

VERIZON
STATEMENT NO. 1.0

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2006 ANNUAL PRICE STABILITY INDEX/SERVICE
PRICE INDEX FILINGS OF BUFFALO VALLEY
TELEPHONE COMPANY, CONESTOGA
TELEPHONE & TELEGRAPH COMPANY AND
DENVER & EPHRATA TELEPHONE & TELEGRAPH
COMPANY

DOCKET NOS.

P-00981428F1000; R-00061375

P-00981429F1000; R-00061376

P-00981430F1000; R-00061377

VERIZON

STATEMENT NO. 1.0
(DIRECT TESTIMONY)

WITNESS: Don Price

DATED: December 18, 2006

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1 **I. INTRODUCTION AND BACKGROUND**

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

3 A. My name is Don Price. My business address is 701 Brazos, Suite 600, Austin, TX,
4 78701.

5 **Q. BY WHOM ARE YOU EMPLOYED, AND IN WHAT CAPACITY?**

6 A. I am employed by Verizon Business, one of the three major operating units of
7 Verizon Communications, as Director – State Regulatory Policy in the Regulatory
8 and Litigation department.

9 **Q. PLEASE BRIEFLY OUTLINE YOUR EXPERIENCE IN THE**
10 **TELECOMMUNICATIONS INDUSTRY AND YOUR EDUCATIONAL**
11 **BACKGROUND.**

12 A. I have more than 27 years of experience in telecommunications, most of which is
13 in the area of public policy. During my career, I have been in the employ of an
14 incumbent local exchange carrier, a state regulator, and an entity operating as an
15 interexchange carrier and a competitive LEC. For the past 12 years, my job
16 responsibilities have focused on policy issues relating to telecommunications
17 competition. I have testified in numerous state commission proceedings on a
18 wide range of policy and business issues related to access charges,
19 interconnection, and other competition-related matters on behalf of Verizon
20 Business (and previously MCI). In addition, I help develop Verizon Business'
21 policy positions on various issues and I work closely with many different

1 organizations, including those involved with the products Verizon Business sells
2 and those who engineer and construct Verizon Business's networks.

3 My educational credentials include a Master of Arts degree from the
4 University of Texas at Arlington in 1978, and a Bachelor of Arts degree from the
5 University of Texas at Arlington in 1977.

6 **II. PURPOSE OF TESTIMONY**

7 **Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS TESTIMONY?**

8 A. This testimony is submitted on behalf of Verizon Pennsylvania Inc., Verizon North
9 Inc., Verizon Select Services Inc., Bell Atlantic Communications, Inc. d/b/a Verizon
10 Long Distance, Verizon Global Networks, Inc., MCI metro Access Transmission
11 Services LLC d/b/a Verizon Access Transmission Services, and MCI
12 Communications Services, Inc. d/b/a Verizon Business Services (collectively
13 "Verizon").

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

15 A. The purpose of this testimony is to explain why the switched access rate increases of
16 Denver and Ephrata Telephone & Telegraph Company ("Denver and Ephrata"),
17 Buffalo Valley Telephone Company ("Buffalo Valley") and Conestoga Telephone
18 & Telegraph Company ("Conestoga") (allowed by Orders entered June 23, 2006¹)
19 should be rescinded or amended. I discuss how the companies' rate increases
20 directly conflict with the Commission's stated policies with respect to competition,

¹ The 2006 Annual Price Stability Index / Service Price Index ("PSI/SPI") filings for the companies, respectively, were considered in dockets R-00061377, R-00061375, and R-00061376.

1 universal service, and switched access rates, and explain why the companies'
2 increases to switched access rates within their service areas should not be permitted
3 to remain, pending completion of the Commission's investigation of rural carrier
4 access charges.

5 In addition, I explain why the Commission can resolve this conflict by
6 disallowing the rate increases. Even before these increases, the access charges
7 assessed by Denver and Ephrata, Conestoga and Buffalo Valley were significantly
8 higher than the reasonable and Commission-approved rates charged by the Verizon
9 ILECs; rolling back these rate increases is necessary to prevent the companies'
10 access rates from getting even further out of line at a time when they should be
11 moving closer to the rates charged by Verizon. My testimony also demonstrates that
12 the PSI revenue increases these companies seek can be secured in other ways
13 without further increasing their already high switched access rates.

14 **III. BACKGROUND: WHAT IS AT ISSUE IN THE PROCEEDING**

15 **Q. PLEASE BRIEFLY DESCRIBE THE COMPANIES WHOSE RATES ARE**
16 **AT ISSUE HERE.**

17 A. The companies are three independent local exchange carriers operating in
18 Pennsylvania and regulated by this Commission: Denver and Ephrata, Buffalo
19 Valley, and Conestoga. All three are affiliates under the common ownership of
20 D&E Communications, Inc. D&E Communications describes itself as "a leading
21 provider of integrated communications services in central and eastern
22 Pennsylvania." D&E Communications offers "high-speed data, Internet access,

1 local and long distance telephone, data networking, network management and
2 security, and video services.”² For ease of reference, my testimony will refer to all
3 three companies collectively as the “D&E companies.”

4 According to the D&E companies’ Third Quarter earnings press release, the
5 companies collectively serve approximately 131,000 local lines within their LEC
6 franchised service areas in Pennsylvania.³

7 **Q. WHAT RATE CHANGES WERE IMPLEMENTED BY THE D&E**
8 **COMPANIES THAT ARE THE SUBJECT OF THIS PROCEEDING?**

9 A. The D&E companies implemented switched access rate increases, effective July 1,
10 2006. Denver and Ephrata, Buffalo Valley, and Conestoga all increased their local
11 switching and tandem switching rates. Denver and Ephrata and Buffalo Valley also
12 increased their per-line carrier common line rates.

13 **Q. WHAT SPECIFIC RATE INCREASES DID DENVER AND EPHRATA**
14 **IMPLEMENT?**

15 A. Following the revisions required by the Commission’s June 23, 2006 Order, Denver
16 and Ephrata calculated that its 2006 annual PSI filing would allow it to increase
17 noncompetitive revenue by **[BEGIN PROPRIETARY]** **[END**
18 **PROPRIETARY]** Denver and Ephrata elected to allocate **[BEGIN**
19 **PROPRIETARY]** **[END PROPRIETARY]**, or 96% of that increase,
20 to increasing intrastate switched access rates. Denver and Ephrata increased its

² D&E Communications press release dated November 7, 2006, “D&E Communications reports Third Quarter 2006 Results,” obtained via the company’s website on December 5, 2006.

³ Another affiliate of the D&E companies operates as a CLEC. The Third Quarter earnings release shows more than 40,000 “CLEC lines” served, presumably customers located within the serving territories of other ILECs in Pennsylvania.

1 carrier charge by \$1.13, from \$4.04 to \$5.17. The bulk of the projected revenue, or
2 **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** is to come
3 from this increase to the carrier charge. Denver and Ephrata also increased its
4 Tandem Switching rate to capture an additional **[BEGIN PROPRIETARY]**
5 **[END PROPRIETARY]** and its Local Switching rate to capture an
6 additional **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** See
7 Denver and Ephrata June 28, 2006 Revised PSI Filing (attached hereto as Exhibit 1).

8 **Q. HOW COULD DENVER AND EPHRATA HAVE ALLOCATED THIS**
9 **REVENUE TO RATES OTHER THAN ACCESS RATES?**

10 A. According to data provided with its PSI filing, as of December 31, 2005, Denver and
11 Ephrata served approximately 57,581 access lines. See Denver and Ephrata
12 Response to Section 53.52(a)(2) (Attached hereto as Exhibit 2). Accordingly, if
13 Denver and Ephrata had allocated the **[BEGIN PROPRIETARY]**
14 **[END PROPRIETARY]** in revenue to basic rates and spread the increase evenly
15 across these lines, the monthly increase would have been approximately **[BEGIN**
16 **PROPRIETARY]** **[END PROPRIETARY]** per line. Alternatively, Denver
17 and Ephrata also could have allocated some of the revenue to other noncompetitive
18 services besides basic rates to lessen this per line increase, or allocated more to one
19 category of basic rates and less to another.

20 **Q. WHAT SPECIFIC RATE INCREASES DID CONESTOGA IMPLEMENT?**

21 A. Following the revisions required by the Commission's June 23, 2006 Order,
22 Conestoga calculated that its 2006 annual PSI filing would allow it to increase
23 noncompetitive revenue by **[BEGIN PROPRIETARY]** **[END**

1 **PROPRIETARY]** Conestoga elected to allocate **[BEGIN PROPRIETARY]**
2 **[END PROPRIETARY]**, or 99% of that increase, to increasing
3 intrastate switched access rates. Conestoga decreased its carrier charge by \$0.39,
4 from \$4.83 to \$4.44, but more than offset the revenue impact of that decrease by
5 substantially increasing its Local Switching rate, which was projected to net
6 **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** in new
7 revenue. Conestoga also increased its Tandem Switching rate to gain **[BEGIN**
8 **PROPRIETARY]** **[END PROPRIETARY]** in new revenue. *See*
9 *Conestoga June 28, 2006 Revised PSI Filing (attached hereto as Exhibit 3).*

10 **Q. HOW COULD CONESTOGA HAVE ALLOCATED THIS REVENUE TO**
11 **RATES OTHER THAN ACCESS RATES?**

12 A. According to data provided with its PSI filing, as of December 31, 2005, Conestoga
13 served approximately 56,278 access lines. *See* Conestoga Response to Section
14 53.52(a)(2) (Attached hereto as Exhibit 4). Accordingly, Conestoga could have
15 allocated the **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** in
16 revenue to basic rates and if spread evenly across these lines the monthly increase
17 would have been approximately **[BEGIN PROPRIETARY]** **[END**
18 **PROPRIETARY]** per line. Alternatively, Conestoga also could have allocated
19 some of the revenue to other noncompetitive services besides basic rates to lessen
20 this per line increase or allocated more to one category of basic rates and less to
21 another.

22 **Q. WHAT SPECIFIC RATE INCREASES DID BUFFALO VALLEY**
23 **IMPLEMENT?**

1 A. Following the revisions required by the Commission's June 23, 2006 Order, Buffalo
2 Valley calculated that its 2006 annual PSI filing would allow it to increase
3 noncompetitive revenue by [BEGIN PROPRIETARY] [END
4 PROPRIETARY] Buffalo Valley elected to allocate [BEGIN PROPRIETARY]
5 [END PROPRIETARY], or 76% of that increase, to increasing
6 intrastate switched access rates. Buffalo Valley increased its carrier charge by
7 \$0.91, from \$4.20 to \$5.11. The bulk of the projected revenue, or [BEGIN
8 PROPRIETARY] [END PROPRIETARY] is to come from this
9 increase to the carrier charge. Buffalo Valley also increased its Local Switching rate
10 to gain [BEGIN PROPRIETARY] [END PROPRIETARY] in
11 additional revenue. See Buffalo Valley June 28, 2006 Revised PSI Filing (attached
12 hereto as Exhibit 5).

13 **Q. HOW COULD BUFFALO VALLEY HAVE ALLOCATED THIS REVENUE**
14 **TO RATES OTHER THAN ACCESS RATES?**

15 A. According to data provided with its PSI filing, as of December 31, 2005, Buffalo
16 Valley served approximately 20,839 access lines. See Denver and Ephrata Response
17 to Section 53.52(a)(2) (Attached hereto as Exhibit 6). Accordingly, Buffalo Valley
18 could have allocated the [BEGIN PROPRIETARY] [END
19 PROPRIETARY] in revenue to basic rates and if spread evenly across these lines
20 the monthly increase would have been [BEGIN PROPRIETARY] [END
21 PROPRIETARY] per line. Alternatively, Buffalo Valley also could have allocated
22 some of the revenue to other noncompetitive services besides basic rates to lessen

1 this per line increase or allocated more to one category of basic rates and less to
2 another.

3 **Q. HAVE YOU CALCULATED THE ACCESS RATE INCREASES OF THESE**
4 **COMPANIES ON A PER MINUTE-OF-USE BASIS?**

5 A. Yes. The comparison of the D&E companies' access rates on a per minute-of-use
6 basis before and after the rate increase is depicted in the chart below:

7 **[BEGIN PROPRIETARY]**

8

9

10 **[END PROPRIETARY]**

11

12 According to information produced in response to Verizon's discovery requests,⁴ the
13 D&E companies' total composite access charge per minute of use after the increases
14 were implemented is as follows: **[BEGIN PROPRIETARY]**

15

[END

16

PROPRIETARY]. By contrast, the access charges of the Verizon ILECs are

⁴ See D&E Companies' Response to Verizon I-9 (Attached hereto as Exhibit 7).

1 substantially lower than the new D&E companies' rates. The Verizon ILECs have a
2 carrier charge of \$0.58 per access line or trunk per month, roughly an eighth the size
3 of the \$4.44 to \$5.17 carrier charges of the D&E companies. The Verizon ILECs'
4 combined ARPM for switching and carrier charge is approximately 1.5 cents per
5 minute – roughly one third of the D&E companies' switching and carrier charge
6 averages depicted in Table 1.

7 **Q. IS VERIZON AN ACCESS CUSTOMER OF THE D&E COMPANIES?**

8 A. Yes. According to an estimate provided by the D&E companies in response to
9 discovery,⁵ based on December 2005 data annualized, the Verizon companies are
10 substantial access customers of the D&E companies. Following the rate increases at
11 issue here, Verizon is estimated by the companies to pay **[BEGIN**
12 **PROPRIETARY]** **[END PROPRIETARY]** of Buffalo Valley's annual
13 intrastate access revenues, or **[BEGIN PROPRIETARY]** **[END**
14 **PROPRIETARY]** Verizon is estimated by the companies to pay **[BEGIN**
15 **PROPRIETARY]** **[END PROPRIETARY]** of Conestoga's annual intrastate
16 access revenues, or **[BEGIN PROPRIETARY]** **[END**
17 **PROPRIETARY]** Verizon is estimated by the companies to pay **[BEGIN**
18 **PROPRIETARY]** **[END PROPRIETARY]** of Denver and Ephrata's annual
19 intrastate access revenues, or **[BEGIN PROPRIETARY]** **[END**
20 **PROPRIETARY]** Thus, by the companies' own admission Verizon will pay them

⁵ See D&E Companies' Response to Verizon I-10 (attached hereto as Exhibit 8).

