

Frontier Commonwealth Statement No. 1

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

CARL YASTREMSKI

ON BEHALF OF

**FRONTIER COMMUNICATIONS
COMMONWEALTH TELEPHONE COMPANY**

PUBLIC VERSION

DATED: August 10, 2016

1 **Q. What are your current duties as Manager of Regulatory Affairs?**

2 A. My present duties include the preparation and review of various state filings for Frontier
3 entities in both Pennsylvania and New York, along with the direct forecasting and review
4 of all federal and state subsidies and regulatory assessments associated with Frontier's
5 presence in its 29 state footprint. Specifically in Pennsylvania, I prepare and review
6 Frontier's annual filings to the Public Utility Commission ("PUC" or "Commission")
7 related to its Chapter 30 Alternative Regulation and Network Modernization Plans,
8 including the filing for Frontier Communications Commonwealth Telephone Company
9 ("Frontier Commonwealth" or "Company").

10

11 **Q. Please briefly describe Frontier Commonwealth.**

12 A. Frontier Commonwealth is a local exchange carrier operating in all of Wyoming County
13 and in portions of Berks, Bradford, Bucks, Carbon, Chester, Columbia, Dauphin,
14 Lackawanna, Lancaster, Lehigh, Luzerne, Lycoming, Monroe, Northampton, Schuylkill,
15 Sullivan, Susquehanna, Tioga, and York Counties and serving principally rural territory
16 and a rural customer base.

17

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

19 A. The purpose of my rebuttal testimony is threefold. First, I will provide an overview of
20 relevant portions of Frontier Commonwealth's Amended Final Alternative Regulation
21 Plan, commonly referred to as its "Amended Chapter 30 Plan," specifically Part 3 which
22 pertains to the Price Stability Plan governing revenue changes for noncompetitive
23 services. Second, I will explain Frontier Commonwealth's 2016 annual Price Stability

1 Index/Service Price Index (“PSI/SPI”) filing and the rate increases proposed therein.
2 Finally, I will respond to the direct testimony and recommendations of Joseph P. Gillan
3 on behalf of the Office of Small Business Advocate (“OSBA”) concerning the purported
4 unreasonable discrimination created by Frontier Commonwealth’s PSI/SPI filing with
5 respect to smaller business customers.
6

7 **II. FRONTIER COMMONWEALTH’S AMENDED CHAPTER 30 PLAN**

8 **Q. Please describe the relevant portions of Frontier Commonwealth’s Amended**
9 **Chapter 30 Alternative Regulation Plan which serves as the basis for the 2016**
10 **PSI/SPI filing and which gives rise to the OSBA’s complaint.**

11 A. Frontier Commonwealth’s Amended Chapter 30 Plan has four operative parts: a Network
12 Modernization Plan; a Competitive Services Deregulation Plan; a Price Stability Plan for
13 Noncompetitive Services (“PSP”); and a catch all provision for Additional Company
14 Commitments and Other Terms. Of these parts, Part 3 – the PSP which addresses the
15 Company’s ability to make changes to its noncompetitive rate structure – is pertinent to
16 the issues raised by the OSBA. A copy of the Company’s current and most recently
17 Commission-approved Plan is attached as **Frontier Commonwealth Exhibit CY-1**.
18

19 The PSP outlines the formula, principles, and procedures applicable to rate changes for
20 noncompetitive services which would otherwise be governed by Chapter 13 of the Public
21 Utility Code. In other words, the PSP is a complete substitute for traditional rate
22 base/rate of return regulation and forms the “exclusive basis” upon which Frontier
23 Commonwealth’s noncompetitive rates are regulated. The PSP calculates the allowable

1 change in noncompetitive services based on the change in the Gross Domestic Product
2 Price Index (“GDPPI”) as calculated by the United States Department of Commerce and
3 adjusted for any exogenous event(s).

4
5 The PSP includes a price stability mechanism which consists of two principal
6 components. First, the Price Stability Index (“PSI”) tracks the cumulative annual
7 changes in the GDPPI in order to illustrate the maximums to which Frontier
8 Commonwealth can increase noncompetitive rates. Second, the Service Price Index
9 (“SPI”) tracks the actual cumulative price changes from both the current and prior years
10 for noncompetitive services that Frontier Commonwealth has elected to realize via rate
11 increases. Under Plan rules, the cumulative change in rates (i.e., the SPI) may not exceed
12 the allowed increases (i.e., the PSI).

13
14 The Amended Chapter 30 Plan’s Deferred Change Index (“DCI”) tracks the difference
15 between the SPI and PSI. If the DCI is positive, then it indicates a deferred increase,
16 while a negative DCI indicates a deferred decrease. The Plan permits Frontier
17 Commonwealth to defer eligible rate changes by “banking” the amounts relating to the
18 difference between the PSI and SPI for a period not to exceed 4 consecutive years.
19 Banking helps reduce the pressure to take an annual increase each year. The banked
20 amounts, by year, are illustrated on the Banking Report that accompanies Frontier
21 Commonwealth’s annual PSI/SPI filing. Banking amounts are retired via rate changes by
22 utilizing the earliest banked amounts first, or, if unused, extinguished after four years.

23

1 The Amended Chapter 30 Plan requires Frontier Commonwealth to file its PSI/SPI
2 Report with the PUC on February 1st of each year. The PSI/SPI Report must include the
3 present DCI and along with a Banking Report that illustrates deferred rate changes. The
4 Amended Chapter 30 Plan also requires Frontier Commonwealth to file accompanying
5 tariffs for any rate changes. These tariffs become effective within 60 days of the filing.
6 Once the PUC reviews the tariff rate changes to determine that they produce revenues
7 where the SPI does not exceed its maximum level of the PSI, and that all banked amounts
8 are appropriately retired, the PUC shall approve the tariffed rates as filed, as stated per
9 the terms of the Amended Chapter 30 Plan.

10
11 Prior to making the annual filing, Frontier Commonwealth is required to provide fifteen
12 days advance notice to the PUC generally describing the anticipated PSI/SPI filing. The
13 advance notice must also be provided to the Office of Consumer Advocate (“OCA”),
14 OSBA, and the Bureau of Investigation and Enforcement (“BIE”). The Commission
15 must enter an Order within 60 days of the filing, otherwise the tariff changes shall
16 become effective as filed.

17
18 **III. 2016 PSI/SPI FILING**

19 **Q. Please explain Frontier Commonwealth’s 2016 PSI/SPI filing.**

20 A. Frontier Commonwealth 2016 PSI/SPI filing commenced on January 14, 2016 when it
21 provided advance written notice of its anticipated PSI/SPI filing to the PUC and
22 associated parties including the OCA, OSBA, and BIE. The advance notice indicated
23 that the Company intended to increase residential and business rates. Simultaneously on

1 January 14, 2016, Frontier Commonwealth also filed updated PSI Banking Reports in
2 order to reflect its present banking balances resulting from previously deferred rate
3 changes where the SPI was less than the PSI.

