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OSBA STATEMENT NO. 1

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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Jan

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

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

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

Rebuttal Testimony of

ALLEN G. BUCKALEW

On Behalf of the

Office of Small Business Advocate

Date Served: January 5, 2007

Date Submitted for the Record: _____

TABLE OF CONTENTS

I.	QUALIFICATIONS AND INTRODUCTION	1
II.	SUMMARY	4
III.	ACCESS RATES.....	6
IV.	RECOMMENDATIONS AND CONCLUSION.....	10

1 **I. QUALIFICATIONS AND INTRODUCTION**

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

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

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

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

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

14 A. Before I entered the University of Florida, I worked for four years in
15 Naval Telecommunications. After graduating from the University of
16 Florida, I worked for four years at the Federal Communications
17 Commission ("FCC") as an Industry Economist in the Common
18 Carrier Bureau and was employed extensively in areas involving
19 telecommunications, economics, accounting, engineering, and policy
20 matters. For example, one of my major projects was "The Economic
21 Implications and Interrelationships Arising from Policies and
22 Practices Relating to Customer Interconnection, Jurisdictional
23 Separations and Rate Structures" (Docket 20003). This case opened
24 the terminal equipment (e.g., telephone sets, and private branch
25 exchanges ("PBXs")) market in the United States to competition. I
26 also provided economic analysis in several rate cases, including, for
27 example, "Communications Satellite Corporation, Investigation into
28 Charges, Practices, Classifications, Rates and Regulations" (Docket
29 16070). My major responsibility was to serve as an economic advisor
30 and analyst for the Common Carrier Bureau.

1

2 After the FCC, I was appointed Associate Director for
3 Telecommunications Research of the National Regulatory Research
4 Institute (“NRRI”) at Ohio State University. My responsibilities at
5 NRRI focused on telecommunications policy as seen from an
6 analytical perspective that combined accounting, engineering, and
7 economic disciplines. During my employment at the Institute, I
8 completed several studies for state public utility commissions,
9 including “The Impact of Measured Telephone Rates on Telephone
10 Usage of Government and Nonprofit Organizations” for the Public
11 Utilities Commission of Ohio and “Toward An Analysis of Telephone
12 License Contracts and Measured Rates” for the Maryland Public
13 Service Commission. In addition, I have provided several state
14 Commissions with on-site technical and economic assistance. This
15 assistance was related to identifying, explaining, and analyzing major
16 issues in telephone cases. Since joining J.W. Wilson & Associates,
17 Inc. in May 1980, I have provided economic analysis in numerous
18 proceedings in most of the states of the United States, as well as in
19 Canada, Bolivia, Nepal, Egypt, and Tanzania. I have provided
20 analysis for the Federal Communications Commission and the United
21 States Department of Justice. For example, I testified on behalf of the
22 Department of Justice in the case that broke up the Bell System. In
23 addition, I have worked for numerous state Attorneys General. For
24 example, I evaluated the Bell Atlantic and NYNEX merger proposal
25 for the National Association of Attorneys General and the Bell
26 Atlantic and GTE merger proposal for the Pennsylvania Attorney
27 General. I also analyzed the MCI and WorldCom merger proposal for
28 the California Public Utilities Commission.

29 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL**
30 **ORGANIZATIONS AND HONOR SOCIETIES?**

31 A. Yes. I am a member of the Society of Depreciation Professionals, the
32 American Economic Association, Life Member of The Institute of
33 Business Appraisers, The Institute of Electrical and Electronics

1 Engineers, Omicron Delta Epsilon (an international honor society in
2 economics), and Beta Gamma Sigma (an honor society in business).