1 almost [BEGIN PROPRIETARY] [END PROPRIETARY] annually
2 in intrastate access payments.

3 **IV. THE COMPANIES' ACCESS INCREASES SHOULD BE**
4 **RESCINDED**

5 **Q. WHAT IS THE BASIS FOR YOUR EARLIER STATEMENT THAT THE**
6 **COMPANIES' SWITCHED ACCESS RATE INCREASES ARE**
7 **CONTRARY TO LONG-STANDING COMMISSION POLICY?**

- 8 A. As I explain in more detail below, the D&E companies' switched access rate
9 increases at issue here are contrary to the Commission's policy in at least the
10 following ways:
- 11 • The companies' increases threaten the balance achieved by the Commission's
12 integrated approach to resolving issues of local competition, universal service, and
13 switched access rate reform;
14
 - 15 • Approval of the switched access increases for these ILECs after other ILECs like
16 Verizon have already drastically reduced their access rates would be highly
17 discriminatory; such discrimination against or in favor of particular carriers distorts
18 the local exchange service marketplace;
19
 - 20 • The switched access increases undermine competition by keeping their local rates
21 artificially low and thus discouraging entry by would-be competitors in the
22 companies' service territories;
23
 - 24 • The switched access rate increases would sharpen rather than diminish the historical
25 rural/urban disparity in rates that keeps urban customers' rates higher so as to lessen
26 upward pressure on rural customers' rates; and
27
 - 28 • The switched access rate increases would harm interexchange carriers ("IXCs") who
29 serve both rural and urban subscribers, because of their general tendency to charge
30 geographically averaged toll rates.
31

1 **Q. HOW HAS THE COMMISSION COMPENSATED THE RURAL**
2 **CARRIERS FOR ACCESS CHARGE REDUCTIONS?**

3 A. By permitting these carriers to rebalance their local rates, supplemented on an
4 interim basis by universal service funding. Specifically, since the Global Order, the
5 Commission has sought to facilitate access charge reductions to remove implicit and
6 explicit subsidies for local rates by establishing separate mechanisms for BA-PA
7 (now Verizon PA), GTE (now Verizon North), Sprint/United (now Embarq), and the
8 small and rural ILECs, including the D&E companies.⁶ The Global Order
9 established the Universal Service Fund (“PaUSF”) as an interim component of the
10 mechanism for the small and rural ILECs. The small ILECs, including Denver and
11 Ephrata, Conestoga and Buffalo Valley, were permitted to draw from the PaUSF to
12 “offset the immediate rate rebalancing revenue needs of the smaller, rural local
13 exchange carriers.”⁷ In other words, if the increased revenues from a small ILEC’s
14 end users were insufficient to offset the reduced and restructured switched access
15 charges resulting from the Global Order, the small ILEC was entitled to recover that
16 net difference from the USF. This was intended only as an interim measure,
17 although it continues in effect today.⁸

⁶ Id. at 18-55.

⁷ Id. at 144.

⁸ Id. at 146 (“In order to implement the goals of TA-96 consistently with this language [the language of the FCC’s Local Competition Order], we must establish a universal service funding mechanism at the same time that we are implementing revenue neutral rate reform and resolving interconnection issues. The interim funding mechanism that we create through this order will function until December 31, 2003, or until the subsequent in investigation [sic] develops a new process, whichever occurs first. We believe that the Small Company Plan, as amended by this Order, will provide the best mechanism to institute the necessary reforms to guarantee a reduction in access and intraLATA toll rates.”)

1 **Q. DO THE D&E COMPANIES COLLECT MONEY FROM THE**
2 **PENNSYLVANIA STATE USF ESTABLISHED BY THE GLOBAL ORDER?**

3 A. Yes, they do. According to information provided by the companies in discovery, the
4 three D&E companies receive a net of **[BEGIN PROPRIETARY]**
5 **[END PROPRIETARY]** per year from the Pennsylvania state USF. The individual
6 companies' receipts and payments are as follows (See D&E Companies' Response
7 to VZ I-12, attached hereto as Exhibit 9):⁹

8 **[BEGIN PROPRIETARY]**
9
10
11

12
13 **[END PROPRIETARY]**
14

15 **Q. HOW DO THE D&E COMPANIES' INCREASED SWITCHED ACCESS**
16 **RATES COMPORT WITH THE COMMISSION'S APPROACH TO THESE**
17 **ISSUES?**

18 A. They don't. By increasing switched access rates, thereby reversing a portion of the
19 rate reductions previously approved by the Commission for which the D&E
20 companies were already compensated through PaUSF payments, the D&E
21 companies' actions upset the balance and linkage between the mechanisms
22 established in the Global Order. By now increasing intrastate access rates after
23

⁹ In addition, the three D&E companies receive a total of \$7,096,000 from the federal universal service fund. See D&E Form 10-K for Fiscal Year Ending December 31, 2005 at 20.

1 having already offset prior access decreases with revenue-neutral local service rate
2 increases and PaUSF receipts, the D&E companies are not just reversing direction
3 from prior efforts by the Commission to reduce rural carrier access charges; they are
4 also effectively double-dipping on supposedly lost revenue for which they have
5 already been compensated. In other words, they will effectively be compensated
6 twice for the same rate reduction. The Commission should not permit this to
7 happen, and should order the D&E companies to reverse their access rate increases
8 and take any PSI increases that may be warranted in their other rates.

9 **Q. HOW DO THE COMPANIES' ACTIONS HARM THE COMPETITIVE**
10 **PROCESS BY DISCOURAGING COMPETITIVE ENTRY?**

11 A. If subsidies are used by a carrier to keep basic local service rates artificially low, that
12 discourages entry by would-be competitors. Two equally efficient competitors
13 serving a market should, all else being equal, exhibit roughly equivalent per unit
14 costs. However, if a subsidy is received by one competitor, it can charge a rate less
15 than its per unit cost and still be profitable. The competitor without a subsidy cannot
16 compete with a subsidized price and has no incentive to enter or, if already in,
17 remain in the market.

18 **Q. CAN YOU AMPLIFY YOUR EARLIER STATEMENT THAT SWITCHED**
19 **ACCESS RATE INCREASES WOULD SHARPEN RATHER THAN**
20 **DIMINISH THE HISTORICAL RURAL/URBAN DISPARITY IN RATES**
21 **THAT KEEPS URBAN CUSTOMERS' RATES HIGHER SO AS TO**
22 **LESSEN UPWARD PRESSURE ON RURAL CUSTOMERS' RATES?**

23 A. Yes. The urban/rural rate disparity is one of the historical pricing artifacts discussed

1 in the Commission's Global Order. Because local service rates in the monopoly era
2 had traditionally been based on factors other than the cost of providing the service,
3 the direction of subsidy flow tended to be from urban to rural.¹⁰ In the 1980s, as
4 switched access rates replaced pre-divestiture pooling and settlements mechanisms,
5 at least some portion of that subsidy flow was moved into switched access rates.

6 The Commission recently acknowledged this development:

7 Traditionally, in the ILEC monopoly environment ILECs priced
8 access service charges above cost as a means of generating additional
9 revenues that were used to support local rates and thus keep basic
10 local services affordable.¹¹

11 Because IXCs' rates typically are averaged, urban users of toll services have
12 traditionally paid higher toll rates than would otherwise have been the case.

13 Conversely, rural users paid lower toll rates. The Commission's Global Order,
14 reflecting its policy determination that such subsidy flows should be reduced over
15 time, established concrete mechanisms to lessen the urban-to-rural subsidy flow,
16 both by reducing switched access rates and increasing retail end user rates, while
17 preserving universal service.

18 Increasing switched access rates has the undeniable effect of undermining
19 the Commission's prior efforts to eliminate or lessen these historical subsidy flows.

¹⁰ Global Order at 11 ("... public policy over time has resulted in a situation wherein higher cost areas, such as rural areas, with lower density cell rates and longer loop distances, obtain rate support from lower cost areas, such as urban areas with higher density cell rates and shorter loop distances.")

¹¹ June 23 Order in Docket R-00061375, at 6. See also, Global Order at 189, quoting the RTCC Statement No. 1 to the effect that the RTCC members' local rates "reflect a significant subsidy from toll and access charges."

1 **Q. WHY DO YOU BELIEVE THAT SWITCHED ACCESS RATE INCREASES**
2 **WOULD HARM INTEREXCHANGE CARRIERS SERVING BOTH**
3 **URBAN AND RURAL AREAS?**

4 A. Because increases in rural switched access rates will penalize IXCs that provide
5 service in both urban and rural areas in their competition with IXCs that serve only
6 (lower access) urban areas. Some interexchange carriers may decide to serve only
7 urban areas. In that case, it is only the switched access rates of the LECs serving
8 those urban areas that make up the external component of the IXC's cost structure.
9 And because the switched access rates in the urban areas tend to be lower than in
10 rural areas, that IXC's cost structure will be lower than the cost structure of an IXC
11 that serves both rural and urban areas.

12 The IXC serving both urban and rural areas, however, cannot charge
13 separate rates in rural areas than what it charges to urban customers. Rather, the fact
14 that carriers typically average rates geographically means that the IXC's rural
15 customers gain at least a portion of the benefit of competitive pressures the IXC
16 experiences by competing in urban areas. Conversely, rate-averaging also creates
17 pressure on the IXC's rates as it competes with IXCs serving only urban areas –
18 IXCs whose cost structures avoid the higher rural access rates. Indeed, the D&E
19 companies appear to have acknowledged this problem in preparing their Chapter 30
20 filings. In response to Verizon's data request 1-18, the companies stated that their
21 decision-making considered the impact of raising access rates, although they
22 determined that the action "would not have an impact on rates any long distance
23 provider would charge to our end users due to the requirement to have average toll

1 rates.”¹² Ultimately, however, increasing the disparity between urban and rural
2 access rates will discourage IXC entry into rural markets.

3 As the Commission had previously determined in its Global Order, the
4 answer to the economic distortions created by these implicit subsidies is to lessen or
5 eliminate the disparity between switched access rates in rural and urban areas, and
6 for that reason the D&E companies’ rate increases are contrary to the Commission’s
7 objectives of enhancing competition.

8 **Q. IS IT YOUR TESTIMONY THAT THE D&E COMPANIES’ INCREASES**
9 **UNDER THEIR CHAPTER 30 PLANS ARE IMPERMISSIBLE?**

10 A. No. But the Commission has the power to review and render judgment on a
11 carrier’s Chapter 30 filings.¹³ Given the Commission’s policy of reducing switched
12 access charges from the levels of the mid-1990s, a reversal of that policy is not
13 warranted for these carriers, especially given that other carriers, like Verizon-PA and
14 Verizon North, have already finished very substantial access rate reductions in
15 service of that policy.

16 Importantly, through the PaUSF, the D&E companies’ prior switched access
17 reductions are partly funded on a continuing basis by other carriers, including
18 Verizon.¹⁴ The D&E companies’ rate increases are thus doubly harmful to Verizon,
19 requiring it to fund both explicit subsidies to the D&E companies via the PaUSF and
20 implicit subsidies through higher intrastate switched access charges, notwithstanding

¹² See D&E Companies’ Response to Verizon I-18 (attached hereto as Exhibit 10).

¹³ See Summary Judgment Order in Docket M-00031694, entered September 9, 2003, at 8.

¹⁴ Because Verizon PA and Verizon North were not permitted to draw from the USF, no such explicit intercarrier subsidy flow was used to replace the Verizon ILECs’ previous access reductions.

1 the fact that the prior lower access rates were previously offset by increasing the
2 companies' PaUSF receipts.

3 **Q. WHAT DO YOU RECOMMEND THE COMMISSION DO IN THIS CASE?**

4 A. The D&E companies' access rate increases contravene this Commission's policy of
5 removing implicit subsidies from access rates and serve to further widen the
6 disparity between the D&E companies' access rates and the drastically reduced
7 access rates charged by Verizon. The D&E companies have provided no reasonable
8 justification for the Commission to change course and now approve discriminatory
9 increases to their access rates. Therefore, Commission should disallow the rate
10 increases and instead allow the D&E companies to reallocate this revenue to other
11 noncompetitive services within the parameters allowed by their Chapter 30 plans. If
12 the Commission nevertheless determines that the rates should remain in effect –
13 which it should not – then the Commission should reduce or eliminate the D&E
14 companies' net receipts from the PaUSF by equivalent amounts, since these
15 increases have negated prior access rate decreases that were the basis for
16 establishing the companies' share of the PaUSF. Ultimately, however, these carriers
17 should rebalance their local rates in order both to bring their access rates into line
18 with the reasonable rates charged by Verizon and to reduce the cost imposed on
19 customers of other carriers who bear the cost of funding the PaUSF. Accordingly,
20 permitting them to increase their access rates here would be a step in the wrong
21 direction.

22 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

23 A. Yes.

**ALL EXHIBITS
[EXHIBITS 1 through 8]
ARE PROPRIETARY**

**NO EXHIBITS ARE ATTACHED
TO THIS EXPURGATED VERSION
OF THE TESTIMONY;
EXHIBITS 1 through 8 ARE ATTACHED
TO THE PROPRIETARY VERSION ONLY**

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1 **I. INTRODUCTION AND BACKGROUND**

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

3 A. My name is Don Price. My business address is 701 Brazos, Suite 600, Austin, TX,
4 78701.

5 **Q. DID YOU PROVIDE DIRECT TESTIMONY IN THIS MATTER ON**
6 **BEHALF OF THE VERIZON COMPANIES¹ ON DECEMBER 18, 2006?**

7 A. Yes.

8 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

9 A. The purpose of this testimony is to respond to certain statements made in the Direct
10 Testimony of Leonard J. Beurer filed in this matter on December 18, 2006 on behalf
11 of Denver and Ephrata Telephone & Telegraph Company (“Denver and Ephrata”),
12 Buffalo Valley Telephone Company (“Buffalo Valley”) and Conestoga Telephone
13 & Telegraph Company (“Conestoga”) (collectively the “D&E companies” or
14 “D&E”).

