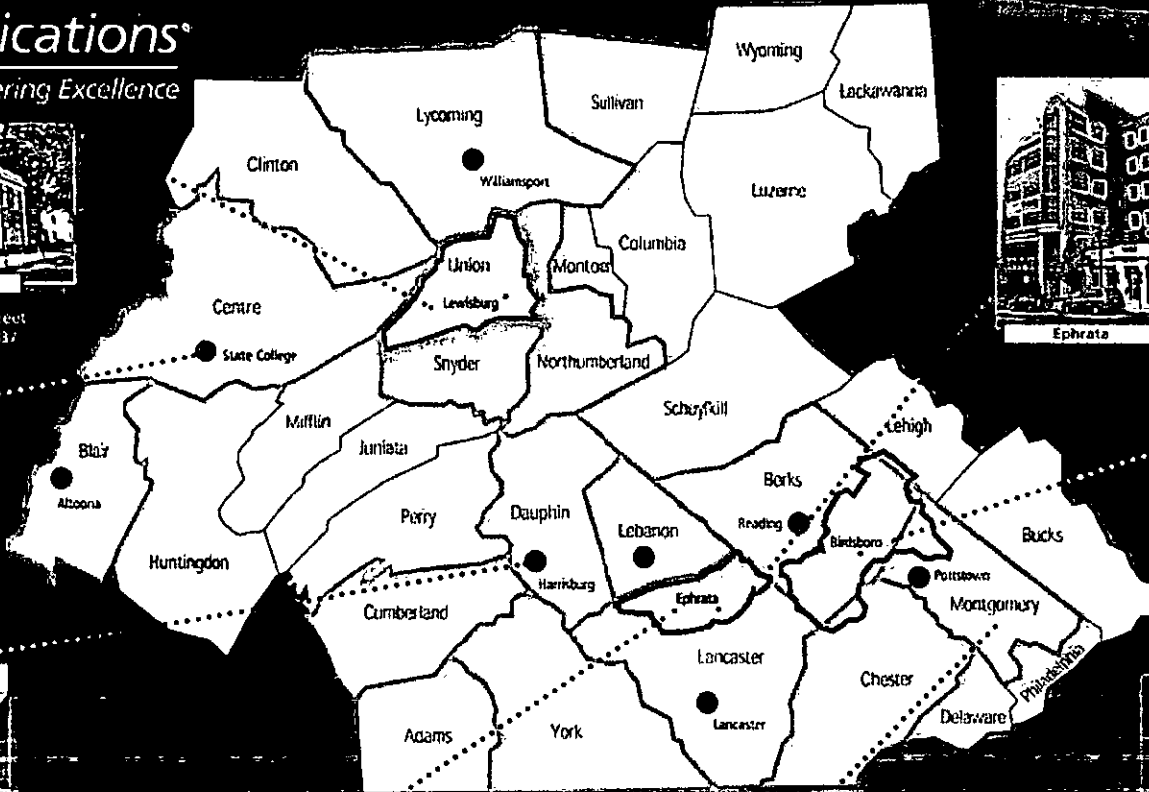
Mechanicsburg
4600 Wissport Drive, Suite 107
Mechanicsburg, PA 17055



Brownstown
4139 Oregon Pike
Ephrata, PA 17522



King of Prussia
Valley Forge Square, Suite 110
661 F Moore Road
King of Prussia, PA 19106




Ephrata
Brossman Business Complex
124 East Main Street
Ephrata, PA 17522
CORPORATE HEADQUARTERS



Birdsboro
302 East First Street
Birdsboro, PA 19508
Matthew Brooke Professional Building
321 North Furnace Street
Birdsboro, PA 19508

<input type="checkbox"/>	RLEC (Rural Local Exchange Carrier)
<input type="checkbox"/>	CLEC (Competing Local Exchange Carrier)
<input type="checkbox"/>	Systems Integration & Internet Service Provider
<input type="checkbox"/>	VoIP



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Verizon Cross Exh 2
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Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

MOTION OF
THE RURAL TELEPHONE COMPANY COALITION,
OFFICE OF CONSUMER ADVOCATE AND OFFICE OF TRIAL STAFF
FOR THE COMMISSION TO DEFER THIS INVESTIGATION
PENDING RESOLUTION OF THE FCC INTERCARRIER
COMPENSATION PROCEEDING AT CC DOCKET NO. 01-92

Pursuant to 52 Pa. Code § 5.103 and 66 Pa. C.S. §§ 331, 501 and 703, the Rural Telephone Company Coalition¹ ("RTCC") Office of Consumer Advocate ("OCA") and Office of Trial Staff ("OTS") (collectively "Joint Movants") move to defer the above referenced investigation pending resolution of the Federal Communications

¹The RTCC consists of the following rural incumbent local exchange carriers: ALLTEL Pennsylvania, Inc., Armstrong Telephone Company - PA, Armstrong Telephone Company-North, Bentleyville Communications Corporation, d/b/a The Bentleyville Telephone Company, Buffalo Valley Telephone Company, Citizens Telephone Company of Kecksburg, Commonwealth Telephone Company, Conestoga Telephone and Telegraph Company, Denver and Ephrata Telephone and Telegraph Company d/b/a D&E Telephone Company, Deposit Telephone Company, Frontier Communications of Breezewood, Inc., Frontier Communications of Canton, Inc., Frontier Communications of Lakewood, Inc., Frontier Communications of Oswayo River, Inc., Frontier Communications of Pennsylvania, Inc., The Hancock Telephone Company, Hickory Telephone Company, Ironton Telephone Company, Lackawaxen Telecommunications Services, Inc., Laurel Highland Telephone Company, Mahanoy & Mahantango Telephone Co., Marianna & Scenery Hill Telephone Company, The North-Eastern Pennsylvania Telephone Company, North Penn Telephone Company, North Pittsburgh Telephone Company, Palmerton Telephone Company, Pennsylvania Telephone Company, Pymatuning Independent Telephone Company, South Canaan Telephone Company, Sugar Valley Telephone Company, Venus Telephone Corporation, West Side Telephone Company and Yukon-Waltz Telephone Company.