3 **Q. COULD YOU BRIEFLY SUMMARIZE YOUR**
4 **PROFESSIONAL RESPONSIBILITIES TO DATE?**

5 A. Yes. My primary responsibilities have been to supervise and actively
6 participate in public utility regulatory policy research, especially in
7 the telecommunications field. These responsibilities required the use
8 and application of economic, accounting, and engineering analyses.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. The OSBA asked me to analyze the price change opportunity (“PCO”)
12 filings (including access rate changes) originally proposed by Buffalo
13 Valley Telephone Company, Conestoga Telephone and Telegraph
14 Company, and Denver & Ephrata Telephone and Telegraph Company
15 (“Companies”).

16 I found that the proposed change in access rates was appropriate. The
17 Companies’ new Chapter 30 Plans allow them an annual PCO, which
18 is an opportunity to increase rates based on presumed cost changes.
19 The general level of inflation was used as a measure for these cost
20 changes. The Companies demonstrated that they were allowed to
21 increase noncompetitive service rates based on their respective PCO
22 mechanisms, and therefore they increased access rates and local
23 network rates.

24 Access service is one of the Companies’ main costs and revenue
25 sources. Access revenues were a major cause for the PCO revenue
26 increase. Therefore, it would not be reasonable to presume that the
27 overall costs for these Companies have increased simply due to
28 inflation and then exclude access from the rate increase.

29

1 **II. SUMMARY**

2 **Q. ACCESS RATES WERE INCREASED IN THE COMPANIES'**
3 **PCO FILINGS. WAS THAT APPROPRIATE AND**
4 **REASONABLE?**

5 A. Yes. The Companies were allowed an increase in noncompetitive
6 service revenue through their respective PCO mechanisms in order to
7 compensate them for presumed increased costs due to inflation. The
8 Companies proposed to increase rates for access and local network
9 services to recover the additional noncompetitive service revenue.

10 The Commission approved the Companies' PCO filings, and then
11 required a hearing to re-examine the issue of increases to the
12 Companies' access rates.

13 Verizon was the only party filing testimony against the increase.
14 Verizon's direct testimony claims that increasing access rates is
15 wrong and against Commission policy (see page 12 of Mr. Price's
16 testimony). I believe that Verizon has misrepresented the
17 Commission's orders and rules. I agree that the recent trend has been
18 a decline in access rates for Verizon; however, that was during a
19 period when costs were stable or declining. Furthermore, that trend
20 occurred prior to the new Chapter 30, which allows the Companies to
21 pass through rate-of-inflation rate increases without productivity
22 offsets (or with only minimal productivity offsets).

23 Consequently, I do not believe that it is reasonable to continue to
24 lower access rates if it is presumed that costs (including access costs)
25 are increasing at or about the rate of inflation.¹ To continue to lower
26 the access rates, while overall costs are presumed to be increasing,
27 simply transfers the cost of access away from toll consumers (the cost
28 causers who have numerous competitive choices) and onto basic local

¹ The cost of access includes the cost of switching a toll call in the local telephone companies' networks, the cost of transporting the call, and the cost of using the local loop facilities that were designed for toll services.

1 exchange consumers, who have very little choice in either carriers or
2 services.

3 Furthermore, Verizon's direct testimony did not do any analysis of the
4 cost of access in order to rebut the Companies' proposed access rates.
5 There is no evidence in this case that access costs have declined.
6 Verizon simply wants to perpetuate the moving of revenue generation
7 to the least elastic service, basic local exchange service.

8 Verizon's actions and recommendation are motivated by the desire to
9 make more money. For example, Verizon's 2006 PCO filing used
10 access revenue to increase the overall total noncompetitive service
11 revenue, but refused to increase access charges in order to help pay
12 for that increase. This is classic monopoly behavior.

13 Furthermore, Verizon is trying to hide behind Commission orders that
14 don't exist. For example, Verizon says that the Companies must not
15 be allowed to increase access rates because it's against the
16 Commission's policy. There is no Commission policy that states that
17 access rates cannot be increased. In fact, the Companies' proposed
18 increase in access rates was already approved by the Commission.

