

Frontier Commonwealth Statement No. 2

Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Office of Small Business Advocate	:	
	:	
v.	:	Docket Nos. C-2016-2534366
	:	R-2016-2524592
Frontier Communications Commonwealth	:	
Telephone Company	:	

REBUTTAL TESTIMONY

OF

GREGORY J. SALE

ON BEHALF OF

**FRONTIER COMMUNICATIONS
COMMONWEALTH TELEPHONE COMPANY**

DATED: August 10, 2016

1 **Q. What are your current duties as Director of Product Development?**

2 A. I currently lead a product management team that is responsible for Frontier's Residential
3 voice portfolio across our 29 state footprint. My responsibilities include product life
4 cycle management, inclusive of pricing, product consolidation and product
5 standardization, as well as new product and new feature development, and sales and
6 customer care support. I was previously responsible for Frontier's business voice
7 portfolio and the full spectrum of product life cycle management activities for Frontier's
8 business voice products as described above.

9

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. The purpose of my rebuttal testimony is to address the direct testimony of Joseph P.
12 Gillan on behalf of the Office of Small Business Advocate ("OSBA") who is
13 recommending that the Pennsylvania Public Utility Commission ("PA PUC") prohibit
14 Frontier Communications Commonwealth Telephone Company ("Frontier
15 Commonwealth" or "Company") from implementing the rate increases proposed in its
16 2016 PSI/SPI filing because they purportedly exacerbate a price disparity in Frontier's
17 rates between residential and small business customers.

18

19 **II. RATE INCREASES PROPOSED BY 2016 PSI/SPI FILING**

20 **Q. Please describe the rate increases proposed by Frontier Commonwealth in its 2016**
21 **PSI/SPI filing.**

22 A. Frontier Commonwealth filed for and received PA PUC approval to implement rate
23 changes for residential access lines (metered, measured, flat rate) and business access

1 lines and trunks (metered, measured, flat rate). Residential access lines increased
2 anywhere from zero to \$1.00 per line per month, depending on the specific rate group,
3 with a weighted average increase of \$.68, or 3.7%. Business access line rates increased
4 anywhere from zero to \$2.00, depending on the specific rate group, with a weighted
5 average increase of \$1.15, or 5.5%. Consistent with PA PUC requirements, Frontier
6 Commonwealth provided a thirty day advance customer notification of the rate changes
7 via a bill message to impacted customers. The rate change notifications were initially sent
8 as part of the February invoices. A subsequent notice to impacted customers was
9 provided in March invoices. Following the PA PUC's approval of the proposed rates in
10 its April 7, 2016 Order, rate changes were implemented with an effective date of April
11 17, 2016 in accordance with Tariff Supplement No. 125 to Frontier Commonwealth
12 Tariff Telephone-PA P.U.C. No. 24 which was submitted as part of the 2016 PSI/SPI
13 filing.

14
15 **Q. How did Frontier Commonwealth determine the particular amounts to increase**
16 **residential and small business rates for purposes of the 2016 PSI/SPI filing?**

17 A. Frontier Commonwealth's specific rate increases were established pursuant to and
18 comply with the Company's PA PUC-approved Amended Chapter 30 Plan which
19 governs revenue changes for noncompetitive residential and business services. In
20 establishing those rates, and as part of Frontier Commonwealth's standard and periodic
21 rate management business practices, the product group looks for opportunities to simplify
22 and streamline the Company's rate structure for both residential and business customers.
23 In the filings at issue in this proceeding, Frontier consolidated several of the various price

1 points of the current six rate groups of the Frontier Commonwealth local exchange tariff
2 in order to simplify residential and business access line rates. Consolidation and
3 standardization of pricing provides a number of administrative and product management
4 benefits including helping to minimize customer confusion and eliminating
5 administrative complexity in pricing associated with maintaining different price points
6 for the same service based on physical location only. By eliminating the need for
7 Frontier Commonwealth to maintain and communicate different rates based on exchange
8 information, these changes also provide operational efficiencies that reduce its costs
9 associated with ordering, billing and customer service.