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- National Benchmark (including SLC) of \$21.00, all permanent rates set at interstate access and a new access restructure charge (ARC) to make up revenue shortfall billed to carrier. Rates also apply to EAS Traffic.

WESTERN WIRELESS

- All USF replaced.

NASUCA

- Allocate network costs to all that use the network.
- Reduce interconnection rate to \$.0095 per minute for rural carriers, but allow states to request additional USF funding where necessary.

NARUC

- Convert all per minute charges to capacity charges.
- Rural Access Charge Transition Fund - ensure revenue neutrality for 3 years.
- Federal USF absorbs state RLEC access reform.
- National Benchmark local rates.

9. Most of the foregoing proposals could have a significant impact on rural access reform. In many of these proposals, the above reforms cover both interstate and intrastate access and affect both interstate and intrastate USF funds. Most of the proposed plans propose that rural carriers should continue to receive funding of their networks to foster universal service and in many cases create supplemental rural universal service funding or access charge replacement funding to compensate rural carriers for additional required access reform. Accordingly, it would be unreasonable, unproductive and inefficient for this Commission to act in advance of the FCC.

10. For example, if the FCC adopts EPG's national benchmark of \$21.00, which includes the federal SLC, and all other revenue shortfalls are recovered from an Access Restructure Charge (ARC) assessed on all carriers across the country, and Pennsylvania acts prematurely by raising local rates above \$14.50 (\$21.00 - \$6.50), Pennsylvanians may essentially forego the opportunity to receive their fair share of the ARC. Likewise, if the Commission were to prematurely require the increase of all local service rates to \$18.00, then Pennsylvania consumers might be unfairly burdened by potential further increases to the federal SLC which might go as high as \$10.00 on top of a rate rebalanced \$18.00 charge. If Pennsylvania access reform totaled \$X million and it was implemented ahead of the FCC, Pennsylvania may lose its ability to benefit from \$X million of Federally collected universal service dollars. If intercarrier compensation goes to a capacity charge, any Pennsylvania changes may be nullified. These are only a few of the many examples of why it would be prudent for this Commission to defer action on this matter for twenty-four months or until the FCC acts on its Intercarrier Compensation proceeding, whichever is earlier. It is clear that the FCC's Order will impact the matters raised in this proceeding.

11. One of the most important issues specifically posed by the FCC is the FCC's authority to preempt the state's regulation of intrastate access and local interconnection and the establishment of alternative cost recovery mechanisms within the intrastate jurisdiction. The FCC specifically requested comments concerning the legal basis for it to exercise jurisdiction over intrastate access mechanisms in order to adopt a uniform intercarrier compensation rate structure that will reduce arbitrage,

promote competition, protect universal service, and reduce regulation.¹⁰ While many may oppose FCC preemption concerning the setting of intrastate access charges, the PUC must seriously consider the potential for its authority in this area to be changed by an FCC decision. In addition, it is quite likely that, even if the FCC does not preempt in this area, it may offer guidelines to the states for access reform and encourage reforms through incentive mechanisms. Potential FCC action in this area should caution against the PUC acting on intrastate access charges before the FCC order is issued.

12. Moreover, virtually every proposal contains some means of providing for universal service support or supplemental support for rural areas. As Mark Wigfield of the FCC's Wireline Competition Bureau stated in recognizing the importance of the rural issue:

Rural carriers get 30% of their revenues from access fees and 30% through the universal service fund. . . .

13. Without question, the FCC's resolution of its intercarrier compensation proceeding will impact Pennsylvania ILECs, intrastate universal service funding and intrastate rates that are paid by Pennsylvania consumers. Under these circumstances, the Joint Movants herein believe that the Commission should maintain the status quo until the FCC addresses the comments and releases an Order at CC Docket No. 01-92 which may well take place before the end of this year. If changes are made at this time relating to intrastate rates and universal service funding, the Pennsylvania ILECs, which have already implemented substantial intrastate access reform, and their consumers, who have already encountered substantial local service increases in order to offset prior intrastate access reductions, may get no credit for such rate reform proposals pending

¹⁰ FNPRM, ¶¶ 78-82.

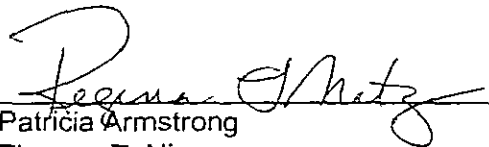
before the FCC and may face additional subscriber line charges or other rate increases independent of whatever action this Honorable Commission has taken. Pennsylvania consumers and carriers could lose the opportunity to benefit fully from increased federal funding simply because they may have moved too quickly in reducing their access rates before new federal mechanisms were put in place. Thus, the Joint Movants herein submit that not only would it be prudent to stay the current proceeding at least for twenty-four months to await the impact and assess the status of the FCC's actions at CC Docket No. 01-92, but in fact to proceed in advance of the FCC would not be sound public policy.

14. Accordingly, the Joint Movants respectfully request that the Commission act expeditiously on this motion and, based on the circumstances existing today, issue an Order deferring this matter pending the outcome of the FCC intercarrier compensation proceeding at Docket No.01-92, but not to exceed a period of twenty-four months or until the FCC acts on its Intercarrier Compensation proceeding, whichever is earlier.

WHEREFORE, for all the foregoing reasons, the Joint Movants respectfully request that:

1. The Commission issued an Order staying the proceeding.
2. Grant such further relief consistent with the foregoing that it deems reasonable and just.