4
5 On January 29, 2016, Frontier Commonwealth filed its 2016 PSI/SPI Report in
6 accordance with its Amended Chapter 30 Plan. A copy of the Report, which was filed in
7 proprietary and public versions, is attached to my testimony as **Frontier Commonwealth**
8 **Exhibit CY-2**. The filing proposed a 0.83% annual increase to noncompetitive
9 revenues, or \$396,474. The filing resulted in Frontier Commonwealth's PSI increasing
10 from 1.1908 to 1.2016 due to the net impact of the change in GDPPI from 3rd Quarter
11 2014 to 3rd Quarter 2015. The proposed annual rate increase resulted in Frontier
12 Commonwealth's SPI increasing from 1.1213 to 1.1306. Likewise, the DCI increased
13 from 0.0695 to 0.0710. Frontier Commonwealth's proposed rate increases utilized
14 previous banked amounts available as indicated in its filing. As of the January 29, 2016
15 filing, Frontier Commonwealth's Banking Report indicated a balance of \$3,125,423.

16
17 The filing proposed residential dial tone rate increases ranging from no increases in
18 certain rate groups to increases up to \$1.00 in others. Likewise, business rate increases
19 ranged from no increases in certain rate groups to rate increases up to \$2.00 in others.
20 The proposed rate increases were contained in the tariff filings that were made on
21 February 2, 2016, which carried an effective date of April 17, 2016.

1 **Q. Would you please elaborate with respect to the proposed rate increases?**

2 A. Certainly. Attached to my testimony as **Frontier Commonwealth Exhibit CY-3** is a
3 breakdown of the various residential and business rate increases which were proposed as
4 part of the 2016 PSI/SPI filing. The exhibit shows estimated incremental revenues which
5 would be generated through implementation of the rate increases. It also shows the
6 number of existing Frontier Commonwealth customers (or “units”) that would be
7 impacted. Due to the commercially sensitive and competitive information disclosed,
8 Exhibit CY-3 has been marked “CONFIDENTIAL AND PROPRIETARY” and appears
9 in both proprietary and public forms.

10

11 As the exhibit illustrates, the amount of any particular increase and the number of
12 customers/units impacted depends on the specific rate group. The weighted average
13 increase for residential lines was \$0.68, or 3.8%, and the weighted average increase for
14 business lines was \$1.12, or 5.8%.

15

16 **Q. Does the 2016 PSI/SPI filing comply with the Company’s Amended Chapter 30**
17 **Plan?**

18 A. Yes. Frontier Commonwealth complied with all rules and procedures set forth in its
19 Amended Chapter 30 Plan with respect to its 2016 PSI/SPI filing. Moreover, all
20 supporting materials and information were submitted along with, or shortly after, the
21 2016 PSI/SPI Report was filed with the Commission.

22

1 **Q. What is the status of Frontier Commonwealth’s 2016 PSI/SPI filing?**

2 A. The Commission approved the 2016 PSI/SPI filing by Order entered April 7, 2016. In
3 doing so, the Commission concluded that “the PSI/SPI calculations, banked revenue
4 calculations and proposed rate increases are reasonable, consistent and in conformance
5 with the terms of the Company’s Commission-approved Amended Chapter 30 Plan.”¹ In
6 addition, the Commission permitted the requested revenue and individual service rate
7 element increases to go into effect, subject to refund depending on the outcome of the
8 OSBA’s complaint. Frontier Commonwealth implemented the rate increases effective
9 April 17, 2016, in accordance with Tariff Supplement No. 125 to its Tariff Telephone-PA
10 P.U.C. No. 24.

11
12 **IV. RESPONSE TO DIRECT TESTIMONY OF OSBA WITNESS JOSEPH P.**
13 **GILLAN**

14
15 **Q. In his direct testimony, Mr. Gillan claims that the 2016 PSI/SPI filing**
16 **“unreasonably discriminates” against small business customers by increasing the**
17 **differential between residential and small business rates for certain rate groups. Do**
18 **you agree?**

19 A. Not at all. This filing increases both business and residential rates, and the amount of any
20 particular increase varies depending on the specific rate group affected. Mr. Gillan’s
21 claims are based on selective comparisons and do not tell the whole story. As Exhibit
22 CY-3 illustrates, there are thousands of business lines whose rates are increasing by the

¹ *Commonwealth Telephone Company d/b/a Frontier Communications Commonwealth Telephone Company 2016 Price Stability Index/Service Price Index Report Filing*, Docket Nos. R-2016-2524592 et al., Order entered April 7, 2016, at 6.

1 very same amount as residential lines. There are also significant numbers of business
2 customers whose rates are not increasing at all, while, at the same time, the
3 corresponding residential rate group's rates are increasing. These comparisons
4 demonstrate that the "differential" remains unchanged or even decreases in certain rate
5 groups. Given the variation in the increases across rate groups and the reasons for the
6 increases, no discrimination exists.

7
8 **Q. Are the proposed rate increases unreasonable, as Mr. Gillan suggests and as the**
9 **OSBA contends in its formal Complaint?**

10 A. No. First and foremost, the rate increases were proposed in strict accordance with the
11 rules and procedures set forth in the Company's Commission-approved Amended
12 Chapter 30 Plan. As noted in the Plan, the PSP's price stability mechanism (PSI and SPI)
13 is based upon the Company's rates which were in effect on April 15, 1996, which rates
14 were deemed "just, reasonable, nondiscriminatory and otherwise fully in compliance with
15 all Pennsylvania laws."² When the Company's Plan was commenced, the PSI and SPI
16 factors were set at 100.00, and every year since then reports have been filed and approved
17 by the Commission that track and update these indices and the cumulative banked
18 amounts. Frontier Commonwealth uses the annual PSP to reflect the annual change in
19 the GDPPI and determine the allowable change in rates. Once an allowed revenue
20 change is determined, that revenue increase is allocated at the Company's discretion
21 among noncompetitive rates. Frontier Commonwealth believes that the manner in which

² Frontier Commonwealth Amended Chapter 30 Plan (dated June 5, 2015) at 17.