15 **Q. HAVE YOU REACHED ANY GENERAL CONCLUSION AS A RESULT OF**
16 **YOUR REVIEW OF MR. BEURER’S TESTIMONY?**

17 A. Yes. I have concluded that the D&E companies have failed to demonstrate that it
18 would be just and reasonable to allow their access rate increases to stand. A full
19 consideration of the relevant facts and circumstances requires the Commission to

¹ As noted in my direct testimony, the Verizon companies include Verizon Pennsylvania Inc., Verizon North Inc., Verizon Select Services Inc., Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance, Verizon Global Networks, Inc., MCImetro Access Transmission Services LLC d/b/a Verizon Access Transmission Services, and MCI Communications Services, Inc. d/b/a Verizon Business Services.

1 rescind these increases and to maintain the *status quo* during the stay of its overall
2 investigation into the rural carriers' access rates. Instead of allowing the access
3 increases to remain in effect, the Commission should require the D&E companies to
4 implement their 2006 PSI revenue increase opportunities through other rate
5 increases within the allowable limits of their Chapter 30 plans, without raising
6 switched access rates.

7 **II. RESCINDING THE D&E COMPANIES' ACCESS INCREASES**
8 **TO MAINTAIN THE *STATUS QUO* DURING THE STAY OF**
9 **THE RURAL ACCESS INVESTIGATION IS CONSISTENT**
10 **WITH CHAPTER 30 AND THE COMPANIES' CHAPTER 30**
11 **PLANS**

12 **Q. MR. BEURER CONTENDS THAT CHAPTER 30 ALLOWS THE**
13 **REVENUE INCREASES DERIVED FROM THE PSI FORMULA TO BE**
14 **"ALLOCATED AT THE CARRIERS' DISCRETION AMONG**
15 **NONCOMPETITIVE RATES" WITH NO LIMITS (P. 35). DO YOU**
16 **DISAGREE?**

17 **A.** As a general matter, no. Verizon is not advocating that the Commission should step
18 in as a routine matter and attempt to redesign otherwise reasonable Chapter 30 rate
19 increases. But this is not a routine case where the proposed increases are otherwise
20 reasonable. By increasing its already unreasonably high access rates, while at the
21 same time asking this Commission to stay its long overdue investigation of rural
22 carrier access rates (insulating its own rates from meaningful review), D&E itself
23 has placed the Commission in the position of having to take action now to rescind

1 the unwarranted access increases and prevent D&E from using its PSI to further
2 exacerbate access rate disparities and subsidies. As discussed in my direct
3 testimony, D&E's unprecedented access increases fly in the face of this
4 Commission's policy to remove implicit subsidies to achieve the goals of efficiency
5 and encouraging competition. I also note that, even apart from any PSI filing,
6 Chapter 30 acknowledges that the Commission may rebalance revenue by reducing
7 access rates and making revenue neutral increases to other noncompetitive rates. 66
8 Pa. C.S. § 3017(a). Thus, access rates are different from other noncompetitive rates.

9 **Q. MR. BEURER CONTENDS THAT IN PREVIOUS COMMISSION ORDERS**
10 **THERE IS "NO PROHIBITION PRECLUDING THE INTRASTATE**
11 **ACCESS CHARGE CHANGES" AND THERE ARE NO EXPLICIT PUC**
12 **ORDERS FREEZING ACCESS RATES. (P. 9-10, 36). EVEN IF TRUE,**
13 **WOULD THAT PRECLUDE THE COMMISSION FROM RESCINDING**
14 **D&E'S ACCESS RATE INCREASES HERE?**

15 A. No. I am not a lawyer, and I understand that the appropriate legal standards will be
16 addressed in briefing; the issue of whether the Commission's prior orders had the
17 effect of prohibiting access increases is an issue more appropriately addressed there
18 than in testimony. I do note, however, that the Commission has recognized that in
19 reviewing PCO and PSI filings "the Commission still has the statutory mandate,
20 authority and responsibility under 66 Pa.C.S. § 3019(h) to adjudicate whether the
21 proposed rate changes are just and reasonable and non-discriminatory respectively
22 under sections 1301 and 1304 of the Public Utility Code, 66 Pa. C.S. § 1301 and

1 1304.² Given the facts and circumstances here, as explained in my testimony, it is
2 *not* just and reasonable to allow D&E to further increase its already high access rates
3 and to disrupt the *status quo* during the stay of the rural carrier access investigation.

4 **Q. WOULD THE D&E COMPANIES' CHAPTER 30 PLANS HAVE**
5 **ALLOWED THE REVENUE INCREASES TO BE ALLOCATED TO**
6 **OTHER NONCOMPETITIVE RATES BESIDES ACCESS RATES?**

7 A. Yes. As Mr. Beurer points out, the plans give D&E fairly wide discretion in
8 designing its rate increases. D&E admits that the only limitation under its plan is
9 that it may not increase basic local rates for residential and small business customers
10 by more than \$3.50 per month. (Beurer Direct at 35). As I discussed in my direct
11 testimony (at pp. 5-7), the D&E companies could have recovered the revenue that
12 they allocated to access rates instead through basic exchange rate increases that
13 would have been far less than \$3.50 per month.

14 **Q. WHAT IS YOUR RESPONSE TO MR. BEURER'S CONTENTION THAT IF**
15 **THE COMMISSION "INTENDED TO HAVE A GENERAL PUBLIC**
16 **POLICY RULE OF ONLY ALLOWING INTRASTATE ACCESS RATES**
17 **TO DECREASE" IT COULD HAVE REMOVED THOSE SERVICES FROM**
18 **THE CARRIERS' LIST OF NONCOMPETITIVE SERVICES AND FROM**
19 **THE CARRIERS' PSI/SPI CALCULATIONS (P. 27)?**

20 A. While this is another issue for briefing, I am not aware of another way the
21 Commission could remove switched access from a carrier's list of noncompetitive

² *Commonwealth Telephone Company PSI/SPI Filing for Year 2005*, No. R-00050551 (Opinion and Order entered August 31, 2005).

1 services except to declare the service competitive. My understanding of the new
2 Chapter 30 statute is that it continues to define switched access as a protected
3 service, and thus the Commission could not remove it from the list of
4 noncompetitive services unless it found that the service was “competitive based on
5 the demonstrated availability of like or substitute services or other business activities
6 provided or offered by alternative service providers.” 66 Pa. C.S. § 3016(a)(1).
7 Until such a finding, switched access remains a “protected” service, and the
8 Commission will have the authority to ensure that access rates remain reasonable.

9 **Q. DO YOU AGREE WITH MR. BEURER’S CONTENTION (E.G., P. 4) THAT**
10 **“PROVIDED THE CARRIER CHARGE RATES DO NOT EXCEED THE**
11 **\$7.00 GLOBAL ORDER BENCHMARK,” THE COMMISSION’S ACCESS**
12 **PRICING POLICY WOULD LEAVE THE D&E COMPANIES FREE TO**
13 **INCREASE THE CARRIER CHARGES?**

14 **A.** No. I do not see any support for that conclusion. The Small Company Universal
15 Service Fund Settlement adopted by the Commission in the *Global Order* contained
16 a provision that required the small ILECs (including D&E, Buffalo Valley and
17 Conestoga) to convert their per-minute carrier common line (CCL) charges to a flat
18 per-line carrier charge (CC). The settlement stated that the small ILECs would
19 reduce their current CCL revenue to “the equivalent of approximately \$7.00 per
20 month, per access line” and then convert recovery to a CC format.³ This is the \$7.00
21 “benchmark” carrier charge to which Mr. Beurer refers. Based on Exhibit 3 to Mr.

3 Global Order Appendix II, Small Company Universal Service Fund Settlement, Appendix A at II.B.
II.C.5-6 (attached hereto as Exhibit 1).

1 Beurer's testimony, it seems that Buffalo Valley and Conestoga had a "carrier
2 common line" charge (which I believe is the carrier charge) of \$7.00 as of April 1,
3 2000, while D&E's charge as of that date was \$6.11. Mr. Beurer's Exhibit 3 depicts
4 each of the companies decreasing its "carrier common line charge" over the years,
5 until the events of the present case.

6 It simply does not follow, however, that the D&E companies are free to increase
7 their carrier charges to \$7.00 now, seven years after the *Global Order* and after other
8 decreases, based on the Commission's adoption of that settlement. First, even if the
9 Commission believed that \$7.00 was a reasonable carrier charge for ILECs like the
10 D&E companies under the circumstances that existed in 1999, that does not mean
11 that the Commission still views \$7.00 as a reasonable carrier charge today, seven
12 years later after further reductions to the access charges have been made. The \$7.00
13 carrier charge target was part of a plan that was designed to *reduce* access rates from
14 even higher levels, not as a target for access rate *increases* today. In the *Global*
15 *Order* the Commission was careful to caution the small ILECs that "[t]hose
16 Companies with a CC below \$7.00 *are not authorized by this Order to*
17 *automatically increase their CC to \$7.00.*" *Global Order* at 51, n. 29 (emphasis
18 added). Given all the Commission's statements about its desire to "reduce switched
19 access charges toward levels that come closer to costs," (*Global Order* at 38) and to
20 "replace the system of implicit subsidies with 'explicit and sufficient' support
21 mechanisms," (*id.* at 26-27), it is not reasonable to interpret the Commission's 1999

1 \$7.00 carrier charge target for reductions as permitting increases in the D&E
2 companies' carrier charges to that level.

3 **Q. IN THE SEVEN YEARS SINCE THE GLOBAL ORDER, HAVE THE**
4 **VERIZON ILECS REDUCED THEIR INTRASTATE SWITCHED ACCESS**
5 **RATES?**

6 A. Yes. The Verizon ILECs have reduced their revenue from intrastate switched access
7 rates by approximately \$140 million in Pennsylvania since the *Global Order*. First,
8 in compliance with the *Global Order* Verizon PA made approximately \$89 million
9 in annual access revenue reductions without raising end-user rates, keeping those
10 reductions revenue-neutral through the application of Verizon PA's Price Cap
11 Mechanism. As a second step, Verizon reduced access rates by another \$50 million
12 as a result of a settlement approved in Phase I of Docket C-20027195, keeping the
13 reductions revenue neutral through a combination of PCO offsets and end-user rate
14 increases. As a result of these decreases, Verizon PA and Verizon North currently
15 have a per-line carrier charge of \$0.58.

16 **Q. DOES THE EVIDENCE SUPPORT MR. BEURER'S CONTENTION THAT**
17 **THE D&E COMPANIES ARE "FRONT RUNNERS" IN ACCESS REFORM.**
18 **(P. 45)?**

19 A. No. Their recent actions to raise access rates certainly do not make them "front
20 runners" now. Moreover, they are not "front runners" in comparison to the Verizon
21 ILECs, which have implemented significant reductions in recent years as discussed
22 above. In fact, the information depicted on Exhibit 1 to Mr. Beurer's testimony

1 shows the D&E companies to be in the middle of the pack among rural ILECs, not
2 leaders, as he suggests.⁴ Of the 13 study areas/companies that are depicted in that
3 Exhibit as having reduced rates, five study areas reduced rates by more than any
4 D&E company, and the reductions taken by one of the D&E companies (Denver and
5 Ephrata) were the second smallest reductions among the 13 study areas.

6 Instead of somehow suggesting front runner status, D&E Exhibit 1
7 demonstrates the grave inequities that currently exist in the small ILECs' exorbitant
8 access rates. The fact that some small ILECs are imposing carrier charges exceeding
9 \$15 per line per month – or over \$180 per line per year – shows there is a huge
10 disparity and a fundamental problem that must be addressed, including whether
11 these subsidies are justified at all.

12 Another interesting fact depicted on D&E's Exhibit 1 is that four of the five
13 Frontier ILECs have *no carrier charge at all*, and the fifth has a carrier charge of
14 only \$0.17. A review of their tariffs indicates that each of these companies has
15 residential end user rates at or close to the \$18 level,⁵ which was the benchmark set
16 in this Commission's July 15, 2003 Order in Docket No. M-00021596. That order
17 approved the small ILECs' joint procedural stipulation to rebalance their rates in
18 defined steps by increasing end user rates and decreasing access rates. One would

4 Mr. Beurer's Exhibit 1 lists Embarq's carrier charge as being \$8.20, but Embarq's tariff indicates that the monthly carrier charge rate applicable to IXCs per line per month is only \$7.19. Embarq Pa PUC No. 29, Supplement No. 71, Seventh Revised Page 90.

5 See Frontier Communications of Breezewood, LLC, Pa. PUC No. 5, Sec. 2, Eighth Rev. Sheet 1 (residential rate of \$17.46); Frontier Communications of Canton, LLC, Pa. PUC No. 3, Sec. 2, Eighth Rev. Sheet 1 (residential rate of \$17.29-\$18.00); Frontier Communications of Lakewood, LLC, Pa. PUC No. 5, Sec. 2, Eighth Rev. Sheet 1 (residential rate of \$16.49); Frontier Communications of Oswayo River, LLC, Pa. PUC No. 5, Sec. 2, Eighth Rev. Sheet 1 (residential rate of \$17.74);

1 assume, therefore, that the Frontier companies – not the D&E companies -- are the
2 “front runners” in access reform among the rural ILECs. In fact, not only are the
3 D&E access rates higher but, as discussed in more detail below, two of the three
4 companies have residential dial tone line rates that still remain well below the \$18
5 benchmark. One wonders how the Frontier carriers can operate in evidently rural
6 territory with this rate structure, while the D&E companies and other ILECs claim
7 that they cannot do without additional substantial implicit subsidies from carriers
8 like Verizon in the form of large carrier access charges. These are among the
9 questions that must be addressed in the rural carrier access investigation.