Respectfully submitted,

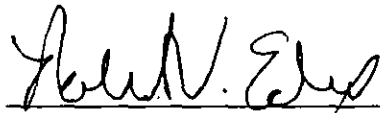


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DATE: May 23, 2005

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Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

**DOCUMENT
FOLDER**

JOINT MOTION OF
THE RURAL TELEPHONE COMPANY COALITION,
OFFICE OF CONSUMER ADVOCATE,
OFFICE OF TRIAL STAFF,
AND EMBARQ PENNSYLVANIA

FOR THE COMMISSION TO FURTHER STAY THIS INVESTIGATION
PENDING RESOLUTION OF THE FCC INTERCARRIER
COMPENSATION PROCEEDING AT CC DOCKET NO. 01-92

DOCKETED
JUN 18 2007

Pursuant to the Order entered August 30, 2005 ("August 30, 2005 Order"), in the above referenced proceeding, the Rural Telephone Company Coalition¹ ("RTCC"), Office of Consumer Advocate ("OCA"), Office of Trial Staff ("OTS"), and The United Telephone Company of Pennsylvania d/b/a Embarq Pennsylvania ("Embarq Pennsylvania") (f/d/b/a Sprint), (collectively "Joint Movants") hereby file this motion requesting the Pennsylvania Public Utility Commission ("PUC" or "Commission") grant a

¹The RTCC comprises the following rural incumbent local exchange carriers: Windstream Pennsylvania, Inc. f/k/a ALLTEL Pennsylvania, Inc., Armstrong Telephone Company - PA, Armstrong Telephone Company-North, Bentleyville Communications Corporation, d/b/a The Bentleyville Telephone Company, Buffalo Valley Telephone Company, Citizens Telephone Company of Kecksburg, Commonwealth Telephone Company, Conestoga Telephone and Telegraph Company, Denver and Ephrata Telephone and Telegraph Company d/b/a D&E Telephone Company, Deposit Telephone Company, Frontier Communications of Breezewood, Inc., Frontier Communications of Canton, Inc., Frontier Communications of Lakewood, Inc., Frontier Communications of Oswayo River, Inc., Frontier Communications of Pennsylvania, Inc., The Hancock Telephone Company, Hickory Telephone Company, Ironton Telephone Company, Lackawaxen Telecommunications Services, Inc., Laurel Highland Telephone Company, Mahanoy & Mahantango Telephone Co., Marianna & Scenery Hill Telephone Company, The North-Eastern Pennsylvania Telephone Company, North Penn Telephone Company, North Pittsburgh Telephone Company, Palmerton Telephone Company, Pennsylvania Telephone Company, Pymatuning Independent Telephone Company, South Canaan Telephone Company, Sugar Valley Telephone Company, Venus Telephone Corporation, West Side Telephone Company and Yukon-Waltz Telephone Company.

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increased SLCs. This allows Track 3 carriers to recover their base-year revenues through a revenue neutral process. If the SLC increases are insufficient, then Track 3 carriers will recover the residual revenue from the Restructure Mechanism. In addition, the Missoula Plan increases the funding under the embedded high cost loop mechanism, and initiates a voluntary incentive plan that a carrier may elect to join. Clearly, the Missoula Plan is the result of on-going comprehensive intercarrier compensation reform initiatives.

6. Accordingly, Joint Movants contend it would be unreasonable, unproductive and inefficient for this Commission to act further on rural access reform in advance of the FCC. All the reasons set forth in the Initial Motion upon which the Commission granted the stay remain timely and relevant, and as current circumstances are addressed further herein and in the Joint Status Report, continue to support a further stay of any action in the pending state investigation until more definitive action is taken by the FCC. Commission resources should not be needlessly expended developing a potentially inadequate and inapplicable record and a rushed result.

7. Most notably, one of the issues specifically posed by the FCC, and addressed in the Missoula Plan, is the FCC's authority to preempt the state's regulation of *intrastate access and local interconnection and the establishment of alternative cost recovery mechanisms within the intrastate jurisdiction*. While interested parties may oppose FCC preemption of state jurisdiction over intrastate access charges, the PUC must seriously consider the potential for its authority in this area to be altered significantly by an FCC decision. In addition, it is quite likely that, even if the FCC does not fully preempt this area, it may offer guidelines to the states for access reform or encourage other reforms through incentive mechanisms or otherwise in a manner that could significantly impact Pennsylvania carriers and consumers. The high degree of

potential for impending FCC action in this area cautions against the PUC acting on *intrastate access charges in advance of the FCC.*

8. The FCC's resolution of its unified intercarrier compensation proceeding will impact Pennsylvania ILECs, intrastate universal service funding and intrastate rates that are paid by Pennsylvania consumers. If an evidentiary record is adduced in this Investigation because the matter is not stayed, that record likely will be moot or stale given the *myriad, interwoven issues yet to be resolved by the FCC.* Also, if changes are made at this time relating to intrastate rates and universal service funding, the Pennsylvania ILECs, which have already implemented substantial intrastate access reform, and their consumers, who have already encountered substantial local service increases in order to offset prior intrastate access reductions, may receive no credit for such reform under proposals pending before the FCC and may face additional subscriber line charges or other rate increases independent of whatever action this Honorable Commission takes. Pennsylvania consumers and carriers will lose the opportunity to benefit fully from increased federal funding simply because they may have moved too quickly in reducing their access rates before new federal mechanisms were put in place. In particular, funding from the Restructuring Mechanism may be reduced significantly or eliminated entirely for some carriers, and funding from the Early Adopter Fund will not replace local Pennsylvania rate increases. Thus, the Joint Movants herein submit that not only would it be prudent to stay the current proceeding, but also to act in advance of the FCC would not be sound public policy.

9. Moreover, in support of extending the existing 12-month stay for an additional time period, Joint Movants note pending United States Congressional legislation designed to change existing federal USF funding and potentially related issues when the U.S. Congress returns from August recess on September 5, 2006. As addressed in further detail in the Status Report, a stand-alone USF bill called the

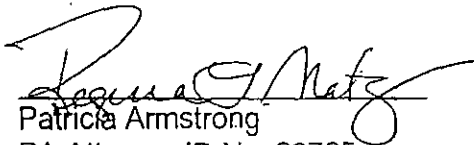
Universal Service Reform Act of 2006 (HR 5072) was introduced by Representatives Rick Boucher and Lee Terry this year. A comprehensive legislative telecommunications reform initiative sponsored by Senator Stevens (HR 5252) also contains stabilization provisions for federal universal service funding purposes. Further stay of the procedural schedule at Docket No. I-00040105 remains both *judicious and warranted until changes arising from the federal legislative landscape have settled and are known.*

10. Accordingly, the Joint Movants respectfully request that the Commission act expeditiously on this Motion and, based on the circumstances existing today, issue an Order staying this matter pending the outcome of the FCC unified intercarrier compensation proceeding at Docket No.01-92, for at least a period of twelve months after the Commission enters an order acting on this Motion, or until the FCC acts on its Unified Intercarrier Compensation proceeding, whichever is earlier.