10
11 **Q. What is the rationale behind the pricing differential for residential and small
12 business rates?**

13 A. In general, there are higher costs associated with serving business customers than
14 traditional residential customers. For instance, billing is significantly more complex, so
15 the cost to produce a business customer bill is higher. In addition, business customers
16 typically require a greater level of customer care and support, which impacts call center
17 staffing, training, account management, and account administration. Customer
18 acquisition costs are also significantly higher. Competition for business customers is
19 robust everywhere Frontier Commonwealth serves, which drives up the costs of attracting
20 and retaining a business customer in direct ways, such as through incentives, promotions
21 and marketing, and also in indirect ways, such as increased customer support and
22 interaction. Finally, the costs of serving business customers are typically higher because

1 these customers are higher users of the service they purchase which increases the
2 Company's operational costs.

3
4 When considering the foregoing factors which collectively contribute to higher costs to
5 service business customers, the pricing differential between business and residential rates
6 is neither excessive nor unjustified. In fact, the rate differential which results from
7 Frontier Commonwealth's 2016 PSI/SPI filing is quite minimal and well within reason.

8
9 **Q. Would you please elaborate on this rate differential for Frontier Commonwealth?**

10 A. Sure. Prior to the April 17, 2016 rate increase, the rate differential between business and
11 residential rates, based on the weighted average of access line subscribers, was +\$2.76, or
12 15.1%. Under the new rates in effect, the business/residential access line rate differential
13 is +\$3.22, an increase of \$0.46, for a spread differential of 17.0%, or an increase of only
14 1.9 basis points. The nominal increase of the spread is simply a byproduct of the
15 respective rate changes and corresponding mix of access line subscribers, by line type
16 and by rate group, predicated under the pre-existing business/residential rate differential.

17
18 **III. RESPONSE TO DIRECT TESTIMONY OF OSBA WITNESS JOSEPH P.**
19 **GILLAN**

20
21 **Q. Do you have a response to the concerns raised by Mr. Gillan regarding the pricing**
22 **divide between rates?**

23 A. Yes. It is not uncommon for telecommunications service providers to have higher
24 business rates relative to residential service rates as one of several means to ensure that

1 all residential customers can afford telephone service for access to Emergency 911
2 service and other essential communications services. As a rural carrier in Pennsylvania,
3 Frontier Commonwealth serves several high cost areas and remote areas. If Frontier
4 Commonwealth were to set its rates for such customers based on its actual costs to serve
5 them, many residential customers would not be able to afford service. Given that many
6 of the rural areas it serves do not have reliable cellular service, ensuring the affordability
7 of residential landline service is critical. Additionally, the pricing differential assists
8 residential customers who are economically disadvantaged to have access to Lifeline
9 services.

10
11 Further, and as I discussed previously, there are a number of other factors, along with
12 direct network costs, that must be considered in establishing Frontier Commonwealth's
13 residential and business rates, including, but not limited to competitive offers, packaging
14 and bundling pricing strategies, expenses related to sales, marketing and support
15 expenses (e.g., sales compensation, advertising, collateral, ordering, billing, customer
16 service, etc.), all of which are not necessarily the same nor equally borne from a cost of
17 acquisition and retention perspective between business and residential customers.

18
19 **Q. Do you agree with Mr. Gillan's explanation as to why Frontier Commonwealth is**
20 **seeking to "disproportionally" increase business rates and "further exacerbate the**
21 **residential/business pricing divide?"**

22 **A.** No. Mr. Gillan's explanation – that Frontier faces greater competitive pressures in the
23 residential market than in the business market – is not accurate. Frontier

1 Commonwealth's pricing is developed to support simplification of rates between
2 residential customers and between business customers by reducing the number of rate
3 groups and to reasonably account for the costs of serving each customer segment in the
4 rates charged. As noted earlier, the costs for serving business and residential customers
5 are different and, therefore, the rates for business and residential service cannot, and
6 should not, be identical. Additionally, the Company's competitors, who do not operate
7 under the same regulatory paradigm as Frontier Commonwealth and therefore do not
8 have comparable regulatory costs of doing business, generally have even greater pricing
9 differentials between business and residential rates than Frontier Commonwealth does.
10 For example, based on our own internal competitive research of our Pennsylvania
11 exchanges, Comcast has differentials of 33% to 99% between its business and residential
12 rates, and Time Warner Cable has differentials of 299% to 499% between its business
13 and residential rates.