10 **Q. MR. BEURER CONTENDS THAT ACCESS CUSTOMERS SUCH AS**
11 **VERIZON HAVE “ENJOYED THE BENEFIT OF SIGNIFICANT ACCESS**
12 **CHARGE SAVINGS DUE TO D&E’S AGGRESSIVE RATE**
13 **REBALANCING,” AND “HAD THE D&E CARRIERS ELECTED NOT TO**
14 **DO ANY VOLUNTARY ACCESS REDUCTIONS THEIR ACCESS RATES**
15 **WOULD BE MUCH HIGHER THAN THEY ARE TODAY YET STILL BE**
16 **IN ACCORDANCE WITH ALL PAPUC ORDERS.” (P. 46). DO THESE**
17 **STATEMENTS TELL THE WHOLE STORY?**

18 **A.** No. Mr. Beurer’s suggestion -- that the D&E companies could have chosen not to
19 reduce their access rates and to continue up to today charging the rates that went into
20 effect with the *Global Order* -- does not fully comport with the facts. After the
21 *Global Order* the Commission required the small ILECs to further reduce their
22 access rates in its July 15, 2003 Order in Docket M-00021596, etc. In doing so, the

1 Commission did not substantively examine the small ILECs' underlying costs, but
2 instead accepted a Joint Procedural Stipulation proposed by many parties, including
3 the D&E companies (as well as the Verizon ILECs and MCI). That settlement
4 provided for further reductions of small ILEC access rates. The Commission stated
5 that "this is a compromise proposal that merely seeks to extend and continue
6 additional access reform as initially begun in the *Global Order*," and "we do not
7 intend to declare the access rates established by this Order as the final word on
8 access reform" but rather as "the next step in implementing continued access reform
9 in Pennsylvania in an efficient and productive manner." (7/15/03 Order at 12).

10 Thus, the Commission accepted this compromise as a stop-gap measure instead of
11 proceeding immediately with a Commission investigation of the substance of the
12 small ILECs' access rates, and the Commission stated at that time that because of
13 the settlement it "will not require the ILECs to incur the expense of producing
14 detailed cost studies." (*Id.*)

15 The "Joint Access Proposal," which was Attachment A to the Commission's
16 July 15, 2003 Order, provided for two steps of basic residential and business rate
17 increases and raised the residential cap to a weighted average of \$18.00. The
18 proposal detailed basic rate increases that the carriers could implement in two steps
19 and also required each ILEC to "file a compliance tariff(s) to reduce its CC [carrier
20 charge] or TS [traffic sensitive] rates, or any combination thereof, by a revenue-
21 neutral amount" to offset the revenue gained from these basic rate increases.⁶

6 Joint Access Proposal In Response to the Commission's Access Charge Investigation – Phase II,

1 Therefore, Mr. Beurer does not tell the whole story in characterizing the D&E
2 companies' rate rebalancing as "voluntary" steps and suggesting that the companies
3 could have chosen to leave their access rates alone. It is quite clear that the
4 Commission was requiring access reductions and that IXCs did not "benefit" solely
5 through some sort of voluntary generosity on the part of D&E.

6 **Q. DOES THE D&E COMPANIES' TESTIMONY FULLY ACKNOWLEDGE**
7 **THE LINKAGE BETWEEN THIS MATTER AND THE PRESENT RURAL**
8 **CARRIERS ACCESS INVESTIGATION, WHICH THE COMMISSION**
9 **HAS STAYED?**

10 **A.** No. Mr. Beurer does mention the pending small carrier access investigation in
11 Docket No. I-00040105 and notes that the Commission has stayed that case for
12 twelve months or until the FCC resolves its intercarrier compensation proceeding,
13 whichever is earlier. (p. 23-25). But Mr. Beurer also expresses the opinion that the
14 Commission's November 15, 2006 stay order leaves the D&E companies free to
15 raise their access rates during the period of the stay. (*Id*). While parsing the
16 meaning of the Commission's stay order is a matter for legal briefing, I do note that
17 Mr. Beurer nowhere addresses the inequity to the D&E companies' access
18 customers of allowing increases to rates that the Commission has already found are
19 too high while at the same time obtaining a stay insulating those rates from any
20 comprehensive substantive investigation. By initiating their investigations of these
21 compensation issues, both this Commission and the FCC have recognized that high

Appendix A to Commission Order Entered July 15, 2003 at Docket M-00021596 ¶ 6 (attached hereto as Exhibit 2).

1 RLEC access rates present a problem that needs to be addressed. D&E has not
2 justified permitting it to make the problem worse by increasing its access rates
3 during the investigation. And while there may be reasons for the limited stay
4 granted by the Commission, there are no similar reasons to allow the D&E
5 companies to disrupt the *status quo* during the period of the stay by raising the very
6 rates that are subject to the investigation. That is particularly true where, for the
7 reasons I discuss below, D&E has failed to meet its burden of demonstrating that
8 such increases are reasonable.

9 The Commission's November 15, 2006 Order states that any "other rural
10 ILECs contemplating the submission of PSI filings should be prepared to fully
11 support the justness and reasonableness of any proposed increase to intrastate access
12 charges during the stay of this proceeding both in regard to Chapter 30 and the
13 policies that underlie the Pennsylvania Universal Service Fund." (p. 15).
14 Presumably this is the same showing that the Commission expects the D&E
15 companies to make if they wish to justify the access increases that are the subject of
16 this proceeding.

17 **Q. MR. BEURER CONTENDS THAT THE ACCESS INCREASES AT ISSUE**
18 **HERE ARE "SMALL," IMPLYING THAT THE COMMISSION SHOULD**
19 **NOT BE CONCERNED ABOUT THEM. (P. 10). DO YOU AGREE?**

20 **A.** "Small" is a relative term, of course, but by any measure the D&E companies'
21 access increases are significant. Moreover, if other companies were to follow in

1 D&E's footsteps and raise their access rates, the impact on the access customers
2 paying these rates could be substantial.

3 According to information produced by the D&E companies in discovery and
4 attached as exhibits to my direct testimony, the following chart depicts the additional
5 revenue each company expects to receive from the access increases and the total
6 intrastate access revenue following the increases.

7 **[BEGIN PROPRIETARY]**

8
9 **[END PROPRIETARY]**

10 Based on the companies' estimates provided in discovery, the Verizon companies
11 will be required to subsidize the business operations of the D&E companies by more
12 than an additional **[BEGIN PROPRIETARY]** **[END PROPRIETARY]**
13 per year in additional access charges as a result of this increase.⁷ While Mr. Beurer
14 might dismiss this rate increase as "small," it is not fair or reasonable to expect
15 Verizon to subsidize D&E's business by an additional **[BEGIN PROPRIETARY]**
16 **[END PROPRIETARY]** – for a total of almost **[BEGIN**

⁷ Exhibit 8 to Price direct, D&E Companies' Response to Verizon I-10, sum of monthly impacts on Verizon companies multiplied by 12.

1 **PROPRIETARY]** **[END PROPRIETARY]** in annual access payments
2 to the D&E companies. (*See Price Direct at 10*).

3 **III. D&E’S ARGUMENT THAT IT NEEDS THE ADDITIONAL**
4 **REVENUE FROM OTHER CARRIERS TO FUND ITS**
5 **BROADBAND COMMITMENTS IS NOT PROVEN AND**
6 **DOES NOT JUSTIFY THESE RATE INCREASES.**

7 **Q. WHAT IS YOUR RESPONSE TO MR. BEURER’S SUGGESTION THAT**
8 **THE “QUID PRO QUO” FOR D&E’S BROADBAND COMMITMENTS**
9 **WAS ITS BELIEF IN ITS UNFETTERED ABILITY TO RAISE ACCESS**
10 **RATES, THAT IT CHOSE TO COMMIT TO THE 100% AVAILABILITY**
11 **BY 2008 OPTION IN RELIANCE ON THIS BELIEF AND THAT, HAD IT**
12 **KNOWN THAT THERE WAS AN “IMPLIED FREEZE” ON ACCESS**
13 **RATES, IT MAY NOT HAVE BEEN ABLE TO COMMIT TO THE 2008**
14 **OPTION. (P. 36-41)?**

15 A. First, Mr. Beurer’s claim that the companies made the commitment to 100%
16 broadband availability by the end of 2008 in reliance on the prospect of recovering
17 the revenue to pay for that build-out from increasing intrastate access rates is flatly
18 contrary to the D&E companies’ own statements to the Securities and Exchange
19 Commission (“SEC”) in its Form 10-K for the fiscal year ended December 31, 2005.
20 D&E’s 10-K demonstrates that the companies well knew that they were at risk, not
21 only of *not* being able to increase intrastate access rates, but also of actually being
22 told to *reduce* their existing rates. As the companies explained to the SEC:

23 The amount of network access revenues that we receive is calculated
24 based on guidelines set by federal and state regulatory bodies, and such

1 guidelines *could change at any time*. Both the PA PUC and the FCC
2 have made and are continuing to consider various reforms to the
3 existing rate structure for charges assessed on long distance carriers for
4 connection to local networks. These reforms are *designed to move these*
5 *network access charges, over time, to lower rate levels* and structures.
6 These changes *will reduce access charges* and *could shift recovery to*
7 *end-user customers* rather than long distance carriers. As a result, *the*
8 *aggregate amount of network access charges paid by long distance*
9 *carriers to access providers, such as our RLECs, will likely decrease.*⁸
10

11 The companies further acknowledged in their Form 10-K that “[t]he PUC is
12 currently considering changes in intrastate switched access rates and intrastate USF
13 reform for ILECs in Pennsylvania. . . . At this time, we cannot predict either the
14 timing or the outcome of the PUC’s proceeding.”⁹

15 The Form 10-K representations also demonstrate that the D&E companies
16 recognized that they obtained more benefit from their alternative regulation plan
17 under Chapter 30 than simply the ability to increase rates through an inflation-based
18 formula. “In exchange for the indexed price cap on rates, the RLECs get the benefit
19 of any increase in margin resulting from their ability to reduce operating costs.”¹⁰

20 Finally, the companies’ Form 10-K casts doubt on their current claim that
21 significant new funds are needed to meet D&E’s 2008 broadband commitment.
22 According to D&E’s statements to the SEC, over a year ago and well before these
23 access increases were implemented – “[w]e currently are capable of providing
24 broadband services as defined by the new law to 98% of our customers. We feel we

⁸ D&E Communications, Inc. Form 10-K for the fiscal year ended December 31, 2005 at 21 (Exhibit 3 hereto) (emphasis added).

⁹ Id. at 26.

¹⁰ Id. at 17.

1 are well positioned to meet the required 100% threshold by December 31, 2008 and
2 are of the opinion that the benefits of Act 183 outweigh any costs in committing to
3 an earlier 100% threshold.”¹¹ Thus, the D&E companies’ statements to the SEC
4 flatly contradict Mr. Beurer’s contentions that, until the Commission issued its
5 recent orders on these companies’ PSI filings, the D&E companies believed that
6 revenue from increasing access rates was somehow guaranteed and that the revenue
7 from these access increases is essential to fund their broadband commitments. .

8 **Q. EVEN IF THE COMMISSION BELIEVES D&E’S ARGUMENT THAT IT**
9 **DEPENDS ON BEING ABLE TO RAISE ACCESS RATES TO MAKE**
10 **THE 2008 BROADBAND DEPLOYMENT COMMITMENT, IS THE ONLY**
11 **AVAILABLE REMEDY TO ALLOW D&E TO RAISE ITS ACCESS**
12 **RATES?**

13 A. No. If the Commission accepts this argument and believes that there has been some
14 material and unexpected change in D&E’s circumstances, then it has the discretion
15 to allow the D&E companies to amend their plans to choose a different timeframe
16 for meeting their broadband deployment goals.

17 **Q. IS RAISING ACCESS RATES THE ONLY AVAILABLE SOURCE FOR**
18 **D&E TO RAISE NEW REVENUE THROUGH THE OPERATION OF ITS**
19 **PSI FORMULA?**

20 A. No. The D&E companies’ Chapter 30 plans allow them to raise any noncompetitive
21 rates to implement PSI revenue increases. D&E has the discretion to raise basic

¹¹ Id.

1 residential or business rates, other noncompetitive rates or any combination of those
2 rates (subject to the \$3.50 limit mentioned in Mr. Beurer's testimony). Accordingly,
3 it is an exaggeration at best for D&E to claim that the only way it can obtain
4 additional revenue under its PSI formula is to raise access rates.

5 As I noted in my direct testimony, even if one assumed that all of the
6 revenue presently allocated to access increases would instead be allocated to basic
7 rate increases, D&E's rates would increase by \$1.35, Conestoga's by \$1.28, and
8 Buffalo Valleys by \$0.96. (Price Direct at 5-7). Mr. Beurer is incorrect in stating
9 that "the D&E carriers would be forced to increase local service rates to a level in
10 excess of the rate cap (\$18) currently in place." (p. 54). As demonstrated in the
11 chart below, two of the companies could allocate all of the increase to basic rates
12 and still be well below the \$18 benchmark:¹²

13

	Current Average Residential Rate	Increase	New Average Residential Rate
Buffalo Valley	\$14.50	\$0.96	\$15.46
Conestoga	\$14.28	\$1.28	\$15.56
D&E	\$17.51	\$1.35	\$18.86

14
15 Accordingly, there is no justification for Conestoga and Buffalo Valley not
16 allocating these increases to end-user rates, as their average residential rates would
17 still remain well below the affordability level.

¹² See D&E Responses to Verizon I-21, I-22 and I-23, calculating the companies' average weighted residential rates (attached hereto as Exhibit 4).

1 Even though D&E would raise its residential rates by \$0.86 more than the
2 \$18 affordability benchmark if it allocated the increases evenly among all basic
3 service rates, it has not demonstrated that it could not allocate more of the increase to
4 services other than residential exchange or to the lower priced end of its range of
5 residential services (see Beurer Direct at 47) to meet the \$18 level. Moreover, this
6 \$18 affordability level was set by agreement of the parties in July of 2003 – three
7 and one-half years ago – and D&E has not explored whether the Commission would
8 consider raising it to reflect increases in the cost of living and in household income
9 Finally, as Mr. Beurer admits (p. 35), the D&E companies' Chapter 30 plans
10 contemplate rate increases as large as \$3.50 per month – far larger than what would
11 be required here.