WHEREFORE, for all the foregoing reasons, the Joint Movants respectfully request that:

1. The Commission issue an Order further staying the proceeding.
2. Grant such further relief consistent with the foregoing that it deems reasonable and just.

Respectfully submitted,



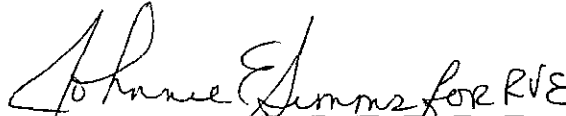
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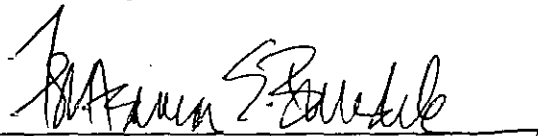
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DATE: August 30, 2006

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

INVESTIGATION REGARDING INTRASTATE :
ACCESS CHARGES AND INTRALATA TOLL : DOCKET NO. I-00040105
RATES OF RURAL CARRIERS, AND THE :
PENNSYLVANIA UNIVERSAL SERVICE FUND :

OFFICE OF SMALL BUSINESS ADVOCATE
BRIEF IN SUPPORT OF THE
RURAL TELEPHONE COMPANY COALITION,
OFFICE OF CONSUMER ADVOCATE AND
OFFICE OF TRIAL STAFF
PETITION FOR INTERLOCUTORY REVIEW

RECEIVED

JAN 22 2007

William R. Lloyd, Jr.
Small Business Advocate

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

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DOCKETED
JUN 18 2007

Dated: June 28, 2005

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TABLE OF CONTENTS

I. INTRODUCTION 1

II. ARGUMENT 2

 A. Should the ALJ have ruled on the Motion? 2

 B. Should a Stay be granted? 3

III. CONCLUSION 5

I. INTRODUCTION

On December 20, 2004, the Pennsylvania Public Utility Commission (“PUC” or “Commission”) entered an Order instituting an investigation at Docket No. I-00040105 into whether there should be further intrastate access charge reductions and intraLATA toll rate reductions in the service territories of rural incumbent local exchange carriers (“ILECs”). The investigation was assigned to Administrative Law Judge (“ALJ”) Susan Colwell.

On February 3, 2005, the Office of Small Business Advocate (“OSBA”) filed a Notice of Intervention.

ALJ Colwell presided over in-person prehearing conferences on Wednesday, February 16, 2005, and April 21, 2005. In addition to the OSBA, the following parties entered appearances and were represented by counsel at those conferences: Office of Consumer Advocate (“OCA”); Rural Telephone Company Coalition (“RTCC”); United Telephone Company of Pennsylvania d/b/a/ Sprint (“Sprint”); Qwest Communications Corporation (“Qwest”); Nextel Communications Inc., and Omnipointe Communications Inc. and Voicestream Pittsburgh LP d/b/a T-Mobile; MCImetro Access Transmission Service (“MCI”); AT&T Communications of Pennsylvania, LLC (“AT&T”); Cingular Wireless and Verizon Wireless; Verizon Pennsylvania Inc. and Verizon North Inc. (“Verizon”); and Office of Trial Staff (“OTS”).

Among other things, the second prehearing conference addressed scheduling matters, including whether or not the investigation should be stayed pending the outcome of the Intercarrier Compensation Proceeding before the Federal Communications Commission (“FCC”) at CC Docket No. 01-92.

On May 23, 2005, the RTCC, the OCA, and the OTS jointly filed a Motion seeking a stay of this investigation pending the outcome of the FCC proceeding. The OSBA did not join in the Motion; but the OSBA filed an Answer on May 31, 2005, asking the Commission to grant the Motion in its entirety. Some of the wireless carriers submitted a letter which generally supported the Motion. However, Qwest, AT&T, and MCI opposed the Motion.

By Order of June 8, 2005, ALJ Colwell denied the Motion filed by the RTCC, the OCA, and the OTS. In response to ALJ Colwell's Order, the RTCC, the OCA, and the OTS (collectively, "Joint Petitioners") filed a Petition for Interlocutory Review ("Petition") on June 21, 2005. The Petition presented the following Material Question for Commission review:

MATERIAL QUESTION: Did the presiding officer erroneously issue an Order on a Motion filed with the Commission and erroneously conclude not to stay the instant investigation pending action by the Federal Communications Commission on the same matters at issue in this Commission investigation?

As the Joint Petitioners recognized by their proposed answer, there are actually two parts to the Material Question.

Pursuant to 52 Pa. Code §5.302(b), the OSBA files this Brief in support of that part of the Petition which addresses whether the ALJ erred by refusing to grant the requested stay. In the OSBA's view, this investigation should be stayed pending the outcome of the FCC's Intercarrier Compensation Proceeding.

II. ARGUMENT

A. Should the ALJ have ruled on the Motion?

In Paragraph 5 of the Petition, the Joint Petitioners allege that they had intended that the Commission, rather than ALJ Colwell, rule on their May 23, 2005, Motion seeking a stay of this

proceeding pending the outcome of the FCC's Intercarrier Compensation Proceeding.

Consistent with that expectation, the Joint Petitioners have framed the first part of the Material Question to address whether it was erroneous for ALJ Colwell to rule on the Motion.

The OSBA takes no position on the first part of the Material Question. In the OSBA's view, the essential question is whether a stay should be granted—regardless of the procedure by which that issue properly comes before the Commission.