14
15 **Q. Do you have any comments with respect to Mr. Gillan's illustrative analysis that**
16 **there are "very different conditions in the residential and business markets?"**

17 A. Yes. The conditions in the residential and business markets are different and they
18 support pricing differences for residential and business services. As previously noted,
19 there are unique conditions and considerations for both residential and business
20 customers which go beyond direct network-based costs, such as the cost of acquisition
21 and retention, which impact the pricing for business and residential services. Moreover,
22 as described above, the costs of providing business service are higher than residential
23 service for a multitude of regulatory, operational and administrative reasons. Further,

1 Frontier Commonwealth's costs of providing service to business customers are also
2 impacted by the highly competitive marketplace in its Pennsylvania territory in which the
3 Company must compete tenaciously to attract and retain business customers.
4

5 **Q. Are Mr. Gillan's concerns justified?**

6 A. No, they are not. As I have previously stated, the price differential between residential
7 and business rates is based on several factors that Mr. Gillan's testimony fails to take into
8 account or address and which provide a well settled basis for charging different rates for
9 residential and business services. Additionally, Frontier Commonwealth's competitors
10 likewise differentiate between business and residential rates — indeed, to a much great
11 degree than the Company does — and are free to set those rates based solely on
12 competitive responses and expectations of business and residential customers.
13

14 **Q. What is Mr. Gillan recommending?**

15 A. Mr. Gillan recommends the PA PUC disallow Frontier Commonwealth from
16 implementing the rate increases proposed in its 2016 PSI/SPI filing because they
17 purportedly create an unfair price disparity in the Company's rates between residential
18 and small business customers. He also seems to be suggesting that any increases should
19 move in a lock-step fashion so that the pre-existing pricing disparity is maintained.
20

21 **Q. Do you agree with this recommendation?**

22 A. Absolutely not. The purpose of the rate changes proposed in the Company's 2016
23 PSI/SPI filing is to harmonize and streamline rates within respective residential and

1 business rate band groups, to generate additional operating revenues, and to achieve
2 administrative synergies by simplifying the ordering, billing and customer service
3 systems. Moreover, the pricing differential is more than justified as I have explained.
4

5 Despite the OSBA's opposition to the increases, Frontier Commonwealth believes there
6 is nothing unreasonable or discriminatory about them. In setting the new rates, Frontier
7 Commonwealth complied with its Amended Chapter 30 Plan in all respects, as explained
8 in greater detail by Company witness Carl Yastremski in his rebuttal testimony. This
9 includes flexibility in determining how to allocate the rate increases. Moreover, the PA
10 PUC has already approved the 2016 filing, concluding, among other things, that the
11 proposed rate increases therein were reasonable and in conformance with the provisions
12 of the Company's Amended Chapter 30 Plan. For these reasons, the new rates should
13 remain in place without change.
14

15 To the extent Mr. Gillan might be recommending a reduction in the pre-existing pricing
16 differential between residential and business rates (although his testimony does not
17 expressly make that recommendation), such a recommendation would be even more
18 problematic from an implementation standpoint. Given the current pricing differentials,¹
19 to reduce the residential/business differential, Frontier Commonwealth either would have
20 to raise residential rates significantly or decrease business rates substantially (or some

¹ Please refer to Frontier Commonwealth Exhibit CY-3 attached to Frontier Commonwealth St. No.1.

1 combination of both). Neither option is tenable for the reasons I have previously
2 outlined.

3

4 **IV. CONCLUSION**

5 **Q. Does this conclude your rebuttal testimony?**

6 A. Yes. I would, however, specifically reserve the right to offer additional testimony or
7 supplement my testimony as the schedule in this proceeding permits and as may be
8 necessary to address matters not raised in the OSBA's testimony.

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VERIFICATION

I, Gregory J. Sale, Director of Product Management – Voice Services for Frontier Communications Corporation, hereby state that the facts set forth in **Frontier Commonwealth Statement No. 2**, containing my prepared Rebuttal Testimony, are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at any hearing in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).



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DATED: September 13, 2016