12 **Q. IS THERE A MATERIAL DIFERENCE BETWEEN D&E'S CLAIM THAT**
13 **IT MUST OBTAIN THIS REVENUE THROUGH ACCESS RATES AND**
14 **YOUR CONTENTION THAT THE COMMISSION SHOULD DIRECT D&E**
15 **TO REALLOCATE THE REVENUE TO OTHER NONCOMPETITIVE**
16 **RATES?**

17 **A.** Yes. If one credits the premise that the revenue from the annual PSI increases is a
18 mechanism to fund broadband build-out commitments under Chapter 30, then
19 D&E's plan to raise the vast majority of its PSI revenue through access rate
20 increases as opposed to end user rate increases means that other carriers, some of
21 which have their own competitive pressures and broadband commitments, are
22 required to fund D&E's broadband build-out. If D&E were instead to raise retail

1 rates, then D&E's end user customers would be providing the funds used to improve
2 services intended for their use. This implicit subsidization of D&E's broadband
3 build-out by other carriers, including those with which it competes, is neither
4 economically efficient nor competitively neutral.

5 **Q. WHAT IS YOUR RESPONSE TO D&E'S SUGGESTION THAT IT**
6 **SHOULD BE ALLOWED TO RAISE ACCESS RATES TO HAVE OTHER**
7 **CARRIERS SUBSIDIZE ITS BROADBAND COMMITMENTS BECAUSE**
8 **D&E IS INCURRING SIGNIFICANT COSTS TO EXPAND BROADBAND**
9 **WHILE FACING GROWING COMPETITIVE PRESSURES (P. 49, 51)?**

10 A. D&E complains about "intense price competition from intermodal competitors," but
11 even if this is true (and Mr. Beurer offers little support beyond the mere assertion)
12 D&E's theory that the Commission should force Verizon and other companies to
13 increase the implicit subsidy they pay to D&E to help it face this competition makes
14 no sense. Verizon faces pressure from intermodal competition to the same, if not a
15 greater, degree. It would be economically inefficient and bad policy to place
16 Verizon at the mercy of D&E's unilateral attempts to claim additional subsidies
17 from Verizon through access rate increases. Verizon must also meet competitive
18 pressures from intermodal carriers while the Verizon ILECs fulfill their own
19 broadband commitments. The FCC explained that one of its primary goals in its
20 ongoing intercarrier compensation proceeding is to ensure that intercarrier
21 compensation promotes efficiency -- to "encourage the efficient use of, and
22 investment in, telecommunications networks, and the development of efficient

1 competition.”¹³ Here, the D&E companies seek the opposite result by
2 suggesting that the only means by which they can make broadband investments is to
3 have other carriers’ customers pay for them.

4 **Q. MR. BEURER CONTENDS THAT THE “ADVANCED NETWORK**
5 **COMMITMENTS” MADE BY D&E “WERE NOT MADE BY VERIZON.”**
6 **(P. 29). IS THAT TRUE?**

7 A. No. As D&E well knows, Verizon PA and Verizon North have their own network
8 modernization plans under Chapter 30 under which they also committed to provide
9 100% broadband availability to their entire service territory as defined by the statute.
10 As allowed by the statute, Verizon opted to commit to a 2015 deadline, but as a
11 result of that commitment the statute also imposes on Verizon a .5% inflation off-set
12 that reduces its allowable rate increases. Moreover, Verizon has a much larger
13 territory to cover with its broadband commitments, including significant rural areas.
14 It is disingenuous for D&E to suggest that Verizon PA does not need to fund its own
15 broadband commitments, including those in its own rural areas, and so can spare the
16 money to pay for D&E’s own broadband deployment.

17 **IV. D&E’S ARGUMENT THAT RAISING ACCESS RATES WAS**
18 **ITS ONLY ALTERNATIVE IS NOT PROVEN AND DOES**
19 **NOT JUSTIFY THESE RATE INCREASES**

20 **Q. MR. BEURER CLAIMS THAT D&E HAD NO CHOICE OTHER THAN TO**
21 **RAISE ITS ACCESS RATES BECAUSE “WE DEEMED FROM A**

¹³ In the Matter of Developing a Unified Intercarrier Compensation Regime, CC Docket 01-92, Order released March 3, 2005 (FCC 05-33), at para. 31.

1 **COMPETITIVE STANDPOINT FURTHER BASIC EXCHANGE RATE**
2 **INCREASES WERE NOT FEASIBLE AT THIS TIME” AND THAT**
3 **ACCESS INCREASES WERE D&E’S “ONLY REALISTIC OPTION.” (P.**
4 **10-11) (P.53). HAS D&E SUBSTANTIATED THIS CLAIM?**

5 A. No. D&E has provided no factual basis to support this claim. As demonstrated by
6 D&E’s response to Verizon I-18 (Exhibit 10 to Price Direct), D&E’s “conclusion”
7 that it could not raise end user rates resulted not from any study or expert analysis,
8 but simply from “oral conversations” among Mr. Beurer, D&E’s Vice President of
9 Marketing and D&E’s Vice President of Customer Service. It was the “opinion” of
10 these individuals that “since the long distance providers had received substantial
11 benefits in voluntary access reductions since the Global Order while residential
12 customers have had substantial increases in their rates since the Global Order, that
13 some of the previous access reductions should be reversed.” (Exhibit 10 to Price
14 Direct). This “opinion” is a far cry from any sort of analysis showing that, due to
15 competitive pressures, the D&E companies could not sustain limited increases to
16 end user rates. Moreover, in response to Verizon I-20, which asked D&E to
17 produce all documents discussing causes other than rate increases that were expected
18 to lead to line losses, D&E produced data that actually refutes Mr. Beurer’s claim
19 that D&E’s line losses have been due largely to competitive pressure from
20 intermodal carriers. In particular, D&E’s own data, which provides an explanation
21 for why its customers disconnected their lines, demonstrates that, of the lines
22 allegedly lost to competition (what D&E terms “direct” losses), nearly half went to

1 other D&E services. For “indirect losses,” (i.e., losses for reasons other than
2 competition), less than 3% were due to customers’ desire to economize by
3 eliminating services, whereas more than one third were due to customers moving out
4 of the companies’ territories.¹⁴ There is no objective support for the D&E
5 companies’ claim that basic rate increases would “forc[e] more customers from
6 the network” (p. 54, L22). Their own discovery responses flatly contradict that
7 any such assertion.

8 Nor has D&E provided any facts to demonstrate that it cannot raise its basic
9 rates further or that its rates would not be “affordable” or set at “competitive levels”
10 if they were increased. (p. 17). Indeed, as noted above, two of the three companies
11 have basic residential rates substantially below the Commission’s \$18 affordability
12 level for 2003, and even the third has room to increase its residential rates before
13 hitting the mark set some three and one-half years ago.

14 **Q. IS IT FAIR THAT THE D&E COMPANIES ARE CLAIMING THAT THEY**
15 **HAVE NO CHOICE BUT TO INCREASE ACCESS RATES, WHILE AT**
16 **THE SAME TIME THEY ARE SEEKING TO DEFER THE**
17 **COMMISSION’S SUBSTANTIVE INVESTIGATION OF THE PRICING OF**
18 **RURAL ILEC SERVICES AND RELATED ACCESS CHARGE POLICIES?**

19 **A.** No, it is fundamentally unfair. If the D&E companies are not willing to submit to a
20 full investigation of these issues now, then at the very least they should maintain the
21 *status quo* with respect to their access rates during the stay of the rural access

¹⁴ See D&E Response to Verizon I-20 (attached hereto as Exhibit 6).

1 investigation. If it is indeed true, as Mr. Beurer's testimony implies, that the D&E
2 companies cannot remain financially viable unless they receive more subsidies from
3 other carriers by increasing already high access rates, then the remedy is to restart
4 the investigation of rural LEC access rates immediately, not to allow the D&E
5 companies (and others who might follow a similar course if D&E is permitted to do
6 so) to increase their access rates unilaterally while insulating them from substantive
7 review.

8 **V. D&E CANNOT JUSTIFY THESE RATE INCREASES ON**
9 **ALLEGED "MIRRORING" OF INTERSTATE RATES**

10 **Q. DO YOU AGREE WITH MR. BEURER'S CHARACTERIZATION (PP. 15-**
11 **16) OF THE REQUIREMENT IN THE COMMISSION'S *GLOBAL ORDER***
12 **THAT CARRIERS SHOULD "MIRROR" THEIR INTERSTATE RATES?**

13 A. Not entirely. Mr. Beurer's testimony suggests that there is an ongoing obligation for
14 carriers to revise their intrastate access rates as interstate rates change, but the *Global*
15 *Order* specified that the compliance filings made by the small carriers must use their
16 interstate rates "that were in effect on July 1, 1998." The *Global Order* does not
17 require carriers to make periodic adjustments to their intrastate rates to "mirror" their
18 interstate rates. A true mirroring of RLECs' interstate access rates that would
19 actually result in a reduction of intrastate rates is a matter that should be considered
20 in the larger investigation.

1 Q. WHAT IS YOUR RESPONSE TO MR. BEURER'S CLAIMS (P. 16) THAT
2 MIRRORING CARRIERS' INTERSTATE RATES CAN AVOID
3 JURISDICTIONAL ARBITRAGE?

4 A. I agree *in concept* that significant differences in a carrier's overall intrastate and
5 interstate switched access rates can lead some IXCs to attempt to "game the system"
6 so as to take advantage of the lower rates. Agreeing with this as a conceptual matter,
7 however, is not the same as acknowledging that such a problem actually exists for
8 the D&E companies. Presumably, if the D&E companies were experiencing such
9 arbitration, Mr. Beurer's testimony would provide specific examples. It does not.
10 Moreover, combating arbitration was not one of the factors that D&E's Marketing and
11 Customer Service executives, along with Mr. Beurer, reportedly considered when
12 discussing the planned access rate increases. This is evident from D&E's response
13 to Verizon I-18, to which I referred previously.

14 Q. DO YOU HAVE OTHER CONCERNS WITH MR. BEURER'S
15 TESTIMONY ON THE ISSUE OF CARRIERS "MIRRORING" THEIR
16 INTERSTATE RATES?

17 A. Yes. At p. 16 of his testimony, Mr. Beurer qualifies what he means by mirroring,
18 stating that it pertains only to the "traffic sensitive access rates." That qualification
19 renders meaningless his earlier argument that mirroring is needed to prevent
20 arbitration, because no IXC would look at only certain portions of a bill from the
21 D&E companies to determine whether it might be financially desirable to engage in
22 arbitration. Rather, it is the sum of *all* rate elements that is relevant. As demonstrated

1 in the spreadsheet attached as Exhibit 6 to this testimony, the D&E companies have
2 not actually “mirrored” their interstate access rates at all. First, the D&E companies
3 continue to have a carrier charge as part of their intrastate access tariffs, but there is
4 no corresponding rate element to the carrier charge in their interstate rates, and so
5 there is no “mirroring” going on with the carrier charge, although two of the
6 *companies increased their carrier charges*. Additionally, the D&E companies have
7 not exactly mirrored even the traffic sensitive portion of their interstate rates.
8 Rather, the D&E companies *selectively* mirror interstate rates effective July 2005
9 when that mirroring resulted in an increase in specific rate elements, such as local
10 switching and tandem switching. Where existing D&E intrastate rates were already
11 *higher* than interstate, such as Tandem Switched Transport Facility and Termination
12 rates or where an interstate rate had been eliminated altogether, as with the Transport
13 Interconnection charge (TIC), they did not lower the corresponding intrastate rate.

14 As a result of this selective mirroring, the total composite intrastate rates per
15 minute-of-use for the D&E companies remain substantially higher than their
16 comparable composite interstate rates per minute-of-use, as depicted in my Exhibit
17 6. Even looking at the traffic sensitive rates alone and ignoring the carrier charge,
18 the sum of each D&E company’s intrastate traffic sensitive rates is approximately
19 \$.005 higher than the sum of its interstate traffic sensitive rates. Again, Mr. Beurer’s
20 testimony in this area simply does not support the switched access rate increases the
21 D&E companies have implemented. Indeed, if mirroring is appropriate as Mr.
22 Beurer claims (which is a subject for the rural carrier access investigation), then

1 D&E should be *decreasing* its intrastate access rates, not increasing them.

2 **Q. IF ONE ACCEPTS THE QUALIFICATION THAT THE TRAFFIC**
3 **SENSITIVE RATES ARE THE ONLY RATES THAT SHOULD BE**
4 **“MIRRORED,” ARE THE ACCESS INCREASES THE D&E**
5 **COMPANIES HAVE IMPLEMENTED CONSISTENT WITH THAT**
6 **QUALIFIED VIEW OF “MIRRORING?”**

7 A. No, they are not, for the reasons discussed above. In particular, in addition to other
8 discrepancies, the companies have retained in their intrastate rates a traffic sensitive
9 rate element that has no interstate counterpart: the Transport Interconnection Rate or
10 “TIC.” (See Beurer Direct, Exhibit 3).¹⁵ That rate element comprises roughly 20%
11 of the D&E companies’ intrastate traffic sensitive composite rate (more than 25% in
12 the case of Buffalo Valley). Given the companies’ substantial departure from
13 “mirroring,” Mr. Beurer’s rhetoric rings quite hollow -- even if one accepted his
14 qualification that mirroring should pertain only to traffic sensitive rate elements.

15 **Q. EVEN IF THE D&E COMPANIES HAD ACHIEVED A TRUE**
16 **MIRRORING OF THEIR INTERSTATE AND INTRASTATE TRAFFIC**
17 **SENSITIVE RATES, IF SUCH “MIRRORING” REQUIRED THE**
18 **COMPANIES TO RAISE THEIR OVERALL REVENUE FROM TRAFFIC**
19 **SENSITIVE INTRASTATE RATES, WOULD YOU EXPECT THEM TO**
20 **MAKE A CORRESPONDING REVENUE NEUTRAL DECREASE TO**
21 **THEIR CARRIER CHARGES?**

¹⁵ The TIC rate appears in the companies’ tariffs at: D&E, PA PUC No 16, Page 17-4; Buffalo Valley PA PUC No 8, Page 17-4, and Conestoga, PA PUC No 11, Page 17-4.