19 **Q. WHAT WAS THE PURPOSE OF NEW CHAPTER 30?**

20 A primary reason for enacting the new Chapter 30 was to accelerate
21 broadband development in Pennsylvania. The Legislature did not
22 carve out access as a service that was excluded from new Chapter 30
23 increases; in fact, access was included as a protected service that is
24 part of the new Chapter 30 revenue stream. Clearly the Legislature
25 included access in its broadband development plan under new Chapter
26 30 and expected access service to contribute to the development of the
27 broadband network, not get a free ride.

28 Verizon's proposal to not increase its access rates in its 2006 PCO
29 filing was unjust and unreasonable for the same reason it is unjust and
30 unreasonable in this case to exclude access from any increase. Access
31 rates generated the access revenue that is used to calculate the

1 noncompetitive service revenue increase. Access rates are paid by toll
2 carriers to provide toll services to consumers; toll carriers and toll
3 consumers should contribute to broadband development in
4 Pennsylvania. If the Verizon philosophy is adopted, then toll carriers
5 will get the direct benefit of a broadband system without paying any
6 of the costs to create the system.

7 In addition, Verizon's claim that access cannot be increased is
8 contrary to the movement to market competition. Both federal and
9 state legislatures want competition and have set various standards in
10 place to develop competition. I don't believe we are at a point of
11 workable competition. However, the FCC, in its lifting of many of
12 the UNE requirements, and the Pennsylvania legislation, by enacting
13 the new Chapter 30, **allow companies, prices, and markets** to
14 interact. New Chapter 30 allows companies in Pennsylvania to set
15 their rates where they believe they need to be as long as those rates are
16 just, reasonable, and nondiscriminatory.

17 **III. ACCESS RATES**

18 **Q. WHAT ARE ACCESS RATES?**

19 A. Access rates are the charges to toll companies for the use of the local
20 exchange company's network.² Toll carriers include these access
21 charges as a cost in their toll rates that they charge to consumers for
22 toll services.

23 Access rates are designed to recover a portion of the loop and
24 switching costs of the local telephone company. The local telephone
25 company is the main facilities-based provider of access to the
26 consumers' telephones. Local telephone companies have spent
27 billions of dollars to develop a system that is cost effective and
28 efficient to deliver all forms of telephone traffic: local, domestic and
29 international toll, cellular, and Voice over Internet Protocol ("VOIP").
30 The network facilities allow the interconnection of all traffic because

² For example, Verizon is a toll carrier in the Companies' service territory.

1 they were designed for all traffic, not simply local telephone calls. In
2 addition, with very little added investment in these network facilities,
3 local telephone companies have been able to provide broadband
4 access through Digital Subscriber Line (“DSL”) using the very same
5 facilities.

6 **Q. VERIZON SUGGESTS THAT ANY INCREASE IN ACCESS**
7 **RATES IS WRONG. DO YOU AGREE?**

8 A. No. Inherent in Verizon’s argument is that access is free and that the
9 only real price for access should be zero. In other words, Verizon’s
10 view would transfer all of the cost of access onto basic exchange
11 customers. This is a good monopolist strategy, but it would not be the
12 outcome if the market were competitive. If the market were actually
13 competitive, then no local telephone company, with millions of
14 dollars of investment in loop and switches, would allow a competitor
15 free use of its facilities.

16 The loop is the major investment cost for every telephone company
17 and is the major cost for access. Commissions, including this one,
18 have historically moved access rates lower in an attempt to spur toll
19 competition. Some would argue that toll was recovering too much of
20 the cost of access. I have always disagreed with that claim based on
21 the fact that the cost of the loop was directly impacted by the
22 provision of toll service. In any case, the price of access has gone
23 down substantially in recent years under the philosophy that toll was
24 recovering too much.