1 it has elected to implement the rate increases in connection with its 2016 filing, and the
2 reasons for doing so as set forth in the rebuttal testimony of Frontier Commonwealth
3 witness Gregory J. Sale, are reasonable, nondiscriminatory, and otherwise lawful.
4

5 Second, as I previously noted, the Commission has already approved the 2016 filing
6 containing the rate increases, having concluding that the “PSI/SPI calculations, banked
7 revenue calculations and proposed rate increases [were] reasonable, consistent and in
8 conformance with the terms of the Company’s Commission-approved Amended Chapter
9 30 Plan.”³ As such, the Company respectfully submits that the rate increases are
10 presumed to be reasonable and lawful.
11

12 **Q. Is Mr. Gillan contending that either the residential/business rate disparity or the**
13 **proposed rate increases violate the Frontier Commonwealth’s Amended Chapter 30**
14 **Plan?**

15 A. No. Mr. Gillan makes no allegation whatsoever that the pricing disparity between
16 residential and business rates violates the Company’s Amended Chapter 30 Plan. What
17 Mr. Gillan is contending is that a larger increase in business rates vis-à-vis residential
18 rates cannot be justified.
19
20

³ Order entered April 7, 2016, at 6.

1 **Q. How do you respond to that contention?**

2 A. The fact that OSBA does not like the increases in business rates is not surprising since it
3 represents the interest of small business customers. However, that does not mean the
4 increases violate the Company's Amended Chapter 30 Plan or are unjustified.
5 Significantly, nothing in the Amended Chapter 30 Plan prohibits or otherwise restricts
6 Frontier Commonwealth from increasing one class of rates vis-à-vis another. As I
7 explained previously, Frontier uses the PSP to determine the allowable change in rates.
8 Once that determination has been made, the Company can allocate that rate increase at its
9 discretion among noncompetitive residential and/or business rates, as it has done in its
10 2016 filing.

11

12 **Q. Mr. Gillan provides an analysis on page 5 of his testimony which supposedly**
13 **illustrates the different conditions between the residential and business markets.**
14 **Does such an illustration have any relevance to this proceeding?**

15 A. No, it does not. Mr. Gillan uses a general rationale rather than evaluating our
16 Pennsylvania exchange specific markets for both residential and business. For further
17 responsive comment on this point, I would direct you to rebuttal testimony of Mr. Sale.

18

19 **Q. Should the Commission permit Frontier Commonwealth's rate increases established**
20 **by the 2016 PSI/SPI filing to remain in effect, without modification?**

21 A. Yes. The rate increases should be allowed to remain in effect, without modification. As
22 the Commission already concluded, the increases are reasonable and in conformance with
23 the provisions of the Company's Commission-approved Amended Chapter 30 Plan.

1 Moreover, the differentials between residential and business rates resulting from the
2 Company's rate filing are just and reasonable given the circumstances, and there is no
3 basis for ordering any of the relief OSBA seeks.

4
5 **V. CONCLUSION**

6 **Q. Do you have anything further to address?**

7 A. Yes. While this concludes my responsive testimony at this time, I would note that the
8 OSBA's formal complaint made allegations concerning the advance notice that preceded
9 the 2016 PSI/SPI filing and also regarding the completeness of the filing. The OSBA,
10 however, does not address those allegations in Mr. Gillan's direct testimony. Frontier
11 Commonwealth reserves the right to respond to those allegations should the OSBA be
12 permitted to pursue those allegations at a later time.

13
14 Furthermore, to the extent that there are any assertions raised in the OSBA's complaint or
15 direct testimony not specifically addressed in my rebuttal testimony or that of Mr. Sale, I
16 specifically reserve the right to offer additional testimony as the schedule in this
17 proceeding allows and under no circumstances should the Commission conclude that
18 Frontier Commonwealth agrees with those assertions.

EXHIBIT CY-1

IN THE COMMONWEALTH OF PENNSYLVANIA
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION FOR ALTERNATIVE REGULATION : Docket No. P-00961024
AND NETWORK MODERNIZATION PLAN :
OF COMMONWEALTH TELEPHONE COMPANY :

**AMENDED FINAL
ALTERNATIVE REGULATION PLAN
OF
COMMONWEALTH TELEPHONE COMPANY LLC
D/B/A FRONTIER COMMUNICATIONS COMMONWEALTH
TELEPHONE COMPANY**

(Revised June 5, 2015)

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Dated: June 5, 2015 (Revised September 12, 1996 as modified during hearings; modified pursuant to Pa. PUC Opinion and Order at Docket No. P-00961024 entered January 17, 1997 and June 16, 1997; modified pursuant to Pa. PUC Secretarial letter dated August 19, 2003 finalizing Tentative Order entered July 17, 2003 at Docket No. P-00032020; amended pursuant to Act 183 of 2004, as filed on December 21, 2004 and approved by Order entered March 3, 2005 at Docket No. P-00961024F1000; revised as filed on November 21, 2005 and approved by Order entered February 10, 2006; and further revised as filed on June 5, 2015 pursuant to Commission Order entered April 9, 2015 at Docket No. P-2015-2465932.)

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EXECUTIVE SUMMARY

This Plan introduces a state-of-the-art telecommunications network in Commonwealth Telephone Company LLC d/b/a Frontier Communications Commonwealth Telephone Company's ("CTCo" or "Company"¹) service territory and also provides for an Alternate Form of Regulation which sets forth the new regulatory framework ("the Plan"). It is designed to entirely replace rate base/rate of return regulation and procedures with a progressive regulatory framework that will accommodate the rapid competitive and technological changes occurring in the telecommunications industry.

The Plan has four principal components: (1) a Network Modernization Plan ("NMP"); (2) a Competitive Services Deregulation Plan ("CSP") which establishes procedures for identification and treatment of services which may be classified as competitive in the future; (3) a Price Stability Plan ("PSP") for noncompetitive services; and (4) commitments regarding quality, safety, adequacy, reliability and privacy. These parts of the Plan are interrelated with and dependent upon one another.

Part 1 of the Plan is the Network Modernization Plan which describes the Company's commitment to provide universal broadband availability by December 31, 2008.

Part 2 of the Plan is the Competitive Services Deregulation Plan that allows for the deregulation of the rates and earnings of competitive services, but preserves Commission authority over quality of these services. In addition, the CSP contains safeguards to protect competitors from

¹ CTCo is a "Rural Telecommunications Carrier" as defined in section 3 of the Telecommunications Act of 1996 (Public Law 104-104, 110 Stat. 56) and for the purposes of Act 183, 66 Pa.C.S. §3011 *et seq.*

potential abuses and to mitigate the economic risk of competitive services upon basic ratepayers. In order to expedite this process, CTCo does not initially propose that any services be deemed competitive, beyond those already found competitive for the entire industry (e.g., CPE, inside wire.

Part 3 of the Plan is the Price Stability Plan that governs revenue changes for noncompetitive services for the duration of the Plan. It also constrains noncompetitive service revenue changes based on an independent inflation index and Commission review, and provides for interim tariff rate adjustments.