1 A. Yes. Certainly the concept of “mirroring” interstate rates is most logically viewed in
2 the context of the Commission’s overall access policies as a means to decrease
3 overall access revenues and to decrease -- or at least not increase -- the effective rate
4 *per minute of use. It does not make sense to use the “mirroring” argument as a*
5 *means to increase overall access revenues and the overall effective rate per minute of*
6 *use, as D&E does here. In fact, the Small Company Universal Service Settlement*
7 *adopted by the Commission in the *Global Order* specifically stated with respect to*
8 *mirroring that: “each company will mirror their interstate traffic sensitive (“TS”)*
9 *rates and structure (including local transport restructure) which were effective as of*
10 *July 1, 1998 for intrastate purposes. If this causes an increase in rates, **then the CCL***
11 ***revenue amount from the previous step shall be reduced accordingly.”**¹⁶*

12 **VI. D&E HAS NOT PROVEN THAT ITS INTRASTATE ACCESS**
13 **RATE INCREASES ARE NECESSARY TO CORRECT**
14 **“BELOW COST” RATES**

15 **Q. MR. BEURER CLAIMS THAT RELYING ON THE INTERSTATE ACCESS**
16 **RATES FOR INTRASTATE PURPOSES “MAKES THE INTRASTATE**
17 **RATES COST BASED.” (P. 57.) DO YOU AGREE?**

18 A. No. That claim is highly misleading. According to NECA, the average schedule
19 formulas are designed to “simulate the disbursements that would be received ... by a
20 [cost study] company that is representative of average schedule companies.”
21 (National Exchange Carrier Association, Inc. 2007 Modification of Average

¹⁶ Global Order Appendix II, Small Company Universal Service Fund Settlement, Appendix A at II.C.4 (Exhibit 1 hereto) (emphasis added).

1 Schedules, WC Docket No. 06-223, filed December 21, 2006, at Summary-1.)¹⁷

2 NECA refers to the average schedule process as a “simulation.” In other words, it is
3 a proxy that relates to *disbursements* rather than *costs*. For that reason, Mr. Beurer’s
4 use of the term “cost settlements” (at p. 57, lines 14, 18, and 20) is misleading by
5 deliberately confusing the disbursements that the companies receive via the average
6 schedule process with the “costs” they incur. As I noted above, NECA makes no
7 such claim as to the results of the average schedules. Thus, Mr. Beurer’s reliance on
8 such data clearly does not demonstrate that the D&E companies’ access rate
9 increases were necessary to correct “below cost” rates.

10 **Q. WOULD YOU PLEASE BRIEFLY EXPLAIN THE TERM “AVERAGE**
11 **SCHEDULE?”**

12 A. Yes. When access rates were first instituted in the 1980s, they replaced a process
13 whereby the pre-divestiture Bell System pooled toll revenues with all local exchange
14 carriers and disbursed those toll revenues in accordance with a mechanism referred
15 to as “settlements.” In establishing the access rate process, the FCC was concerned
16 that some of the smaller carriers may not have the wherewithal to conduct cost
17 studies in support of their interstate switched access rates. In recognition of that
18 possibility, the FCC permitted certain companies’ to base their rates on an averaging
19 process that was (and still is) administered by the National Exchange Carrier
20 Association (NECA). At a very high level, it is my understanding that an average

¹⁷ Available at
http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6518715426

1 schedule company may provide certain operational (e.g., number of access lines per
2 central office) and financial information to NECA. However, that company's rates,
3 and the revenues it draws through NECA, are based on a complex series of
4 calculations, formulas, and algorithms, using other companies' data. Thus the term
5 "average" is used. The average schedule process can hardly be said to represent the
6 costs that a given company actually incurs in providing service, which is why NECA
7 describes the process as a "simulation."

8 **Q. DO YOU HAVE AN OPINION ON MR. BEURER'S COMPARISON OF**
9 **THE COMMON LINE DISBURSEMENTS FROM NECA TO THE**
10 **INTRASTATE CARRIER CHARGE AT ISSUE IN THIS PROCEEDING?**

11 A. Yes, I do. Mr. Beurer appears to argue that the total NECA common line
12 settlements, portrayed on a per access line basis, provides a standard upon which to
13 evaluate the reasonableness of the D&E companies' intrastate carrier charge. This
14 comparison is not valid. Unlike the Pennsylvania intrastate carrier charge, the
15 NECA common line settlement is not funded by implicit subsidies paid by other
16 carriers. Rather, there are several explicit funding sources for the interstate
17 settlements. A primary source is the subscriber line charge (SLC), which is paid by
18 end-users, not other carriers. In addition, the D&E companies receive other
19 funding through various pool mechanisms via the federal Universal Service Fund
20 administered by Universal Service Administrative Company -- an explicit subsidy
21 mechanism -- into which all telecommunications providers pay on a monthly
22 basis.

1 Unlike the intrastate carrier charge, the interstate Carrier Common Line rate
2 element charged to other carriers was phased out years ago and replaced by other
3 explicit mechanisms, including the SLC and High Cost Support Fund. Accordingly,
4 the fact that the D&E companies may receive money from these sources is
5 completely irrelevant to the question of whether their intrastate carrier charges are
6 reasonable.

7 **Q. DOES MR. BEURER’S TESTIMONY PROVIDE ANY SUPPORT FOR A**
8 **CLAIM THAT THE ACCESS RATE INCREASES THE D&E COMPANIES**
9 **HAVE IMPLEMENTED WERE NEEDED TO BRING THOSE RATES**
10 **ABOVE COST?**

11 A. No. Verizon sought cost support information from the D&E companies, but was
12 advised that no such cost support exists. (See response to VZ 1-7., attached hereto
13 as Exhibit 7). Further, as discussed above, the D&E companies have provided no
14 study of their costs of providing intrastate switched access service to support a claim
15 that increases are needed to bring those rates above cost. Indeed, they claimed that
16 no such cost data exists. Moreover, the NECA information Mr. Beurer relies upon is
17 not relevant to demonstrating the costs of providing intrastate switched access
18 service. The data relied on by Mr. Beurer are averages, derived from the NECA
19 formulae he mentions. Thus, the NECA settlements he discusses may be higher
20 than any measure of the costs of the D&E companies. As the Commission noted in
21 the *Global Order*, “[t]he record accumulated in this proceeding demonstrates that
22 current ILEC access charges are priced substantially above cost.” (p. 18). D&E has

1 not refuted this finding with respect to its own access rates.

2 **VII. IF THE COMMISSION ALLOWS THESE INCREASES TO**
3 **REMAIN IN EFFECT, THEN IT SHOULD MAKE A**
4 **CORRESPONDING REDUCTION IN THE D&E CARRIERS'**
5 **SHARE OF THE PAUSF**

6 **Q. DOES MR. BEURER ACKNOWLEDGE THAT THE STATE UNIVERSAL**
7 **SERVICE FUND (“PAUSF”) IS SIMPLY A MEANS FOR OTHER**
8 **CARRIERS TO PROVIDE EXPLICIT SUBSIDIES TO THE SMALL**
9 **ILECS?**

10 A. Yes. He acknowledges that it is only a “pass-through mechanism” to flow revenue
11 between telephone companies – e.g., from Verizon to D&E. (p. 15).

12 **Q. WHAT WAS THE PURPOSE OF CREATING THIS EXPLICIT SUBSIDY**
13 **MECHANISM?**

14 A. The purpose was to enable the small carriers to reduce their access rates by
15 providing another source of subsidy if the decreases could not be supported by end
16 user rate increases at that time. According to the settlement that created the PaUSF,
17 “[a]ll revenues received from the Fund, after the deduction therefrom of any
18 contribution made by a Fund Recipient to the Fund, shall be used to rebalance, on a
19 revenue neutral basis, the rates/revenues derived from access and/or other services
20 according to the rules set forth herein.”¹⁸

21 **Q. IF D&E IS ALLOWED TO INCREASE THE FLOW OF IMPLICIT**
22 **SUBSIDIES FROM VERIZON TO D&E BY INCREASING ITS ACCESS**

¹⁸ Global Order Appendix II, Small Company Universal Service Fund Settlement, Appendix A at II.B (Exhibit 1 hereto).

1 **RATES, SHOULD THE COMMISSION ALLOW THE D&E COMPANIES**
2 **TO MAINTAIN THE SAME LEVEL OF EXPLICIT SUBSIDY THROUGH**
3 **THE PAUSF?**

4 A. No. It is simply logical that if D&E is allowed to extract from Verizon additional
5 revenue through these access rate increases, then the flow of funds by way of the
6 PaUSF should be decreased dollar for dollar.

7 **Q. IF THE COMMISSION RESCINDS THE D&E ACCESS RATES, MUST IT**
8 **ALSO ADDRESS D&E'S SHARE OF THE PAUSF AT THIS TIME?**

9 A. No. If the Commission maintains the *status quo* regarding D&E's access rates while
10 the rural carrier investigation is stayed, then it could also maintain the *status quo*
11 regarding the D&E companies' participation in the PaUSF during the period of the
12 stay. It is only if the Commission allows that *status quo* to be disrupted by allowing
13 D&E to raise its access rates while the substantive examination of the continuing
14 validity and form of the PaUSF is stayed that fairness would require reducing the
15 D&E companies' share of the PaUSF.

16 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

17 A. Yes.

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VERIZON
STATEMENT NO. 1.2

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2006 ANNUAL PRICE STABILITY INDEX/SERVICE
PRICE INDEX FILINGS OF BUFFALO VALLEY
TELEPHONE COMPANY, CONESTOGA
TELEPHONE & TELEGRAPH COMPANY AND
DENVER & EPHRATA TELEPHONE & TELEGRAPH
COMPANY

DOCKET NOS.

P-00981428F1000; R-00061375

P-00981429F1000; R-00061376

P-00981430F1000; R-00061377

VERIZON

STATEMENT NO. 1.2

(SURREBUTTAL TESTIMONY)

WITNESS: Don Price

DATED: January 12, 2007

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1 **I. INTRODUCTION AND BACKGROUND**

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

3 A. My name is Don Price. My business address is 701 Brazos, Suite 600, Austin, TX,
4 78701.

5 **Q. DID YOU PROVIDE DIRECT TESTIMONY IN THIS MATTER ON**
6 **DECEMBER 18, 2006 AND REBUTTAL TESTIMONY ON JANUARY 5,**
7 **2007 ON BEHALF OF THE VERIZON COMPANIES?¹**

8 A. Yes.

9 **Q. WHAT IS THE PURPOSE OF THIS SURREBUTTAL TESTIMONY?**

10 A. The purpose of this testimony is to respond to certain statements made in the
11 Rebuttal Testimony of Robert Loube on behalf of the Office of Consumer Advocate
12 (“OCA”) and Allen G. Buckalew on behalf of the Office of Small Business
13 Advocate (“OSBA”), both filed on January 5, 2007. This testimony also responds to
14 the extent necessary to the Rebuttal Testimony of Leonard J. Beurer filed the same
15 date on behalf of Denver and Ephrata Telephone & Telegraph Company (“Denver
16 and Ephrata”), Buffalo Valley Telephone Company (“Buffalo Valley”) and
17 Conestoga Telephone & Telegraph Company (“Conestoga”) (collectively the “D&E
18 companies” or “D&E”).

¹ As noted in my direct testimony, the Verizon companies include Verizon Pennsylvania Inc., Verizon North Inc., Verizon Select Services Inc., Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance, Verizon Global Networks, Inc., MCI metro Access Transmission Services LLC d/b/a Verizon Access Transmission Services, and MCI Communications Services, Inc. d/b/a Verizon Business Services.

1 **Q. HAVE YOU REACHED ANY GENERAL CONCLUSION AS A RESULT OF**
2 **YOUR REVIEW OF THESE PARTIES' TESTIMONY?**

3 A. Yes. A majority of the arguments in the parties' rebuttal testimonies relates to issues
4 – such as D&E's costs of providing access or local exchange services and whether
5 certain costs should be allocated to access versus local service rates– that are
6 beyond the limited scope of this proceeding and properly addressed in the generic
7 investigation into the small carriers' access rates. Thus, the rebuttal testimony of the
8 other parties does not alter my conclusion that the D&E companies have failed to
9 demonstrate that it would be just and reasonable to allow their access rate increases
10 to stand. Rather, as I demonstrated in my direct and rebuttal testimony, the
11 Commission should rescind these access rate increases and instead should maintain
12 the *status quo* during the stay of its overall investigation into the small carriers'
13 access rates.

14 **II. THE OTHER PARTIES NEVER REBUT THE INEQUITY OF**
15 **DISTURBING THE *STATUS QUO* DURING THE STAY OF THE**
16 **SMALL CARRIER ACCESS INVESTIGATION**

17 **Q. WHAT IS THE BASIS FOR VERIZON'S ARGUMENT THAT IT WOULD**
18 **BE UNJUST AND UNREASONABLE, AND THEREFORE CONTRARY TO**
19 **THE REQUIREMENTS OF CHAPTER 13, FOR D&E'S ACCESS RATE**
20 **INCREASES TO BE PERMITTED TO STAND AT THIS TIME?**

21 A. As I explain in more detail in my direct and rebuttal testimony, since the *Global*
22 *Order* the Commission has sought to facilitate access charge reductions for all
23 carriers, including small ILECs like the D&E companies, to remove implicit

1 subsidies. The Commission has never examined on a substantive basis the facts
2 underlying the small carriers' access charges, including but not limited to their costs
3 of providing local service and access service, the extent to which local rates are
4 below cost and require a subsidy, etc. The Commission refrained from such an
5 investigation as a result of its July 15, 2003 Order accepting the small carriers'
6 proposal to further rebalance their rates by increasing local service rates and
7 reducing access rates in lieu of submitting cost studies. (See Price Rebuttal at 9-10).
8 The Commission again refrained from such an investigation when, on November 15,
9 2006, it stayed the small carriers' access investigation pending action by the FCC on
10 intercarrier compensation issues. Meanwhile, from July 1, 2003 (November 1, 2003
11 in one instance) through July 1, 2006, the D&E carriers had been content to charge
12 the access rates that resulted from the reductions required by the July 15, 2003
13 Order.² Without proving that the access rates in effect from 2003 to 2006 were in
14 any way inadequate, the D&E companies now seek to increase substantially their
15 revenue from access rates in direct contradiction to the Commission's policy on
16 access pricing. It is not just and reasonable to allow these increases to stand if the
17 substantive investigation is to be stayed. Instead the D&E companies should be
18 required to maintain the *status quo* pending the stay of their access investigation.