B. Should a Stay be granted?

As the ALJ pointed out in her June 8, 2005, Order, at page 9, the Commission has instituted a Verizon access charge proceeding which generally parallels the Commission's investigation into rural ILEC access charges. See the Verizon access charge proceeding at AT&T Communications of Pennsylvania, LLC. v. Verizon North Inc. and Verizon Pennsylvania Inc., Docket No. C-20027195.

The Commission's Order initiating the investigation of rural ILEC access charges was entered on December 20, 2004. Thereafter, in a January 18, 2005, Opinion and Order in the Verizon proceeding, the Commission acknowledged the potential impact of an access charge proposal before the FCC and directed the ALJ to expand the Verizon proceeding to consider the FCC's deliberations. That access charge proposal is now part of the FCC's Intercarrier Compensation Proceeding. See Order entered January 18, 2005, pages 14-15, at Docket No. C-20027195, wherein the Commission stated as follows:

As noted by the OCA, there have been significant developments in the federal arena that may impact the [Verizon] remand proceeding. We are especially concerned about any impact that the proposed ICF [Intercarrier Compensation Forum] proposal, if it is ultimately approved by the FCC, may have jurisdictionally on access charge regulation in Pennsylvania, our ability to further reduce or restructure intrastate access charges, and

whether any FCC action may lead to a double recovery by the LECs in Pennsylvania in light of the remanded proceeding, and if the FCC permits intrastate access charges to be offset by increases to the federal SLC [Subscriber Line Charge]. Therefore, to the extent that any determination is made by the FCC that ultimately adopts the ICF proposal, or any other FCC action that is concluded prior to this remand proceeding that would assume authority over the intrastate access charges addressed in this proceeding, we shall direct the ALJ to expand the scope of this proceeding for the purpose of addressing the impact the FCC action may have on our jurisdictional responsibilities, as well as its relationship to the final recommended decision on access rates arising from this remand proceeding.

The proposals before the FCC in the Intercarrier Compensation Proceeding include changes in interstate and intrastate access and universal service. Just as the Commission recognized in the Verizon proceeding that the FCC's access charge deliberations could seriously impact if, and how, Verizon's intrastate access charges should be changed, so too could the FCC's deliberations seriously impact if, and how, the rural ILECs' intrastate access charges should be changed.

The Commission expressly directed the ALJ in the Verizon access case to take account of the FCC proceeding. However, because the Commission did not similarly direct the ALJ in this case, *the record in this investigation is likely to be deficient and the Commission is likely to need a subsequent proceeding to evaluate the recommendations in this investigation in light of the FCC's deliberations.* Therefore, to minimize litigation, the Commission should stay this investigation pending the outcome of the FCC's proceeding.

III. CONCLUSION

For the reasons set forth in this Brief, the OSBA respectfully requests that the Commission grant that portion of the Petition which seeks a Stay of this investigation.

Respectfully submitted,

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Small Business Advocate

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Dated: June 28, 2005

RECEIVED

OSBA Statement No. 1 (remand)

JAN 22 2007

BEFORE THE

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

AT&T COMMUNICATIONS OF
PENNSYLVANIA, INC.

v.

VERIZON NORTH INC.

:
:
:
:
:

Docket No. C-20027195

DIRECT TESTIMONY OF

ALLEN G. BUCKALEW

ON BEHALF OF

DOCKETED

THE OFFICE OF SMALL BUSINESS ADVOCATE

JUN 18 2007

EXPURGATED

DATE SERVED: JUNE 8, 2005

DATE SUBMITTED FOR THE RECORD: _____

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JAN 22 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

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TABLE OF CONTENTS

I. QUALIFICATIONS AND INTRODUCTION	1
II. ACCESS COSTS	6
III. RECOMMENDATIONS AND CONCLUSIONS	13

1 **I. QUALIFICATIONS AND INTRODUCTION**

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

4 A. My name is Allen G. Buckalew. I am an Economist specializing in the
5 telecommunications industry at J.W. Wilson & Associates, Inc. Our offices
6 are at 1601 North Kent Street, Rosslyn Plaza C – Suite 1104, Arlington,
7 VA 22209.

8 **Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.**

9 A. I hold an A.A. and a B.S. degree with high honors, both from the
10 University of Florida, and a M.S. degree from George Washington
11 University. My major areas of concentration were economics and
12 telecommunications.

13 **Q. HOW HAVE YOU BEEN EMPLOYED IN THE PAST?**

14 A. Before I entered the University of Florida, I worked for four years in Naval
15 Telecommunications. After graduating from the University of Florida, I
16 worked for four years at the Federal Communications Commission
17 (“FCC”) as an Industry Economist in the Common Carrier Bureau and was
18 employed extensively in areas involving telecommunications, economics,
19 accounting, engineering, and policy matters. For example, one of my major
20 projects was “The Economic Implications and Interrelationships Arising
21 from Policies and Practices Relating to Customer Interconnection,
22 *Jurisdictional Separations and Rate Structures*” (Docket 20003). This case
23 opened the terminal equipment (e.g., telephone sets, and private branch
24 exchanges (“PBXs”)) market in the United States to competition. I also
25 provided economic analysis in several rate cases, including, for example,

1 “Communications Satellite Corporation, Investigation into Charges,
2 Practices, Classifications, Rates and Regulations” (Docket 16070). My
3 major responsibility was to serve as economic advisor and analyst for the
4 Common Carrier Bureau.

5 After the FCC, I was appointed Associate Director for Telecommunications
6 Research of the National Regulatory Research Institute (“NRRRI”) at Ohio
7 State University. My responsibilities at NRRRI focused on
8 telecommunications policy as seen from an analytical perspective that
9 combined accounting, engineering, and economic disciplines. During my
10 employment at the Institute, I completed several studies for state public
11 utility commissions, including “The Impact of Measured Telephone Rates
12 on Telephone Usage of Government and Nonprofit Organizations” (for the
13 Public Utilities Commission of Ohio) and “Toward An Analysis of
14 Telephone License Contracts and Measured Rates” (for the Maryland
15 Public Service Commission). In addition, I provided several state
16 commissions with technical and economic assistance. This assistance was
17 related to identifying, explaining and analyzing major issues in
18 telecommunications cases.