Part 4 of the Plan describes the Company's ongoing obligations and commitments regarding quality, safety, adequacy, reliability and privacy of telecommunication services and other services or business activities. It also describes the reports that CTCo will file with the Commission under the Plan.

This Plan has been amended to be and has been approved by the Commission as consistent with Act 183 of 2004, 66 Pa. C.S. §3011 *et seq.*

PART 1 - NETWORK MODERNIZATION PLAN

The Company's Network Modernization Plan ("NMP") sets forth its commitment to accelerate the modernization of its network, leading to universal broadband availability² by December 31, 2008. Under Act 183 of 2004, CTCo has elected to commit to accelerate 100% broadband availability by December 31, 2008, in its amended network modernization plan. CTCo shall not be required to offer either a Bona Fide Retail Request Program or a Business Attraction or Retention Program or otherwise participate in such programs.

The NMP includes definitions of the service capabilities projected to be implemented, examples of the services each capability will support, and descriptions of the underlying network technology which CTCo plans to deploy. The NMP explains CTCo's plans to evolve today's network to support broadband service delivery. CTCo's evolution to a broadband network will also involve continuing deployment of technologies to economically enhance the central office, signaling, inter-office trunking, and distribution plant components of the network.

CTCo cannot predict what technologies may be developed in the future. The NMP, therefore, does not require the Company to use any specific technology. As new technologies are developed with comparable capabilities, CTCo will modify its implementation plans, but not its broadband availability commitments. These modifications will be included in CTCo's biennial updates to the NMP.

² As used throughout this Plan, the term "Broadband" shall mean a communication channel using any technology and having a bandwidth equal to or greater than 1.544 megabits per second (mbps) in the downstream direction and equal to or greater than 128 kilobits per second (kbps) in the upstream direction. The term "Broadband Availability," as used in this Plan shall mean access to broadband service by a retail telephone customer of CTCo within ten (10) business days of request.

This MP contains CTCo's deployment commitments and schedule for broadband availability. CTCo's NMP represents a significant acceleration for deployment of a broadband network.

The entire CTCo service territory is classified hereunder as rural. There are no urban or suburban areas served by CTCo.

Customers will not have to wait for broadband availability before they begin receiving benefits from CTCo's NMP. The service capabilities provided by CTCo's network will progress over the period of the NMP, starting with intelligent network services, moving to a variety of digital services and culminating in a universal broadband network.

The Company will report biennially to the Commission on the status of its NMP deployment. Absent extraordinary circumstances, CTCo will continue to meet or exceed its commitments.

A. Digital Switching

1. CTCo was the first U.S. telephone company to deploy a digital central office switch and CTCo has continued to maintain leading edge technology in its central offices. CTCo has already met the spirit of Chapter 30 by aggressively converting its facilities to state-of-the art technology.

2. CTCo's network currently utilizes 100% digital switching technology. Switching elements will be enhanced as required throughout the life of the NMP to meet the evolving demands of broadband service delivery.

B. Signaling

1. Intelligent Network Services

(a) One step in the progression of CTCo's network toward broadband availability is intelligent network signaling capability. This service capability allows telephone companies to provide a variety of call management and call processing services, generally marketed under the trade name CLASSsm services. They include services such as:

Call Trace	Traces the number of the last call received and sends it to the Company's Annoyance Call Center.
Call Block	Gives the customer the ability to block calls from up to 6 phone numbers from which the customer does not wish to receive calls.
Priority Call	Lets the customer choose up to 6 phone numbers to ring in a special way on incoming calls.
Return Call	Lets the customer call back the last number that called the customer, whether the customer answered telephone or not.
Select Forward	Lets the customer transfer calls from up to 6 preselected phone numbers to another location.

(b) Intelligent network signaling capability is progressing to a more sophisticated level. Advanced intelligent network signaling

capability allows telephone companies to implement many new software defined call routing and database services. These types of services will enable customers to modify centralized databases themselves to provide routing, storage and overall control capabilities for their incoming and outgoing calls.

- (c) One potential call routing service would allow customers to reach the nearest location of a business with many locations by dialing a single number. Other call routing services - referred to as “follow me” services - could allow customers to forward calls to different locations at different times or on different days. Screening services will also be available to permit customers to forward or block incoming calls depending upon origin or destination.
- (d) The network elements required to support these service capabilities are special network elements called Service Control Points (SCPs), which contain much of the intelligence and databases necessary to provide the new services, and modern digital switching equipment called Signal Transfer Points (STPs), which contain the hardware and software necessary to route signaling information over the Common Channel Signaling (CCS) data network.
- (e) Historically, the information required to route calls through the telephone network - “signaling” information - has been carried over the same facilities used to carry the calls. This traditional signaling

system has limited information carrying capacity and flexibility. In recent years, an intelligent network signaling capability - CCS - has been developed. CCS uses a separate digital network to carry signaling and other information. This technology is flexible and has a high capacity for carrying information.

- (f) 100% of CTCo's access lines are served by CCS technology.

2. Digital Services

- (a) Another component in the evolution of CTCo's network is digital service capability. This service capability will permit simultaneous voice and data communications over a single telephone line. In addition, digital service capability can support services such as video teleconferencing, high speed facsimile and high speed computer communications.
- (b) Customers who use any combination of work stations, personal computers, facsimile machines, answering machines and telephones are candidates for digital services. In addition, digital services will dramatically increase opportunities for telecommunicating by enabling employees with home work stations to interconnect them with a main frame computer or Local Area Network (LAN) on a high speed basis while simultaneously permitting voice communications over the same telephone lines.

- (c) CTCo is 100% Integrated Service Digital Network (ISDN) service capable

C. Interoffice Trunking

1. The Company's commitment to universal broadband availability is dependent upon the deployment of broadband capability in its interoffice and distribution network. Without broadband capability in these components of its network, it is not possible to make broadband service universally available.

2. 100% of CTCo's interoffice network uses fiber optic trunk lines on all interoffice trunking facilities between wire centers.

D. Distribution Facilities

1. The deployment of broadband capability in the distribution network will generally be the last step in making broadband services available. In most cases, the deployment of broadband distribution facilities will immediately precede or be coincident with broadband service availability. CTCo commits to the following schedule for broadband deployment, as measured by total number of access lines served, in its distribution network:

	Current (As of 1/1/04)	As of 12/31/06	As of 12/31/08
Broadband Availability Within Ten (10) Business Days	59%	80%	100%

2. CTCo has deployed broadband facilities in or adjacent to public rights-of-way abutting 100% of public schools, including the administrative offices supporting public schools; industrial parks; government institutions; and health care facilities³located in its service territory.