² Based on Exhibit 3 to Mr. Beurer's direct testimony, from July 1, 2003 to July 1, 2006, D&E had maintained a carrier charge of \$4.04 and a composite TS rate of \$0.02388; Conestoga had maintained a carrier charge of \$4.83 and a composite TS rate of \$0.016796; and Buffalo Valley had maintained a composite TS rate of \$0.016130. Buffalo Valley's carrier charge was reduced to \$4.79 on July 1, 2003 and again reduced to \$4.20 on November 1, 2003.

1 Q. **HAVE THE OTHER PARTIES REBUTTED THESE ARGUMENTS?**

2 A. No. They have not demonstrated that it would be just or reasonable to allow D&E to
3 disrupt the *status quo* by raising its access rates.

4 Q. **IS VERIZON ARGUING IN THIS LIMITED PROCEEDING THAT THE**
5 **D&E COMPANIES' ACCESS RATES SHOULD BE REDUCED TO "COST"**
6 **OR TO "ZERO" OR TO ANY LEVEL LOWER THAN THE RATES IN**
7 **EFFECT FROM JULY 1, 2003³ TO JULY 1, 2006?**

8 A. No. Verizon's position in this proceeding is that the Commission should rescind and
9 amend its June 23, 2006 Orders that allowed the access rate increases to go into
10 effect on July 1, 2006, on the grounds that it would be unjust and unreasonable to
11 disturb the *status quo* by allowing D&E to raise the very rates that are the subject of
12 the small carrier access investigation that D&E and other carriers successfully urged
13 the Commission to stay. My testimony in this proceeding has not argued that
14 D&E's rates should be reduced at this time to levels lower than those in effect from
15 July 1, 2003 to July 1, 2006 – that is a matter to be considered in the now-stayed
16 small carrier access investigation. I have not argued that D&E's access rates should
17 be set at the same level as Verizon's substantially lower intrastate or interstate rates,
18 (Beurer Rebuttal at 8), or that the D&E companies' carrier charge should be
19 immediately reduced to match the level of Verizon's much lower carrier charge.
20 (Loube Rebuttal at 18). I have not argued that D&E's intrastate access rates should
21 immediately be reduced to "cost." (Beurer Rebuttal at 4). Nor have I argued that

³ There is one exception to the July 1, 2003 date. As noted in footnote 2, Buffalo Valley's common line rate was further reduced on November 1, 2003.

1 “access is free and the only real price for access should be zero.” (Buckalew
2 Rebuttal at 7). Instead, I have explained that leaving in place D&E’s pre-July 1,
3 2006 intrastate access rates would leave the D&E companies’ access rates well
4 above each one of those benchmarks, and still higher than they should be. Leaving
5 those pre-existing rates in place would, however, eliminate the inequity of allowing
6 the D&E companies to raise their access rates insulated from any review of the
7 substance of those rates. Addressing this immediate inequity is the only issue before
8 the Commission in this limited proceeding.

9 **Q. HAVE THE OTHER PARTIES ADDRESSED ARGUMENTS THAT**
10 **VERIZON HAS NOT MADE?**

11 A. Yes, it is telling that none of the responding parties (D&E, OCA or OSBA) has
12 squarely taken on my argument that it would be manifestly unjust and unreasonable
13 to allow the D&E companies to raise their already high intrastate switched access
14 rates while at the same time they have insulated those rates from long overdue
15 substantive review by securing a stay of the small carriers’ access investigation.
16 Instead, and likely because they have no good response to Verizon’s reasonable
17 position that the Commission should maintain the *status quo* during the stay period,
18 the other parties misrepresent and exaggerate my arguments, or manufacture
19 additional ones, and then set out to rebut these straw men of their own creation,
20 rather than rebutting my actual arguments.

1 **Q. IS IT NECESSARY IN THIS PROCEEDING FOR THE COMMISSION TO**
2 **ADDRESS THE QUESTION OF HOW LOW D&E’S ACCESS RATES**
3 **ULTIMATELY SHOULD BE SET IN ORDER TO GRANT THE RELIEF**
4 **SOUGHT BY VERIZON?**

5 A. No. Verizon is simply asking the Commission to conclude that it is not just or
6 reasonable to allow D&E to increase its access rates at this time and disrupt the
7 *status quo* during the stay of the small carriers’ access investigation. D&E has not
8 justified its increased access rates with evidence demonstrating that its previous rates
9 are inadequate. The question of where ultimately to draw the line in setting
10 reasonable access rates for the D&E companies is one that must be answered in the
11 small carrier access investigation.

12 **III. VERIZON’S POSITION HERE IS CONSISTENT WITH OTHER**
13 **VERIZON STATEMENTS ON ACCESS POLICY**

14 **Q. AT PAGE 6 OF HIS REBUTTAL TESTIMONY, MR. BEURER PRESENTS**
15 **A QUOTE FROM VERIZON’S MAIN BRIEF IN DOCKET C-20027195 AND**
16 **CLAIMS YOUR TESTIMONY IS INCONSISTENT. DO YOU AGREE?**

17 A. No. In the quoted passage and surrounding pages, as well as its reply brief in that
18 matter, Verizon was rebutting other parties’ arguments that the Commission should
19 reduce Verizon’s access rates on a “revenue neutral” basis by requiring Verizon to
20 raise competitive rates that are outside this Commission’s jurisdiction, or otherwise
21 spread the increases beyond noncompetitive rates. Verizon explained that this
22 proposition would be a clear violation of the revenue neutrality mandate of 66 Pa.
23 C.S. § 3017, as well as other provisions of the Public Utility Code, and that the

1 Commission has the authority only to require increases to noncompetitive rates that
2 are within its jurisdiction to regulate. In the instant proceeding, I am not suggesting
3 that D&E should raise competitive rates outside the Commission's regulatory
4 jurisdiction, and so my testimony is consistent with this passage from Verizon's
5 brief.

6 **Q. AT PAGE 18 OF HIS REBUTTAL TESTIMONY, MR. BEURER**
7 **CONTENDS THAT YOUR TESTIMONY IS INCONSISTENT WITH**
8 **VERIZON'S ARGUMENTS IN ITS ACCESS CASE REGARDING THE**
9 **IMPACT OF REDUCING INTRASTATE ACCESS RATES OUTSIDE THE**
10 **FCC REFORM PROCESS. DO YOU AGREE?**

11 A. The passage in the Verizon brief does not address the issue of competitive entry that
12 Mr. Beurer's testimony purports to rebut. Rather, the portion of Verizon's brief that
13 Mr. Beurer references deals with consumer benefits from *lowered* access rates --
14 something that the D&E companies have not proposed -- and is therefore not related
15 to any issue in this proceeding.

16 **Q. AT PAGE 22 OF HIS REBUTTAL TESTIMONY, DR. LOUBE CONTENDS**
17 **THAT THE STATEMENTS IN YOUR TESTIMONY ARE INCONSISTENT**
18 **WITH DENNIS WELLER'S STATEMENTS ON BEHALF OF VERIZON**
19 **MADE IN THIS COMMISSION'S WORKSHOP REGARDING THE**
20 **MISSOULA PLAN. DO YOU AGREE?**

21 A. No, I do not agree, and Dr. Loube ignores critical portions of Mr. Weller's
22 presentation. First, as OCA is aware, the purpose of the workshop was to discuss
23 what this Commission should say if it were to file comments with the FCC about the

1 Missoula Plan, which was a proposal made to the FCC in that agency's intercarrier
2 compensation proceeding and *not* supported by Verizon. The workshop was not
3 intended to address how this Commission should or should not rebalancesmall
4 carrier access rates in Pennsylvania. Second, as OCA points out, Mr. Weller noted
5 the shortcomings of a national plan that assumes a great deal of revenue could be
6 recovered through large end-user subscriber line charges, particularly from the
7 customers of Verizon. But he also highlighted a significant flaw in the Missoula
8 Plan, *namely that it is unfairly skewed in favor of small carriers like the D&E*
9 *companies that would not be called on to reallocate enough revenue to their retail*
10 *end users and that unfairly expect to be subsidized by Verizon's customers.* Mr.
11 Weller noted that excessive small and rural carrier access rates are the major
12 problem that should be addressed first by the FCC, not the relatively low rates of
13 companies like Verizon. As Mr. Weller explained:

14 [W]e would look for at least as much self-help from customers, end
15 user customers of the smaller companies if they are going to be the
16 beneficiary of a mechanism like this, which ultimately may be
17 necessary.
18

19 We'd like to see at least as much self-help from them as we would
20 be asked to provide from our own customers, and also for their
21 access rates. If the concern is high access rates, it would seem to
22 make sense to start first with the outliers rather than focus on the
23 rates that are already low, which is in effect what this plan does.⁴

24 Contrary to Dr. Loube's suggestion in his Rebuttal Testimony, Mr. Weller made
25 quite clear that rural carriers may have to raise end user rates. According to Mr.
26 Weller, "if there's anything that's manageable here and perhaps necessary going

⁴ PA PUC Missoula Plan Workshop, Docket No. M-00061972, September 11, 2006, Tr. at 124.

1 down the line, is some sort of program that addresses the highest rates for rural
2 carriers, and it may involve some sort of end user increases and it may involve some
3 sort of RM [restructure mechanism], perhaps on a smaller scale than what Missoula
4 envisions, in order to deal with the problems of the rates that really are too high
5 today.”⁵ Mr. Weller also expressed the opinion that the Missoula Plan would not
6 carry the day in its present form before the FCC because it lacks widespread industry
7 support and is actually opposed by a wide variety of companies and interest groups,
8 including the OCA.

9 **IV. THE OTHER PARTIES’ ARGUMENTS DEPEND ON THE**
10 **COMMISSION REVERSING COURSE ON ISSUES OF**
11 **RATEMAKING POLICY, AND ARE BEYOND THE LIMITED**
12 **SCOPE OF THIS PROCEEDING**

13 **Q. OCA AND OSBA DEVOTE CONSIDERABLE ARGUMENT TO THE**
14 **CLAIM THAT THE COST OF THE LOCAL LOOP IS “SHARED” AND**
15 **SHOULD BE ALLOCATED TO ACCESS RATES. IS THIS A QUESTION**
16 **THE COMMISSION SHOULD ADDRESS HERE?**

17 **A.** No. This is an argument that the advocates have repeatedly made – most recently in
18 the Verizon access investigation – to oppose the Commission’s current view that
19 access rates should be reduced and that these rates contain implicit subsidies. That
20 argument is not relevant to the issues for this proceeding, and will certainly be raised
21 in the generic investigation of the small carriers’ access rates.

⁵ *Id.*

1 **Q. THE OCA AND OSBA WITNESSES MAKE NUMEROUS OTHER BROAD**
2 **POLICY ARGUMENTS IN RESPONSE TO YOUR TESTIMONY. ARE**
3 **THOSE ISSUES APPROPRIATELY ADDRESSED IN THIS**
4 **PROCEEDING?**

5 A. No. Where convenient, the other parties go beyond the scope of this limited
6 proceeding and argue points about ratemaking policy that should appropriately be
7 raised in the Commission's broader investigation. For example:

- 8 - at pp. 4-5 of his rebuttal testimony, Mr. Buckalew argues that "[t]o continue to
9 lower the access rates, while overall costs are presumed to be increasing, simply
10 transfers the cost of access away from toll consumers (the cost causers who
11 have numerous competitive choices) and onto basic local exchange consumers,
12 who have very little choice in either carriers or services."
- 13 - at p. 5 of his rebuttal testimony, Mr. Buckalew criticizes my direct testimony for
14 not analyzing the D&E companies' cost of switched access and for not showing
15 that access costs have declined, and criticizes Verizon for seeking "to perpetuate
16 the moving of revenue generation to ... basic local exchange service."
- 17 - at p. 3 of his rebuttal testimony, Dr. Loube asks the Commission to "consider
18 that the D&E companies' local service rates are generally higher than Verizon's
19 local service rates."
- 20 - at p. 3 of his rebuttal testimony, Dr. Loube argues that long distance
21 competition is decreasing, thus "reduc[ing] the importance previously placed on
22 the level of access charges."
- 23 - at pp. 4-6 of his rebuttal testimony, Dr. Loube presents a discussion of the term
24 "subsidy" and how it should be defined and how the existence of a subsidy
25 should be determined.
- 26 - at p. 11 of his rebuttal testimony, Dr. Loube criticizes my testimony as
27 "unsupportable" on the question of whether there is a subsidy of local service.

28 It is my understanding of the limited scope of this proceeding that such broad policy
29 issues are outside the scope. Efforts to introduce such issues here – especially
30 insofar as they do not accurately respond to the points that I actually did make– only

1 highlight Verizon's concern: that the D&E companies are increasing their access
2 rates while the Commission has stayed the generic investigation.

3 **Q. OSBA TAKES ISSUE WITH YOUR CHARACTERIZATION OF THE**
4 **COMMISSION'S PRIOR EXPRESSIONS OF ITS POLICIES ON ACCESS**
5 **RATES. (BUCKALEW P. 13.) ARE MR. BUCKALEW'S CRITICISMS**
6 **VALID?**

7 A. No. Mr. Buckalew argues that, rather than being a "policy," the prior Commission
8 actions constitute merely "some history and a trend to decrease access rates for
9 Verizon." He further argues, without providing evidence, that other ILECs' access
10 rates have "increased and decreased." (P. 13.)

11 He thus criticizes my direct testimony as "misrepresent[ing] the
12 Commission's orders and rules." (P. 4.) I believe the question of the Commission's
13 intent in its prior orders is best left for the attorneys to brief, but I do believe my
14 testimony fairly represents the orders I have referenced. And looking specifically at
15 the Commission's June 23, 2006 orders on the D&E PSI filings and the December 8,
16 2006 order on the D&E companies' petition for reconsideration, I believe OSBA's
17 criticism is ill-founded.

18 Apparently, the basis of Mr. Buckalew's criticism is his supposition that
19 prior access rate reductions were made when ILECs' "costs were stable or
20 declining." (P. 4). But Mr. Buckalew provides no support for his claim. As I have
21 previously noted, the D&E companies have not provided any cost information in this
22 proceeding, so it is not at all obvious to me what Mr. Buckalew is relying on to
23 support his alleged link between declining costs and prior access rate reductions.