25 The question now is: does access need to decline any further? The
26 Companies say “no”. The Companies claim that moving additional
27 costs to basic local exchange jeopardizes their ability to compete in
28 the market. The Commission agreed when it let these rates go into
29 effect. The Commission also agrees that the price of access is not
30 zero, because access is a joint cost and must be shared with all
31 services. The Commission addressed this issue in *In Re: Formal*
32 *Investigation to Examine and Establish Updated Universal Service*
33 *Principles and Policies for Telecommunications Services in the*

1 *Commonwealth*, Docket No. I-00940035 (Order entered January 28,
2 1997), wherein it explained that interexchange carriers (“IXCs”) use
3 the local network for access. Specifically, the Commission stated as
4 follows:

5
6 We reaffirm our findings in our September 5, 1995
7 Order at Docket No. L-00950105 that the local
8 loop is a ‘joint cost’, not a direct cost of providing
9 only those services included in the definition of
10 BUS [Basic Universal Service]. It is used for a
11 variety of services other than BUS and must be
12 allocated among the services which utilize it. For
13 universal service funding purposes, not allocating
14 a portion of the local loop to all the services which
15 utilize it fails to give recognition to the fact that the
16 loop is used to provide many services in addition
17 to BUS.

18
19 This finding is consistent with our earlier rulings
20 including *Pennsylvania Public Utility Commission*
21 *v. Breezewood Telephone Company*, 74 Pa P.U.C.
22 431 (1991) wherein we stated:

23
24 ...[W]e consider the costs associated with the
25 loop from the central office to the customers
26 premises a non-traffic sensitive joint cost.

27
28 * * *

29
30 We reject the ILECs’ arguments that the local loop
31 is not a joint cost because other services which use
32 the loop do not result in any additional cost. We
33 do not find the arguments of Bell’s expert witness
34 Dr. Kahn persuasive on this point. In particular,
35 we do not accept the basis of Dr. Kahn’s argument
36 that because the loop is needed for local service
37 and the incremental cost of the loop does not
38 increase to provide other services, that its full cost
39 must be attributed to local services. This same

1 argument could be made with respect to toll
2 service. Since the loop is necessary to provide toll
3 service, it could at the same time be argued that the
4 full cost should be allocated to toll, and in so doing
5 the incremental cost to provide local service would
6 be zero. Moreover, since the installation of an
7 additional subscriber loop increases the capacity
8 available for placing and receiving all three types
9 of calls, the telephone company cannot increase
10 the capacity for local calls without concurrently
11 increasing the capacity for toll calls.

12
13 *Universal Service Investigation*, at 82-83.

14 The Commission has found that the loop is part of the integrated
15 telephone network and was built to serve both local and toll usage. In
16 fact, today's loops are of such good quality that they are being put to
17 all kinds of uses, e.g., DSL. Verizon's testimony implies that the
18 Commission has somehow ruled that access is a "supra" protected
19 service isolated from any changes except downward movement to
20 zero. That testimony is wrong.

21 **Q. HAS THE ECONOMIC RATIONALE FOR REDUCING**
22 **ACCESS CHANGED?**

23 **A.** Yes. In addition to the fact that the loop is a shared cost, that is, toll
24 must recover some of the costs, the economic environment has
25 changed. The economic rationale for access reductions was that toll
26 services were paying more than their fair share of the cost of the local
27 network. This was claimed to hinder the development of competitive
28 toll services and local exchange services, but this is no longer true.
29 The competitive market, at least for toll, has sorted itself out. Toll
30 carriers have been merged into local exchange companies. Indeed,
31 Verizon acquired MCI and SBC acquired AT&T (and then retained
32 the AT&T corporate name for all of its operations).

33 In addition, there is some local exchange competition, but most of the
34 competition rides over the local exchange companies' loop facilities.