19 Since joining J.W. Wilson & Associates, Inc. in May 1980, I have provided
20 economic analysis in numerous proceedings in most of the states of the
21 United States, Canada, Bolivia, Nepal, Egypt, and Tanzania. I have
22 provided analysis for the Federal Communications Commission and the
23 United States Department of Justice. For example, I testified on behalf of
24 the Department of Justice in the case that broke up the Bell system. In
25 addition, I have worked for numerous state Attorneys General. For
26 example, I evaluated the merger proposal of Bell Atlantic and NYNEX for
27 the National Association of Attorneys General and the Bell Atlantic and

1 GTE merger proposal for the Pennsylvania Attorney General. I also
2 analyzed the merger proposal of MCI and WorldCom for the California
3 Public Utilities Commission.

4 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL**
5 **ORGANIZATIONS AND HONOR SOCIETIES?**

6 A. Yes. I am a member of the Society of Depreciation Professionals, the
7 American Economic Association, Omicron Delta Epsilon (an international
8 honor society in economics) and Beta Gamma Sigma (an honor society in
9 business).

10 **Q. COULD YOU BRIEFLY SUMMARIZE YOUR PROFESSIONAL**
11 **RESPONSIBILITIES TO DATE?**

12 A. Yes. My primary responsibilities have been to supervise and actively
13 participate in public utility regulatory policy research, especially in the
14 telecommunications field. These responsibilities require the use and
15 application of economic, accounting, and engineering analyses.

16 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

17 A. I present this testimony on behalf of the Office of Small Business Advocate
18 (“OSBA”) of the Commonwealth of Pennsylvania.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
20 **PROCEEDING?**

21 A. I filed similar testimony in the earlier case on Verizon’s access charges. In
22 that case I was asked to analyze Verizon’s access charge costs and
23 proposed rates. I agreed with the consolidation of Verizon

1 PA and Verizon North access charges on a revenue neutral basis. However,
2 I recommended that a consolidated carrier charge rate of [BEGIN
3 PROPRIETARY] [END PROPRIETARY] per line per month be
4 charged. The Parties agreed to a compromise rate of [BEGIN
5 PROPRIETARY] [END PROPRIETARY] per line per month.
6 That rate, which was implemented in February of this year, results in toll
7 carrier's recovering less than [BEGIN PROPRIETARY] [END
8 PROPRIETARY] of the cost of the loop.

9 The Commission has followed a policy of revenue neutral reduction in
10 access charges. In other words, the revenue that the local exchange carrier
11 loses because of a reduction in access charges is recouped through a
12 corresponding increase in revenue from local exchange rates. If the
13 decrease in access charges paid by toll carriers were completely passed on
14 to the consumer, consumers would experience a revenue neutral impact.
15 However, the actual net impact of lowering the rate for access and
16 increasing local exchange rates is not known because we don't know how
17 much of the previous access reductions was used to reduce toll rates. Local
18 rates have been increased to generate millions of dollars in access
19 reductions without any of the toll carriers being able to trace those millions
20 through to a single dollar of toll rate reduction. This is particularly
21 troubling given the fact that the major toll providers are merging with the
22 major local exchange providers. AT&T is merging with SBC and MCI is
23 merging with Verizon. With less competition, the likelihood of any future
24 reduction in toll rates due to decreases in access is remote. Consequently,
25 any additional "revenue neutral" access charge reduction is likely to mean
26 higher local exchange rates with minimal, if any, reduction in toll rates.

1 Loops are designed to enable customers to make toll calls as well as local
2 calls. Toll carriers need the loops in order to complete toll calls. Therefore,
3 toll carriers should contribute their fair share toward the cost of the loop.
4 However, any additional reduction in Verizon's access charges would
5 essentially push all, or virtually all, of the cost of the loop onto local
6 exchange ratepayers. This would be unfair to residential local exchange
7 ratepayers and especially burdensome to business local exchange customers
8 since business customers already pay more than the cost of providing them
9 with local exchange service.

10 **Q. IS THERE A RELATED PROCEEDING BEFORE THE FCC THAT**
11 **MAY AFFECT THE OUTCOME IN THIS PROCEEDING?**

12 A. Yes. The FCC has undertaken a proceeding to examine methods that could
13 be used for more uniform intrastate and interstate access charges.
14 However, the main issue is the amount of compensation for toll usage of
15 the local networks. Toll carriers want a free ride and local telephone
16 companies, especially small rural ones, don't want to be financially
17 harmed. This FCC proceeding may have an impact on Pennsylvania if the
18 FCC attempts to preempt state jurisdiction and regulation over intrastate
19 access charges, like the charges we are discussing in this case. Even if the
20 FCC does not preempt state regulation of intrastate access charges, carriers
21 are likely to put pressure on the states to adopt a similar plan for intrastate
22 access. However, at this point we don't know what the FCC will adopt or
23 whether they will change anything. Changes to intrastate access charges at
24 this time are not justified, either based on costs (as I discuss below), or
25 given the fact that the FCC may soon change the entire structure for access
26 charges.

1 **II. ACCESS COSTS**

2 **Q. WHAT DOES THE CARRIER CHARGE RECOVER?**

3 A. The carrier charge recovers a very small portion of the loop's total cost.
4 The loop is the wire pair that runs from Verizon's central office near the
5 customer to the customer's location. In the case of small business and
6 residential customers, the wire pair runs from the central office to a network
7 interface device on the customer's premises. The network interface device
8 connects to the customer's inside wiring and telephones.