E. Biennial NMP Reports

1. CTCo will provide biennial NMP Reports, as described in Part 1.E.2. below, to the Commission for the periods ending December 31, 2006 and December 31, 2008.

2. Such biennial report shall be submitted in the form and detail required by the Commission as of July 1, 2004,⁴ unless such reporting requirements are subsequently reduced by the Commission. The Commission may require the submission of further information to support the accuracy of or to seek an explanation of the biennial NMP reports filed by CTCo.

3. CTCo will include in its biennial NMP Report a statement of total, actual capital budget expenditures during the preceding two (2) calendar years.

4. Under no circumstances shall the Commission compel the public release of maps or other information describing the actual location of CTCo's facilities.

³ As used in this Plan, the term "Health Care Facility" shall have the same meaning given to it in the Act of July 19, 1979 (P.L.130, No.48), known as the Health Care Facilities Act.

⁴ The reporting requirements are those specified in the "Reporting Guidelines" attached to the Commission's Order entered May 17, 1999 in *Re: Implementation of Chapter 30 of the Public Utility Code, Reporting Requirements for Biennial Updates of Network Modernization Plans Filed Pursuant to 66 Pa. C.S. § 3003(b)(6)*, Docket M-0930441.

F. Failure To Provide Universal Broadband Availability By December 31, 2008

1. Utilizing the biennial NMP reports filed with the Commission by CTCo under Part 1.E.1 and 2 of this Plan, the Commission shall monitor and enforce CTCo's compliance with the interim and final 100% commitments for broadband availability set forth in this Plan. In the event that CTCo is found by the Commission, after notice and evidentiary hearings held on an expedited basis, to have failed to meet such an interim or final 100% commitment, then the Commission shall require CTCo to refund to customers in its next price stability filing an amount that is just and reasonable under the circumstances. Such amount shall not exceed an amount determined by multiplying the percentage shortfall of the broadband availability commitment on an access line basis required to be met during the period from the start of the amended plan or from the date of the last prior interim commitment, as applicable, times the increased revenue that was obtained during this period as a result of eliminating the 2% productivity offset that was in effect prior to the amendment of this Plan under Act 183, plus interest calculated under 66 Pa. C.S. §1308(d) (relating to voluntary changes in rates). Any such refund shall be separate from and in addition to any civil or other penalties that the Commission may impose on a local exchange telecommunications company under Chapter 33 of the Public Utility Code (66 Pa. C.S. §3301, et seq).

G. Assistance to Political Subdivisions

1. CTCo shall make technical assistance available to political subdivisions⁵ located in its service territory that are pursuing the deployment of additional telecommunications infrastructure or services by CTCo.

H. Construction

1. CTCo may not be required to provide specific services or to deploy a specific technology to retail customers seeking broadband or advanced services.

2. CTCo shall be permitted to participate, should it choose to do so, in joint ventures with other entities in meeting its broadband deployment commitments under this Plan.

⁵ As used in this plan, the term “Political Subdivision” shall mean any county, city, borough, incorporated town, township, municipality, municipal authority or county institution district located in CTCo’s incumbent local service territory.

PART 2 - COMPETITIVE SERVICES DEREGULATION PLAN

The Company's Competitive Services Deregulation Plan ("CSP") allows for the price and earnings deregulation of any services that may be found by the Commission to be competitive or declared by CTCo to be competitive. The Company may submit future requests to classify services as competitive.

A. Competitive Services

1. The following services are currently deregulated and shall continue to be classified as competitive under Chapter 30: Customer Premise Equipment; Inside Wire; Interstate Billings and Collection; and Voice Mail.

2. Services not deemed competitive hereunder are classified as "noncompetitive" for purposes of the Price Stability Plan.

3. Competitive services shall not be regulated on any basis whatsoever other than service; including as to rates, rate structures, rate base, rate of return or earnings. The Commission will retain its existing general authority over competitive services for the purpose of service quality standards only; provided, however, that such services shall be exempt from the operation of 52 Pa. Code §§63.15, 63.22 and Chapter 64 in its entirety.

4. Tariffs shall not be required by the Commission for competitive services. At its option, CTCo may tariff the rates, subject to rules and regulations applicable to the provision of competitive services. The Commission may require CTCo to maintain price lists with the

Commission applicable to its competitive services. Price changes that are filed in the Company's tariff for competitive services will go into effect on a one-day notice.

5. CTCO may petition the Commission for a determination of whether a protected or retail noncompetitive service or other business activity in its service territory or a particular geographic area or exchange or group of exchanges within its service territory is competitive based on the demonstrated availability of like or substitute services or other business activities provided or offered by alternative service providers. The Commission, after notice and hearing, shall enter an order granting or denying the petition within 60 days of the filing date, or within 150 days of filing date where a protest is timely filed, or the petition shall be deemed granted. CTCO shall serve a copy of its petition on the Office of Consumer Advocate, the Office of Small Business Advocate and each of the parties to the Commission's proceeding in which CTCO's Network Modernization Plan that was in effect on December 31, 2003 was approved by the Commission. In making its determination, the Commission shall consider all relevant information submitted to it, including the availability of like or substitute services or other business activities, and shall limit its determination to the service territory or the particular geographic area or exchange or group of exchanges in which the service or other business activity has been proved to be competitive. The burden of proving that a protected or retail noncompetitive service or other business activity is competitive rests on CTCO.

6. Notwithstanding the provisions of Part 2.A.5. of this Plan, CTCO may declare any retail nonprotected service as competitive by filing a declaration with the Commission and serving it on the Office of Consumer Advocate, Office of Small Business Advocate and each of the parties to the Commission's proceeding in which CTCO's Network Modernization Plan that was in effect on December 31, 2003 was approved by the Commission,

provided that CTCo may not use this declaration process for any service that the Commission previously has reclassified as noncompetitive under either Part 2.A.7. of this Plan or prior law. A declaration of a retail nonprotected service as competitive shall be effective upon filing by CTCo with the Commission.

7. A party may petition the Commission for a determination of whether a service or other business activity previously determined or declared to be competitive is noncompetitive. The Commission, after notice and hearing, shall enter an order deciding the petition within 60 days of the filing date or 90 days of the filing date where a protest is timely filed, or the petition shall be approved. The petitioner shall serve a copy of the petition on CTCo, serving it on the Office of Consumer Advocate, Office of Small Business Advocate and each of the parties to the Commission's proceeding in which CTCo's Network Modernization Plan that was in effect on December 31, 2003 was approved by the Commission. In making its determination, the Commission shall consider all relevant information submitted to it, including the availability of like or substitute services or other business activities, and shall limit its determination to the particular geographic area, exchange or density cell in which the service or other business activity has been proved to be noncompetitive. The burden of proving that a competitive service or other business activity should be reclassified as noncompetitive rests on the party seeking reclassification. If the Commission reclassifies a service or other business activity as noncompetitive, the Commission shall determine a just and reasonable rate for the reclassified service or business activity in accordance with 66 Pa.C.S. § 1301 (relating to rates to be just and reasonable).