1 In other words, there is very little facilities-based competition for
2 loops.

3 The two biggest competitive threats to telephone companies are over
4 different networks: wireless carriers over their own networks, and
5 VOIP over broadband networks. In the FCC's February 5, 2006,
6 Remand Order of the Triennial Review Order (commonly called the
7 "TRRO"), the FCC made it clear that markets were open and moving
8 toward competition: "we recognized the marketplace realities of
9 robust broadband competition and increasing competition from
10 intermodal sources, and thus eliminated most unbundling
11 requirements for broadband architectures serving the mass market."
12 (Page 2 of the TRRO.)³ Telephone companies, like these Companies,
13 need the ability to set their rates with these new "marketplace
14 realities" in mind. Furthermore, one could argue that forcing local
15 exchange consumers to pay for broadband development is subsidizing
16 VOIP competition. In any case, the economics that were once used to
17 push costs onto local consumers has changed as local exchange
18 consumers recover most of the costs of the local network.

19 **Q. WHY IS IT REASONABLE, IN YOUR OPINION, TO CHARGE**
20 **TOLL CARRIERS LIKE VERIZON, A PORTION OF THE**
21 **LOOP COSTS THROUGH ACCESS RATES?**

22 A. Toll carriers, like Verizon, should be required to support the loop.
23 Toll carriers use the loop; without the loop, there is no connection to
24 the customer. The loop was designed to provide quality toll service.
25 One of the reasons we have a telecommunications system that
26 connects to virtually everyone and everywhere in this country is due
27 to the sharing of the loop costs by all services that use the loop.

³ See the *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers; Implementation of the Local Competition Provisions of the Telecommunications Act of 1996; Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket Nos. 01-338, 96-98, 98-147, Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, 18 FCC Rcd 16978, 17145, para. 278 (2003) (*Triennial Review Order*), corrected by Errata, 18 FCC Rcd 19020 (2003) (*Triennial Review Order Errata*), vacated and remanded in part, affirmed in part, *United States Telecom Ass'n v. FCC*, 359 F.3d 554 (D.C. Cir. 2004) (*USTA II*) cert. denied, 125 S.Ct. 313, 316, 345 (2004).

1 **Q. WOULD CROSS-SUBSIDIZATION BE INHERENT IN THE**
2 **VERIZON RECOMMENDATION TO FREEZE OR LOWER**
3 **ACCESS RATES FOR THESE COMPANIES?**

4 A. Yes. First, the existing rates for access are already too low, and
5 therefore contribute little to pay for the use of the facilities that are
6 required to provide toll services. This causes other services and
7 ratepayers to pay more of the loop cost.

8 Second, there is a subsidy that flows from these Companies'
9 customers to Verizon's customers. Specifically, Verizon's access
10 rates reflect the lower costs due to Verizon's size and more urban
11 distribution of customers. In contrast, rural carriers like the
12 Companies have higher costs for the local network because they have
13 fewer customers per square mile when compared to Verizon's more
14 urban areas. Therefore, keeping the access rates the same or
15 decreasing them allows Verizon's toll customers to access the
16 Companies' rural local network without paying cost-based rates.
17 Therefore, Verizon's toll customers do not pay their fair share towards
18 the broadband upgrades to those rural networks. Thus, the
19 Companies' local exchange customers will be forced to pay higher
20 rates for local service so that Verizon's toll customers can reduce their
21 costs for accessing the more rural network of these Companies. In
22 addition, toll carriers, like Verizon, will simply pocket more money
23 by not passing through the reductions in toll access.

24 **Q. HAS NEW CHAPTER 30 CHANGED THE WAY THE**
25 **COMPANIES ARE REGULATED?**

26 A. Yes. Over the last few years, the proposals to shift access costs from
27 toll services to local services has found favor with telephone
28 companies eager to recover more of their costs from captive local
29 customers. This is especially true since ILECs, like Verizon, are in
30 the toll business themselves.