9 **Q. HOW MUCH DO TOLL CARRIERS CONTRIBUTE TO RECOVER**
10 **THE COST OF THE LOOP?**

11 A. Verizon claims the cost of a loop to be about **[BEGIN PROPRIETARY]**
12 **[END PROPRIETARY]** (see page 20 of the Proprietary Testimony of
13 Dean and Sanford in the earlier case for the exact number). Even if the
14 Commission eventually finds that the real cost is lower than **[BEGIN**
15 **PROPRIETARY]** **[END PROPRIETARY]** the fact is that **[BEGIN**
16 **PROPRIETARY]** **[END PROPRIETARY]** is only **[BEGIN**
17 **PROPRIETARY]** **[END PROPRIETARY]** of the cost of a
18 **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** loop.
19 Furthermore, as the Commission knows, 25% of access charges are to be
20 recovered from interstate carriers. This leaves approximately **[BEGIN**
21 **PROPRIETARY]** **[END PROPRIETARY]** for intrastate recovery.
22 Thus, toll carriers contribute very little to use this crucial resource. This is
23 not an equitable result, since without access to the loop, toll carriers would
24 be out of business. The simple fact is that today, on a consolidated basis,
25 intrastate toll carriers only have to pay **[BEGIN PROPRIETARY]**
26 **[END PROPRIETARY]** an amount that is minimal and is below

1 the [BEGIN PROPRIETARY] [END PROPRIETARY] I
2 recommended in my prior testimony. To lower the recovery to zero is not
3 reasonable.

4 **Q. IF THE COMMISSION DECIDED TO LOWER THE ACCESS**
5 **CHARGE TO AN AMOUNT LESS THAN THE CURRENT RATE**
6 **BUT MORE THAN ZERO, WHAT CHARGE WOULD YOU**
7 **RECOMMEND?**

8 A. No reduction below the current rate is reasonable or should be approved by
9 the Commission in this proceeding.

10 **Q. DO YOU AGREE WITH MOVING ALL LOOP COSTS TO LOCAL**
11 **EXCHANGE SERVICE CUSTOMERS?**

12 A. No. The rationale for charging local exchange customers for loop costs,
13 rather than including these costs in toll carriers' costs, centers on the
14 argument that loop costs are non-traffic sensitive or customer-specific.
15 This argument ignores the fact that the loop is part of the integrated
16 telephone network and was built to serve both local and toll usage.

17 **Q. WHY IS IT REASONABLE TO CHARGE TOLL CARRIERS AND**
18 **OTHER SERVICES THAT USE THE LOOPS A PORTION OF THE**
19 **LOOP COSTS?**

20 A. Toll carriers should be charged for the local loop because toll service
21 caused part of the loop costs. Toll carriers use the loop; without the loop,
22 there is no connection to the customer. The loop was designed to provide
23 quality toll service. One of the reasons this country has a
24 telecommunications system that connects to virtually anyone anywhere is

1 the sharing of these costs by all services that use the loop.

2 **Q. DO YOU AGREE THAT SETTING RATES BASED ON THE COST**
3 **OF SERVICE LEADS TO ECONOMIC EFFICIENCY?**

4 A. Yes. Economic efficiency means that consumer demands are being
5 satisfied to the maximum extent at the lowest possible cost. Ratepayers
6 determine which telecommunications services to obtain based on the prices
7 of those services. These services must reflect the costs involved in
8 providing them. In order to ensure that society's resources are used in the
9 manner society desires, it is necessary to have individual products and
10 services reflect the cost of production. The existing loop system was
11 designed to serve both local and toll. Although it is difficult to precisely
12 separate the costs of each use, that difficulty should not allow any particular
13 service to get a free ride.

14 **Q. WHY IS EQUITY AN IMPORTANT CONSIDERATION IN RATE**
15 **DESIGN?**

16 A. Equity promotes cost-based rates, so that some ratepayers are not forced to
17 cross-subsidize other ratepayers. Any further reduction in Verizon's access
18 charges would not promote an equitable result in this proceeding.

19 **Q. IS INEQUITABLE CROSS-SUBSIDIZATION INHERENT IN THE**
20 **CURRENT VERIZON ACCESS RATE LEVELS? IF SO, HOW?**

21 A. Yes. First, requiring toll carriers to contribute virtually nothing to use a
22 *facility that is required to provide toll service (and is designed to provide*
23 *that toll service)* causes other services and non-toll ratepayers to pay more
24 of the loop's cost. Second, business customers are already paying more
25 than enough to cover the cost of their usage of the loops for local exchange

1 and toll calls. Those business customers have had their local exchange
2 rates increased beyond cost to subsidize toll use of the loop. Third, there
3 are contract and bundled rates customers that have not had their rates
4 changed to reflect any of the price increase for local exchange service due
5 to the lowering of access charges. This is an inequitable result; revenue
6 neutral should not mean that only those customers that don't have an
7 agreement or contract pick up the shifting of costs to local exchange.

8 **Q. SHOULD THIS TREND CONTINUE?**

9 A. No. Over the last few years the proposals to shift access costs from toll
10 services to local services has found favor with telephone companies eager
11 to recover more of their costs from captive local customers. This is
12 especially true since they wanted to be in the toll business themselves.
13 Now, rather than compete with the major toll carriers, they are merging
14 with them. The merger of Verizon with MCI, and SBC with AT&T,
15 removes toll competition from the market, thus exacerbating the problem.

16 **Q. DO YOU AGREE WITH THE SHIFT OF COST RESPONSIBILITY?**

17 A. No. Access lines or loops are part of the integrated telephone network; they
18 are not subscriber facilities in terms of cost responsibility. Access line
19 costs do vary in the long run with usage. It could be argued that there is not
20 a single perfect answer for recovering these costs. While several
21 approaches have been suggested, the essential ingredients to finding an
22 appropriate solution are good judgment and clear reasoning by the
23 regulators.

1 **Q. ON WHAT BASIS SHOULD THE NON-TRAFFIC SENSITIVE**
2 **PORTION OF ACCESS COSTS ALLOCATED TO INTRASTATE**
3 **JURISDICTIONAL SERVICE BE RECOVERED?**

4 A. The classification between non-traffic sensitive and traffic sensitive costs is
5 arbitrary. Most access costs are sensitive to types of service in the long run.
6 The investment costs associated with loop plant are central office circuit
7 costs and the loop itself. The expenses associated with loops include
8 maintenance and testing of loops and other directly related costs.