B. Statutory Protections

1. CTCo shall not use revenues earned or expenses incurred in conjunction with noncompetitive services to subsidize competitive services. By operation of the PSP, the revenues earned and expenses incurred for any noncompetitive service will not cross-subsidize or support any competitive service. Therefore, this Plan is in compliance with the requirements of Chapter 30. 66 Pa. C.S.A. §3016(d). This provision shall not be construed to prevent the marketing and billing of packages containing both noncompetitive and competitive services to customers.

2. The price that the Company charges for competitive services shall not be less than the costs to provide the services. There is no cross-subsidy between services where the price charged for that service covers its direct incremental cost. The price for each of the services deemed competitive shall cover its direct incremental cost.

C. Compliance

1. Formal challenge to the Company's compliance with the provisions of the CSP may be made through separate complaint procedures. Any competitor or other party who believes the Company has violated any of the provisions of this CSP may file a complaint with the Commission.

PART 3 - PRICE STABILITY PLAN FOR NONCOMPETITIVE SERVICES

The Price Stability Plan ("PSP") sets forth the principles and procedures applicable to changes in CTCO's rates which would otherwise be governed by Chapter 13 of the Pennsylvania Public Utility Code.

The PSP calculates the allowable change (increase or decrease) in rates for noncompetitive services based on the annual change in the Gross Domestic Product Price Index ("GDP-PI"), as calculated by the United States Department of Commerce, and adjusted for any exogenous event(s). Changes based upon this formula are then cumulatively tracked.

The PSP also addresses revenue neutral rate rebalancing/restructuring and the introduction of new services. CTCO's rates may change after January 1, 1997 on a revenue neutral basis consistent with the Commission's Universal Service Order.

The PSP set forth in the Plan is in complete substitution of rate base/rate of return regulation and is the exclusive basis upon which the Company's rates and services are regulated upon approval of this Plan. All tariff filings for noncompetitive services are subject to review under the terms of this Plan. Noncompetitive services are those company services which are not declared competitive.

Nothing in this Plan shall be construed to limit the requirement of 66 Pa.C.S. § 1301 that rates shall be just and reasonable. The annual rate change limitations set forth in CTCO's Plan and any other Commission-approved annual rate change limitation shall remain applicable and shall be deemed just and reasonable under §1301.

CTCo shall not be required to contribute to either the Broadband Outreach and Aggregation Fund or the Education Technology Fund, as established under §§ 3015(c) and (d) of Act 183 of 2004, 66 Pa.C.S. §§3015(c) and (d).

A. Price Stability Mechanism (PSI and SPI)

1. The Price Stability Index ("PSI") is based upon Company's rates in effect on April 15, 1996 as a starting point, which rates are just, reasonable, nondiscriminatory and otherwise fully in compliance with all Pennsylvania laws.

2. The Company shall not file with the Commission any tariff having an effective date earlier than two years after December 31, 1996 that would result in an increase in intrastate jurisdictional revenues from noncompetitive services, except for: (a) the introduction of new services pursuant to Part I.D. of this Plan below; or (b) a filing to reflect exogenous changes pursuant to Part 1.D.10. of this Plan.

3. Annually, after the initial two year revenue change moratorium, the PSI shall be computed according to the following methodology:

$$PSI_t = PSI_{t-1} \times [1 + \Delta GDP-PI_{t-1} \pm Z]$$

Where:

PSI_t = The new maximum change in price for the non-competitive service category for the current twelve month period.

PSI_t = The current maximum change in price for the non-competitive service category for the previous twelve month period.⁶

ΔGDP-PI = The percent change in the Gross Domestic Product Price Index based on the quarter ending six months prior to the effective date of the new annual tariff and the corresponding quarter of the previous year.

Z = The effect of any exogenous changes. Exogenous changes are positive or negative changes in CTCO' s revenues or expenses as defined in the Plan, Part 3.A., Paragraph 10. In the calculation of the PSI, described in, Part 3.A., Paragraph 3, exogenous changes are expressed as a percentage of CTCO' s revenue received from intrastate non-competitive services.

Except as revised by exogenous events and new services, as of January 1, 1999, the PSI shall equal 100.

4. The Service Price Index ("SPI") is the cumulative price changes from current and prior years and tracks the actual total price changes for noncompetitive services. No Company proposed SPI may exceed, on a total intrastate basis, the PSI accumulated after December 31, 1998, except for banking under the provisions of this PSP.

5. The SPI shall be computed according to the following methodology:

$$SPI_t = SPI_{t-1} [\sum_i v_i (P_t/P_{t-1})]^7$$

Where:

SPI_t = The proposed new SPI value.

SPI_{t-1} = The existing SPI value as of the last approved tariff filing.

⁶ The PSI applies to the sum of effective rates (and units of demand) which were realized during the previous twelve month period. Growth in revenues which occur due to growth in demand, customers, new services or any other source (unrelated to the PSP formula rate changes) are already reflected in the price cap formula. Therefore, such growth in revenues are solely the productivity gains of the Company under the PSI formula and may not be used for any other purpose.

⁷ If the Department of Commerce should cease reporting or should modify its calculation of the GDP-PI during the term of the Plan, then, subject to Commission approval, the Company will substitute an alternative index and make any adjustments to the formula necessary to replicate the current formula as closely as possible.

- P_t = The proposed price for rate element "i".
- P_{t-1} = The existing price for rate element "i".
- v_i = The current estimated revenue weight for rate element "i", calculated as the ratio of the base period demand for the rate element "i" priced at the existing rate, to the base period demand for all noncompetitive services priced at existing rates.

When a new service is incorporated into the index calculations pursuant to Part 3.D. of this Plan, the demand for the new service during the base period must be included in determining the weights to be used in calculating the SPI. Except as revised by exogenous events and new services, as of January 1, 1999, the SPI shall equal 100. CTCO may not file any tariff which would increase the SPI above 100 with an effective date prior to January 1, 1999.

6. In lieu of filing tariff changes to align the SPI with the new PSI in its February 1st filings, the Company may defer rate changes and bank the amounts corresponding to the difference between the PSI and SPI, for a period not to exceed four (4) consecutive years, pursuant to the following terms.