31 However several things have changed. First, we have a new Chapter
32 30 that was designed to increase broadband deployment in

1 Pennsylvania. New Chapter 30 did *not* exclude access rates from
2 contributing to the development of broadband.

3 Second, competition is more prevalent in Pennsylvania and rural
4 carriers like the Companies are exposed to that competition (even with
5 a rural exemption for unbundled network elements). Furthermore, the
6 Companies in this case claim that they can't shift more revenue to the
7 local exchange customers and keep their customers. New Chapter 30
8 does allow these Companies to collect the PCO increase in any
9 manner that is just, reasonable, and nondiscriminatory. The
10 Companies' proposals to include access in the PCO increase meet
11 those criteria. In fact, to exclude access would not be just and
12 reasonable.

13 Third, the shift of most of the loop cost to local exchange service has
14 been accomplished; access rates do not need to be decreased any
15 further. One need only look at Mr. Beurer's Exhibit 1 to see the
16 massive changes in access that have already taken place.

17 Finally, it is time to step back and examine the policies that the
18 legislature created in the new Chapter 30. The legislature did not
19 exclude access from increases, did not treat access as something
20 special outside of the protected category, and did not say that access
21 and toll users are exempt from contributing to the broadband network
22 it hoped to create. New Chapter 30 eliminated most, if not all, of the
23 productivity offset even though the telecommunications industry
24 continues to have declining per unit costs. Therefore, the annual PCO
25 revenue increase is not cost-based in the traditional regulatory sense.
26 In essence, new Chapter 30 imposes a "broadband tax" to help finance
27 the development of broadband. Because all protected services benefit
28 from the development of broadband, all protected services should bear
29 part of the cost of developing broadband. By including access as a
30 protected service for purposes of calculating the PCO revenue
31 increase and not excluding access from the resulting rate increase, the
32 legislature recognized that access should help pay for the development
33 of broadband.

1 The only way for toll to contribute to the development of broadband
2 in Pennsylvania is through access rates. If access is excluded, then
3 toll users get a free ride over the new broadband system. In addition,
4 new Chapter 30 allows the carriers to set their rates and allows others
5 to challenge the rates as unjust or unreasonable. The rates proposed
6 by the Companies are reasonable and Verizon filed no objection when
7 they were originally proposed and allowed to go into effect.
8 Proposals to reduce access charges or hold them constant, or to shift
9 these costs to local subscribers are wrong from an economic
10 standpoint and in a new Chapter 30 environment.

11 **Q. VERIZON (ON PAGE 10 OF MR. PRICE'S TESTIMONY)**
12 **LISTS THE REASONS WHY THE COMPANIES' ACCESS**
13 **RATES INCREASE IS AGAINST LONG-STANDING**
14 **COMMISSION POLICY. DO YOU AGREE?**

15 A. No, there is no long-standing policy to only decrease access charges.
16 Verizon provided no evidence that there is such a policy. There may
17 be some history and a trend to decrease access rates for Verizon, but
18 actual experience demonstrates that access rates have increased and
19 decreased for other carriers. The Companies have pointed out in their
20 testimony that there have been many increases in access rates. This is
21 shown in Mr. Beurer's Exhibit 1. More to the point, if there were
22 such a policy, then the Commission would not have approved the
23 original proposal. However, the most important point is that things
24 have changed with Chapter 30: companies can raise rates, with no
25 restriction on increasing access rates, as long as the resulting rates are
26 just, reasonable, and nondiscriminatory.

27 **Q. VERIZON CLAIMS THAT INCREASING ACCESS RATES**
28 **WOULD BE "HIGHLY DISCRIMINATORY" AND FAVOR**
29 **PARTICULAR CARRIERS. DO YOU AGREE?**

30 A. No. Nothing could be further from the truth than this Verizon claim.
31 Any carrier wanting to use the local network of the Companies pays

1

2 exactly the same rates. There is no discrimination if all carriers pay
3 the same rate.