9 Federal law still requires the interstate jurisdiction to assume some recovery
10 of the loop that is used in both jurisdictions. The FCC has ordered a 25%
11 assignment of the loop total cost to interstate toll use. That leaves 75% of
12 the loop costs to be recovered from intrastate calls. However, the
13 Commission has jurisdiction to allocate that 75% any way it decides is
14 reasonable. Based on the assumption of equal availability of the loop, i.e.,
15 50% local, 50% toll (25% interstate and 25% intrastate toll), in the past I
16 have recommended allocating 25% of the loop cost to intrastate toll calls.
17 However, the one inescapable conclusion is that loops are used by all toll
18 and local services and, therefore, should be paid for by all services using
19 the facility.

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

1 **Q. ARE THERE OTHER USAGE RELATED CONSIDERATIONS**
2 **THAT SHOULD BE ACCOUNTED FOR IN PRICING LOCAL**
3 **LOOPS?**

4 A. Yes. Obviously there are choices between private loops and shared loops;
5 there are design choices concerning the installation of concentrators; and
6 loop loading can be accomplished by using either permanent access line
7 attachments or traffic-sensitive central office equipment. Usage
8 requirements determine the resource requirements for loops just as usage
9 requirements determine the resource requirements for electric generating
10 plants. Indeed, we can go even further. Just as there are alternative
11 technologies for power generation, there are alternative technologies for
12 communications. Loop costs vary not only with usage but also by the type
13 of service provided and the type of equipment to which the loop is or may
14 be attached.

15 Moreover, because basic loop systems are generally designed and installed
16 on a mass basis rather than on a customer-specific basis, loop costs have
17 been influenced by particular service needs and new usage considerations
18 as they have developed. With changes in customer usage, many new
19 combinations of loop design and administration have been introduced and
20 adopted for standardized loops. Standard loops must be capable of meeting
21 various signaling and transmission quality requirements for a wide variety
22 of services.

23 **Q. DO BOTH THE VOLUME OF LOOP USAGE AND THE KINDS OF**
24 **SERVICES THAT USE THE LOOP AFFECT COSTS?**

25 A. Yes. For example, if usage was very infrequent and confined to a local
26 area, it is doubtful that high-cost capital-intensive local loop systems would

1 be warranted. In that case, radio transmission could be a far less costly
2 option. But for the congestion and jamming costs attributable to usage and
3 the special requirements associated with long-distance calling, infrequent
4 and/or emergency local communications might be accomplished with a
5 \$100 radio transmitter/receiver rather than a \$1,000 local loop. Obviously,
6 given conventional radio technology and the calling volume in most
7 markets, the higher fixed capital cost of a loop system is justified by the
8 even higher congestion costs that would swamp a radio alternative. But
9 that is a usage consideration. Access line costs should be viewed as a
10 common cost. And, access costs can be allocated to different services. For
11 example:

12 The fact that most services are typically provided in
13 combinations, using the same facilities, does not mean that
14 definable shares of the common costs cannot in principle be
15 causally attributable to each. When the same equipment may
16 be used to make products A and B, and when producing A
17 uses capacity that could otherwise be used to supply B, then
18 we speak of their costs as common instead of joint: and in this
19 event, the marginal cost of A may include an identifiable part
20 of these common costs. This situation is widespread in the
21 public utilities and in industry generally....The same coaxial
22 cable may transmit telephone messages, business data, or TV
23 programs....If any one of these...services uses... circuits...
24 that would in fact otherwise be used for one of the others, or
25 if it requires the construction of greater capacity than would
26 otherwise be necessary, then it does bear a causal
27 responsibility for a share of the common capacity costs. The
28 cost allocation formulae actually employed may achieve only
29 a rough, rule-of-thumb approximation to the actual costs for
30 which each product or service is responsible, but those costs
31 have objective reality. (Alfred E. Kahn, The Economics of
32 Regulation (1970), Volume I, page 78).

1 **Q. SOME MIGHT CLAIM THAT THE CARRIER CHARGE**
2 **REPRESENTS A SUBSIDY TO LOCAL TELEPHONE SERVICE BY**
3 **TOLL USERS. IS THIS CORRECT?**

4 A. No. Toll users require the use of the loop facilities to complete calls. It is
5 totally incorrect to claim that toll users should pay nothing for a facility that
6 was designed for their use and used by them. The real question is what to
7 charge toll carriers for using the loop.

8 **Q. YOU MENTIONED THE CONTRACTS AND BUNDLED**
9 **COMPETITIVE PACKAGES THAT VERIZON OFFERS ITS**
10 **CUSTOMERS. HOW SHOULD THE COMMISSION ALLOCATE**
11 **ANY LOCAL EXCHANGE RATE INCREASE BETWEEN**
12 **VERIZON'S CUSTOMERS THAT HAVE AND DON'T HAVE A**
13 **CONTRACT OR A BUNDLED COMPETITIVE PACKAGE?**

14 A. The Commission should not require any customer that uses a non-
15 competitive service to pay any additional local exchange service rates to
16 make up for a reduction in access charges on toll calls by Verizon's
17 competitive contract and bundled package customers. Not only is this
18 classic monopoly behavior by segmenting the market using demand
19 elasticity, but counsel informs me that such a result would violate the
20 prohibition on subsidization set forth in Section 3016(f) of the Public
21 Utility Code.

22 **III. RECOMMENDATIONS AND CONCLUSIONS**

23 **Q. WOULD YOU SUMMARIZE YOUR RECOMMENDATIONS?**

24 A. Yes. Local loops are part of the integrated telecommunications network.
25 Charging a portion of access costs to toll carriers and allowing them to

1 innovate and experiment in recovering these costs through their own
2 competitive pricing arrangements is reasonable. Including another portion
3 of access costs in local service rates is also reasonable.

4 There is not a single perfect solution to the access cost pricing issue. But,
5 there are some wrong ones. Declaring all access loop costs to be non-
6 traffic-sensitive so as to rationalize their total attribution to a fixed local
7 subscriber charge is unwarranted and harmful.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes, it does.