- a) Banked amounts accumulated from deferred SPI decreases shall carry interest at a rate set forth in 66 Pa.C.S. § 1308. Banked amounts accumulated from deferred SPI increases shall carry no interest.
- b) The Deferred Change Index ("DCI") shall quantify the difference between the effective SPI and effective PSI at a given time. A positive DCI indicates a deferred increase while a negative DCI

indicates a deferred decrease. The DCI does not indicate the existence or absence of any previously banked amounts nor the net impact of a current deferred change on any previously accumulated banked amounts. The Company shall report a new DCI each time it reports a new SPI,⁸ to be calculated as follows:

$$DCI_t = PSI_t - SPI_t$$

Where:

- DCI_t = The Deferred Change Index corresponding to SPI_t and PSI_t, expressed to four (4) decimal places.
- PSI_t = The PSI in effect during the applicable twelve month base period, as calculated in Part 3.A., Paragraph 3.
- SPI_t = The current (proposed) SPI as calculated in Part 3.A., Paragraph 5.

- c) In each annual PSI and SPI report, the Company shall calculate the full dollar value of any banked amounts accumulated during the immediately preceding PSI period,⁹ as follows:

$$BP = \sum_i (DC_i / SPI_i * R_i)$$

Where:

- BP = Banked Principle, the dollar amount, positive or negative, accumulated during the applicable PSI period due to deferred changes. Does not include any accrued interest.
- DC_i = Each DCI which was in effect during the applicable PSI period.

⁸ Thus, the DCI will indicate the direction and degree of a deferred change upon effectiveness of the SPI which causes that deferred change to occur.

⁹ For example, the annual PSI and SPI report to be filed on or about February 1, 2005, will pertain to the PSI period from May 17, 2005 to May 16, 2006. The annual PSI and SPI report filed on February 1, 2005 should include a quantification of the banked amounts accumulated in the PSI period May 17, 2004 to May 16, 2005.

SPI_i = The corresponding SPI for each DCI which was in effect during the applicable PSI period.

R_i = The total non-competitive revenue realized by the Company during the portion of the applicable PSI period in which each Deli was in effect.

A positive BP shall indicate a banked amount accumulated from a net deferred increase, while a negative BP shall indicate a banked amount accumulated from a net deferred decrease.

d) The Company shall report the Banked Principle (BP) accumulated during the applicable PSI period along with the accrued interest on that amount, as well as banked amounts and accrued interest carried over from prior periods, in the following format:

2011 BANKING REPORT					
Year	Principle	Interest	Principle + Interest	Retired Amount	Net Banked Amount
2010	BP	(2)	(3)	(4)	(5)
2009	(1)	(2)	(3)	(4)	(5)
2008	(1)	(2)	(3)	(4)	(5)
2007	(1)	(2)	(3)	(4)	(5)
Total	(6)	(7)	(8)	(9)	(10)

Notes:

- BP = The banked amount calculated for the PSI period pursuant to Part 3.A., Paragraph 6.c.
- (1) = The amount shown for that PSI period in the Net Banked Amount column contained in the 2010 Banking Report (filed the preceding year).
- (2) = If column (1) is negative, interest accumulated on the amount shown in the principle column during the ending PSI period.
- (3) = The sum of (1) and (2).
- (4) = The portion of the (3) on a given line which has been retired due to netting against an opposite amount which is a portion of (3) on another line.
- (5) = (3) - (4).
- (6-10) = The sums of each of the columns. Sum (9) must be zero, because retired amounts will net each other out. Sum (10) is the net banked amount as of the first day of the

2011 PSI Period (does not include amounts which may be accumulated during the 2011 PSI Period).

- e) Banked amounts shall be retired by canceling against opposite amounts banked in later periods. The earliest banked amounts shall be retired first.
- f) Whenever the Company has a current negative DCI, or has a negative Net Banked Amount, the Company shall not increase its SPI until such time as the negative banked amounts have been fully retired.
- g) For the purpose of calculating a banked increase or decrease in any given year, the revenue base shall include revenues from all services which were deemed to be non-competitive at the beginning of the year for the entire year. To the extent a service is deemed to be competitive during the course of the year, the revenues from that service shall not be removed until the following year.
- h) In any Rate Rebalancing undertaken on the Company's own initiative, the Company's tariff proposals shall be such that its resulting SPI will retire negative Net Banked Amounts (decreases), if any, over a period no greater than the 4-year banking period previously set forth in paragraph 6 and subsequently explained in paragraph 6 j). This requirement shall not apply to rate changes/rebalancings/restructurings pursuant to generic PUC orders;

e.g., this requirement shall not apply to a general order directing/allowing a class of LECs to reduce switched access on a revenue neutral basis. This requirement shall also not affect any PSI adjustment otherwise applicable.

i) Interest on banked amounts accumulated due to deferred decreases shall accrue at the statutory rate set forth in 66 Pa.C.S. § 1308 as follows:

- When the Banked Principle reported for the PSI Period in the annual PSI and SPI report is a negative number, that amount shall be assumed to have accumulated equally in the twelve months covered in that PSI Period (e.g., \$120,000 would be assumed to have accumulated as \$10,000 per month), and the interest rate will apply to each increment beginning on the last day of the month to which the increment is attributed.
- In subsequent years, the interest will accrue to the entire principle carried over from the prior year beginning on the first day of the PSI Period.
- As banked amounts (principle and interest) are retired due to cancellation against subsequently banked increases, the total retired amount shall be assumed to have been retired in 12 equal monthly increments in the later PSI Period, and interest will accrue on such an increment through the end of the month in which that increment is retired.

- j) The 4-year banking period, for the purpose of determining the last date by which a banked amount (plus interest on a banked decrease) shall be retired, shall be determined as described herein. The Banked Principle accumulated during one PSI Period, and which first appears on the Banking Report issued for the following PSI Period, shall be assumed to have been accumulated in equal monthly increments throughout the PSI Period in which it was accumulated. Thus, any unretired portion of that Banked Principle (plus interest on a banked decrease) must be retired in equal monthly increments during the PSI Period beginning four years after the first day of the PSI Period in which it was accumulated. For example, an amount accumulated pursuant to a DCI in the 2007 PSI Period, would first appear in the 2008 Banking Report (as the 2007 Banked Principle). For purposes of retirement, any unretired portion of this 2007 Banked Principle, whether a negative or a positive bank (plus any unretired interest accrued on that amount, if a negative bank, during the 2007 PSI Period and subsequent PSI Periods), must be fully retired in equal monthly increments during the 2011 PSI Period, so that it will be completely retired by the last day of the 2011 PSI Period, such that a zero will appear in the Net Banked Amount shown for the 2007 line item on the 2012 Banking Report.

- k) Exhibit A to this Chapter 30 Plan offers illustrations of how these banking provisions would be implemented under certain assumptions and be reflected in the Annual Banking Reports.