4 **Q. VERIZON NEXT CLAIMS THAT:**
5 **“THE SWITCHED ACCESS INCREASES UNDERMINE**
6 **COMPETITION BY KEEPING THEIR LOCAL RATES**
7 **ARTIFICIALLY LOW AND THUS DISCOURAGING ENTRY**
8 **BY WOULD-BE COMPETITORS IN THE COMPANIES’**
9 **SERVICE TERRITORIES.” (Page 10 of Mr. Price’s testimony)**
10 **DOES VERIZON HAVE ANY BASIS FOR THIS CLAIM?**

11 A. None that it presented. However, there is evidence that shows this
12 claim to be without any foundation. Mr. Beurer demonstrates on page
13 49 through 52 that there is competition. However, more to the point,
14 local exchange rates are not being kept artificially low; in fact, local
15 rates have had substantial increases. Exhibit 4 of Mr. Beurer’s
16 testimony shows that local exchange rates have increased by as much
17 as 126% since 2000. What has been kept artificially low is access
18 rates.

19 Continued local exchange rate increases will impact these rural
20 carriers in a way that is counterproductive and negative: the
21 Companies have stated increasing local exchange rates will cause
22 them to lose customers (see Mr. Beurer’s testimony on pages 54 and
23 55).

24 **Q. VERIZON NEXT CLAIMS THAT:**
25 **“THE SWITCHED ACCESS RATE INCREASES WOULD**
26 **SHARPEN RATHER THAN DIMINISH THE HISTORICAL**
27 **RURAL/URBAN DISPARITY IN RATES THAT KEEPS**
28 **URBAN CUSTOMERS’ RATES HIGHER SO AS TO LESSEN**
29 **UPWARD PRESSURE ON RURAL CUSTOMERS’ RATES.”**
30 **(Page 10 of Mr. Price’s testimony)**
31 **DO YOU AGREE?**

1 A. Once again, Verizon offers no proof to support the statement. The
2 truth is that local exchange rates have increased because of the
3 constant pressure of toll carriers to lower access rates.

4 In addition, as the Companies point out, the universal service fund is
5 there to help rural ILECs retain customers in high cost areas. And
6 again, we should not forget that Chapter 30 allows the Companies the
7 opportunity to change rates based on their assessment of the market,
8 not on the assessment of a competitor such as Verizon.

9

10 **Q. VERIZON’S FINAL ARGUMENT IS THAT:**
11 **“THE SWITCHED ACCESS RATE INCREASES WOULD**
12 **HARM INTEREXCHANGE CARRIERS (‘IXCS’) WHO SERVE**
13 **BOTH RURAL AND URBAN SUBSCRIBERS, BECAUSE OF**
14 **THEIR GENERAL TENDENCY TO CHARGE**
15 **GEOGRAPHICALLY AVERAGED TOLL RATES.” (Page 10 of**
16 **Mr. Price’s testimony)**
17 **DO YOU AGREE?**

18 A. No. First, other than Verizon, none of the IXCs has intervened,
19 complained, or alleged harm in this case. Second, local carriers
20 should be charging different access rates based on their costs. Third,
21 local exchange carriers have no control over the rate structure charged
22 by an IXC.

23

24 **IV. RECOMMENDATIONS AND CONCLUSIONS**

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

26 A. Yes. Local loops are part of the integrated switched
27 telecommunications network – they are not a customer-specific
28 facility such as a gas lateral or an electric drop, on which regulatory
29 commissions may reasonably choose to impose only minimal
30 customer charges. Charging a portion of access costs to toll carriers
31 and allowing them to innovate and experiment in recovering these

1 costs through their own competitive pricing arrangements is
2 reasonable, and is the law under Chapter 30.

3 There is not a single "correct" solution to the access cost pricing issue,
4 but there are some wrong ones. Declaring all access costs to be
5 customer costs (so as to rationalize their total attribution to a fixed
6 local subscriber charge) is unwarranted and harmful, especially in the
7 case of higher cost rural carriers like these Companies.

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

9 A. Yes, it does.