1 **Q. OCA’S TESTIMONY TAKES ISSUE WITH YOUR USE OF THE TERM**
2 **“IMPLICIT SUBSIDY” AS USED IN THE CONTEXT OF THE D&E**
3 **CARRIERS’ COMMON LINE CHARGES. (LOUBE P. 3, LINES 3-4.) IS**
4 **THIS CRITICISM LEGITIMATE?**

5 A. No. “Implicit subsidy” is a term used by this Commission itself in the *Global*
6 *Order*. I acknowledge that the term “subsidy” has specific economic meaning – as
7 noted by Dr. Loube at pp. 4-6 of his rebuttal testimony. However, his statement that
8 the common line charge is “an efficient mechanism for recovering allowed
9 revenues” demonstrates that – by whatever name – it is a transfer of revenue from
10 some carriers to others that redounds to the benefit of the D&E companies. There is
11 no demonstration that it is reasonable to increase that transfer of revenue during the
12 pendency of the stay of the small ILEC access rate investigation

13 **V. THE OTHER PARTIES’ DISAGREEMENTS WITH ACT 183**
14 **ARE NOT RELEVANT BECAUSE THE COMMISSION IS NOT**
15 **FREE TO ALTER THE STATUTE**

16 **Q. WHAT IS YOUR RESPONSE TO THE CONTENTION OF MR.**
17 **BUCKALEW (P.3) AND DR. LOUBE (P. 28) THAT THE PORTION OF THE**
18 **PSI INCREASE CALCULATED BASED ON UNDERLYING REVENUE**
19 **FROM ACCESS RATES SHOULD BE COLLECTED FROM ACCESS**
20 **RATES?**

21 A. OCA’s and OSBA’s argument could be rephrased to state that the statute somehow
22 *requires* a company to raise its access rates when it makes a PSI filing, but I do not
23 believe that is a fair reading of the statute. The Commission recognized as much in

1 its June 23, 2006 Orders when it allowed the companies the option (which they
2 chose not to take) of reallocating all of this revenue to basic local rates.

3 **Q. WHAT IS YOUR RESPONSE TO MR. BUCKALEW'S CONTENTION**
4 **THAT ACCESS RATES SHOULD BE INCREASED SO THAT ACCESS**
5 **CUSTOMERS "PAY" FOR BROADBAND DEPLOYMENT (PP. 5, 10-12)?**

6 A. Mr. Buckalew's argument fails to acknowledge that it is the affected company (in
7 this case, the D&E companies) that commits to broadband deployment, not
8 particular customers or classes of customers. The company gains certain freedom
9 from rate regulation and also has the right to increase noncompetitive revenue under
10 its plan, but this right is also subject to the limitations discussed in my rebuttal
11 testimony, such as the requirement that the increases be just and reasonable. The
12 legislature also provided the Commission the authority to move revenue from access
13 to basic local service (66 Pa. C.S. § 3017(a)), so it does not follow that the
14 legislature viewed it as essential that access service revenue must be increased to
15 "pay" for broadband deployment or that IXC customers should be the ones paying
16 for D&E's commitment.

17 **Q. WHAT IS YOUR RESPONSE TO MR. BUCKALEW'S CLAIM THAT**
18 **"FORCING LOCAL EXCHANGE CONSUMERS TO PAY FOR**
19 **BROADBAND DEVELOPMENT IS SUBSIDIZING VOIP COMPETITION"**
20 **(P. 10) AND THAT "IF THE VERIZON PHILOSOPHY IS ADOPTED,**
21 **THEN TOLL CARRIERS WILL GET THE DIRECT BENEFIT OF A**
22 **BROADBAND SYSTEM WITHOUT PAYING ANY OF THE COSTS TO**
23 **CREATE THE SYSTEM" (P. 6)?**

1 A. It is the D&E companies' retail end user customers who benefit from the availability
2 of broadband connections and the additional competitive services that medium
3 allows D&E to provide, such as advanced data and video services, and the
4 availability of VoIP as an alternative to traditional local and long distance services.
5 Mr. Buckalew presents no support for his position that enhancements to the D&E
6 companies' networks should be funded by other carriers' customers. Similarly, Mr.
7 Buckalew does not explain how he believes traditional toll carriers specifically
8 benefit from broadband deployment, much less how they benefit to a greater extent
9 than or to the exclusion of local exchange carriers -- such as the D&E companies
10 that benefit directly in additional regulatory flexibility for the broadband
11 commitments they voluntarily made. VoIP providers -- some of which may provide
12 unlimited local and long distance calling over the Internet in competition with
13 traditional interexchange carriers -- may benefit from creation of a more robust
14 broadband network, but as Mr. Beurer admitted, VoIP carriers do not pay access
15 charges to D&E carriers. (Beurer Rebuttal at 16). Therefore, under Mr. Buckalew's
16 view, traditional toll carriers should pay higher access charges to construct a
17 broadband network to benefit the D&E companies and to enable VoIP providers that
18 do not pay any access charges to compete more cost effectively with the services of
19 the traditional toll carriers. It is Mr. Buckalew who is espousing the unfair
20 "philosophy."

1 **VI. THE OTHER PARTIES DISTORT COMPARISONS TO**
2 **VERIZON**

3 **Q. WHAT IS YOUR RESPONSE TO MR. BEURER'S CONTENTIONS THAT**
4 **"THE IMPACT THAT THE BUSINESS DECISION OF THE D&E**
5 **CARRIERS TO INCREASE ACCESS RATES HAS ON VERIZON'S**
6 **EXPENSES IS NOT RELEVANT TO THIS PROCEEDING," (P. 9) AND**
7 **"MR. PRICE HAS FAILED TO DEMONSTRATE WITH ANY FINANCIAL**
8 **INFORMATION THAT THE PROPOSED CHANGES WILL HAVE ANY**
9 **MATERIAL IMPACT ON VERIZON" (P. 20)?**

10 A. I have already quantified in my direct and rebuttal testimonies the impact to Verizon
11 of the D&E companies' access increases and their already high access rates. (*See*
12 *Price Direct at 10; Price Rebuttal at 13-14*). I do not believe the customer (Verizon)
13 should be required to show that the increased rates would create a financial hardship.
14 Rather, D&E should have shown that it is just and reasonable to increase the rates
15 under these circumstances -- while an investigation into its rates is stayed D&E has
16 not done so.

17 **Q. WHAT IS YOUR RESPONSE TO MR. BEURER'S CONTENTION THAT**
18 **ANY COMPARISON OF VERIZON'S AND D&E'S INTRASTATE ACCESS**
19 **RATES IS IRRELEVANT (P. 2)?**

20 A. It is true that, at least in this proceeding, the Commission is not being asked to
21 reduce the D&E companies' access rates to match Verizon's much lower rates.
22 However, that does not make any discussion of Verizon's access rates "irrelevant,"
23 as Mr. Beurer asserts. Verizon is not only the operator of two ILECs in

1 Pennsylvania, but is also a significant access customer of the D&E companies, as
2 discussed in my direct and rebuttal testimonies. My comparison simply is intended
3 to demonstrate the disparity between rates for the Commission to consider in
4 assessing the reasonableness of the D&E companies' access rate increases in light of
5 the policies manifested in its prior Orders (including those substantially reducing
6 Verizon's rates) and the recent stay of the rural ILEC access rate investigation.

7 **Q. WHAT IS YOUR RESPONSE TO DR. LOUBE'S COMPARISON OF THE**
8 **INTERSTATE RATES OF VERIZON AND D&E (PP. 3, 13-15)?**

9 A. The point of Dr. Loube's discussion seems to be that it is not fair to judge D&E's
10 intrastate access rates by comparison to Verizon's own interstate access rates
11 because Verizon's interstate access rates were the product of a settlement and not
12 based on cost. (Loube at 13-14). But Verizon is not asking in this case that D&E's
13 rates be reduced to match Verizon's interstate (or even Verizon's intrastate) rates.
14 Accordingly, this whole discussion is irrelevant and is simply another example of
15 the other parties answering arguments of their own creation, rather than the central
16 argument raised here.

17 However, Dr. Loube's characterization of Verizon's interstate rates and the
18 CALLS targets is inaccurate. He asserts that since Verizon is now charging an
19 average traffic sensitive rate of \$0.00671875 per minute, supposedly "Verizon has
20 found it necessary to apply for and receive access rate increases since the adoption
21 of the CALLS order." (Loube at 14). Actually, the operation of the CALLS plan
22 itself resulted in the increase from the original target rate of \$0.0055 per minute to
23 the present rate. Once a company reached the original target level, the demand

1 weights that play into the calculation changed the \$0.0055 per minute amount to a
2 new cap. In the 2006 annual filing, that cap was \$0.00671875, which is the
3 equivalent of \$0.0055 per minute when demand is accounted for as provided in the
4 plan.

5 **VII. THE “DEFENSES” FOR D&E’S ACCESS RATE INCREASES**
6 **CONTINUE TO BE UNREASONABLE AND**
7 **UNSUBSTANTIATED**

8 **Q. DR. LOUBE CONTENDS THAT D&E SHOULD NOT INCREASE BASIC**
9 **LOCAL RATES BECAUSE HE IS “CONCERNED” ABOUT A**
10 **PURPORTED DECLINE IN TELEPHONE PENETRATION RATES IN**
11 **PENNSYLVANIA. (P. 27). DOES HIS “CONCERN” PRESENT ANY VALID**
12 **BASIS TO ALLOW THESE ACCESS INCREASES?**

13 A. No. The general issue Dr. Loube raises is more appropriately addressed in the
14 broader investigation of small carrier access rates and the state universal service
15 fund. This general reference to telephone penetration statistics does not provide a
16 basis to allow these specific access rate increases to remain in effect, particularly
17 where, as I discussed in my rebuttal testimony, two of the three D&E companies
18 have local exchange rates well below this Commission’s established affordability
19 benchmark, and the third has room to raise rates before reaching that mark. (Price
20 Rebuttal at 17).

21 **Q. MR. BEURER CLAIMS THAT IF D&E RAISED ITS RESIDENTIAL**
22 **RATES OVER \$18, IT COULD OBTAIN A CREDIT FROM THE PAUSE**
23 **FOR THE EXCESS. (P. 6). IS THIS CLAIM RELEVANT?**

1 A. No. As I noted in my direct and rebuttal testimony, D&E could configure its rate
2 increases to avoid exceeding \$18 for residential service, but if it did reach that
3 benchmark then the Commission could evaluate its claim to additional PaUSF funds
4 in due course. However, two of the three companies would not even approach the
5 \$18 level.

6 **Q. MR. BEURER CONTENDS AT PAGE 10 THAT THIS COMMISSION'S**
7 **JULY 15, 2003 ORDER ALLOWED SMALL CARRIERS TO INCREASE**
8 **THEIR CARRIER CHARGES. DOES THIS DEMONSTRATE THAT THE**
9 **COMMISSION HAS A POLICY OF ALLOWING ACCESS INCREASES,**
10 **AS HE CONTENDS?**

11 A. No. Mr. Beurer's point is hardly obvious, given that he effectively rebuts his own
12 conclusion in admitting that carrier charges were allowed to be increased only to
13 offset -- in a "revenue neutral" manner -- decreases to traffic sensitive rates
14 necessary for the carrier to mirror or move closer to their own interstate traffic
15 sensitive rates. (Beurer Rebuttal at 10). Therefore, there was no overall increase in
16 access revenue. Here, the D&E companies would increase their carrier charges and
17 traffic sensitive rates, thereby obtaining considerable increases in overall access
18 revenue, which is "contrary to long-standing Commission policy." (*Id.*).

19 **Q. DO YOU HAVE ANY COMMENT ON MR. BEURER'S EXHIBIT D&E EX**
20 **5-R, PURPORTING TO SHOW THE "BENEFITS" TO VERIZON OF**
21 **D&E'S ACCESS REDUCTIONS?**

22 A. This exhibit is meaningless because it is based on the fallacy that the D&E
23 companies could have left their *Global Order* access rates in place for the past seven

1 years and never undertaken any other access reductions. It thus purports to calculate
2 what Verizon would have paid if D&E had not reduced its access rates, including
3 compliance with the July 13, 2003 Order. This argument is meaningless for the
4 reasons stated in my rebuttal. (Price Rebuttal at 9-10).

5 **Q. MR. BEURER STATES THAT “THE EVIDENCE I HAVE PROVIDED**
6 **SHOWS THAT THE COSTS OF VERIZON AS THE LARGEST CARRIER**
7 **IN PENNSYLVANIA ARE FAR LOWER THAN THE COSTS OF THE**
8 **RURAL D&E CARRIERS.” (PP. 17-18). IS THIS RELEVANT TO THE**
9 **ISSUES IN THIS PROCEEDING?**

10 A. No. This proceeding is not about the Verizon ILEC rates, but only whether D&E
11 can justify its increases during the pendency of the stay of the access charge
12 investigation.

13 **VIII. THE D&E COMPANIES HAVE NOT DEMONSTRATED**
14 **THAT THE COMMISSION SHOULD ALLOW THEM TO**
15 **RAISE THEIR ACCESS RATES AND CONTINUE TO**
16 **RECEIVE THE SAME LEVEL OF SUPPORT FROM THE**
17 **PAUSF**

18 **Q. WHAT IS YOUR RESPONSE TO MR. BEURER’S CONTENTION THAT**
19 **THE COMPANIES’ LEVEL OF SUPPORT FROM THE PAUSF WAS**
20 **BASED ON PRE-GLOBAL ACCESS REDUCTIONS (P. 14)?**

21 A. This claim is not relevant and does not alter the fundamental inequity of allowing the
22 companies to continue to claim PaUSF subsidies that were intended to allow them to
23 reduce access rates, while at the same time increasing their access rates. It is not
24 necessary for the D&E carriers to raise their access rates to pre-*Global* levels before

1 the situation becomes inequitable. I have already addressed in my rebuttal testimony
2 why it is not accurate for Mr. Beurer to characterize the D&E companies' post-
3 *Global* access reductions as "voluntary." (Price Rebuttal at 30).

4 **Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

5 **A.** Yes.