- l) If at some future time the form of regulation under which the Company operates is altered in a manner inconsistent with banking, the Company shall make a rate filing to retire the cumulative banked amount within 12 months following the effective date of such alteration.

- m) With respect to changes in the State Tax Adjustment Surcharge (STAS), the Company may offset the rate decrease associated with a negative STAS with monies from the bank as described in *North Pittsburgh Telephone Company*, Docket No. R-00061782 (Order entered October 19, 2006) or, alternatively, may offset a negative STAS with an offsetting increase in the SPI as described in *Petition of Frontier Communications Commonwealth Telephone Company Re Offsetting STAS Through the Service Price Index*, Docket No. P-2015-2465932 (Order entered April 9, 2015). These offsetting increases may be implemented either with the annual PSI filing or the annual STAS filing.

7. On February 1st of each year (or the closest Commission working day to such date), beginning in 1997, the Company shall file with the Commission a PSI and SPI Report. The Company shall include in such filing the new DCI corresponding to the new PSI and SPI, as well as the Banking Report as specified in Part 3.A., Paragraph 6. Each such annual filing may be accompanied by tariffs to implement any required or authorized SPI.

8. The proposed tariff rates will become effective within 60 days of filing. The Commission shall review the tariff rate change proposals to determine whether they are designed to produce revenues such that the SPI does not exceed the maximum level allowed pursuant to Part 3.A., Paragraph 4, and that all banked amounts, including any accrued interest, are appropriately retired pursuant to Part 3.A., Paragraph 6. If the Commission determines that the Company's rate proposals do not comply with this criteria, then the Commission may order CTCo to modify them to produce an SPI value which will do so. If the Company's proposals comply with this criteria, then the Commission shall approve them.

9. The Company shall provide fifteen (15) days' advance notice of filing to the Commission, which shall generally describe the anticipated filing.¹⁰ A minimum of ten (10) days shall be reserved to permit comments or complaints of parties and twenty (20) days shall be reserved for Commission review of recommended decisions, if any, in this process. A Commission Order must be entered within sixty (60) days of the filing, otherwise the tariff(s) shall become effective as filed. This procedure, as specified in this paragraph, is hereinafter referred to as the "75 day procedure."

¹⁰ Notice will be provided to the public through newspaper advertisements, billing inset or bill notice. Notice will also be upon the OCA, OSBA, OTS and any other Chapter 30 party, as identified by the Commission Secretary.

10. Notwithstanding any other limitations specified herein, the Company or the OCA, OSBA, OTS, or other parties in interest may request the Commission to make special revenue adjustments within the scope of the PSI to recognize exogenous events, as follows:

- (a) Jurisdictional shifts in cost recovery where interstate revenues actually change;
- (b) Subsequent regulatory and legislative changes (state and federal) which affect revenues or expenses, to the extent not captured in GDP-PI; and
- (c) Unique changes in the telephone industry which are not reflected in the overall inflation factor as measured by GDP-PI.

The institution of a universal service type fund in Pennsylvania and any requirement that the Company participate as a contributor shall be a qualifying exogenous event. Conversion of CTC Co from average schedule settlements to a cost based or other method of interstate compensation shall be a qualifying exogenous event. Exogenous revenue changes shall be flowed through on a dollar-for-dollar basis, utilizing the most recent per book revenue levels, without any investigation or review of earnings. Exogenous expense changes shall be flowed through dollar-for-dollar on the basis of review of that single expense item for which an exogenous change is sought without any investigation or review of earnings, utilizing the most recent per book level of such expense. Results shall be adjusted to recognize the impact of gross receipts taxes. The "75-day procedure" shall apply to such exogenous changes.

11. Any revenue shortfall or cost incurred, including administrative costs, less other related revenue increases/cost decreases, if any, associated with a Commission-mandated implementation of new calling scope services such as EAS or extension of basis local exchange services may be recovered by CTC Co at the time of implementing any extended calling scope service or additional basis local exchange service. This same treatment also shall apply to Optional Calling Plans.

12. In the event that the SPI is less than the PSI, CTC Co shall identify the service category(ies) to which the "banked" (i.e., deferred) increase applies and shall track the deferred increase to ensure assignment to such service category(ies) in future proceedings.

B. Rate Restructuring and Rebalancing

1. The Company may file tariffs proposing to rebalance and/or restructure rates for noncompetitive services (increase or decrease) after January 1, 1997. If a proposed tariff does not cause one of the following to occur, then such tariff shall be approved:

- (a) The SPI does not exceed the maximum level allowed pursuant to Part 3.A., Paragraph 4, and that all banked amounts, including any accrued interest, are appropriately retired pursuant to Part 3.A., Paragraph 6;

- (b) The proposed changes to basic, local rates will not cause an increase in excess of 40% of the rates in existence at the end of the preceding year or \$3.50 per month increase, whichever is higher;
- (c) No other rate restructuring/rebalancing filing has been initiated by the company in the same calendar year, which affects residential and single line business rates, exclusive of changes made pursuant to the PSI/SPI formula and exogenous events; and
- (d) The rates for those services which are established by the Commission as universal services do not exceed the level determined by the Commission to be affordable pursuant to the Universal Service or successor docket. In the event that an affordable rate is not established by the Commission, basic local service rates may not exceed costs of providing such service. Cost is defined as the method established by the Commission in the Universal Service or successor docket.

2. The Company may also propose tariff rate changes to implement the results of Commission Orders involving generic industry issues, current examples of which are intraLATA presubscription and universal service. CTCo shall comply with the Commission's policy on toll imputation.

3. The Company shall provide cost studies of each service for which a rate change is proposed at the time of the filing where such rate change is proposed.

4. The Commission shall review the tariff proposals to determine whether they are within the criteria set forth above in Part 3.B.1. If the Commission determines that the Company's rate proposals are not within this criteria, then the Commission may order CTCo to modify them to produce a tariff which does not exceed this criteria. If the tariff proposals are within the criteria, then the Commission shall approve them.

5. The "60 day procedure" shall apply to all rate restructuring and rebalancing filings.

C. Lifeline Rate; Universal Service

1. The Company shall implement a lifeline program¹¹ for qualifying low-income residential customers. All eligible telecommunications customers who subscribe to lifeline service shall be permitted to subscribe to any number of other eligible telecommunications carrier telecommunications services at the tariffed rates for such services; however, the Commission's regulations at 52 Pa. Code § 64.01 *et seq.* relating to suspension and termination of residential telephone service shall continue to be applicable. Whenever a prospective customer seeks to subscribe to local exchange telecommunications service, the Company shall explicitly advise the customer of the availability of lifeline service and shall make reasonable efforts, where

¹¹ As used in the Plan, the term "Protected Service" shall refer to the following telecommunications services provided by CTCo, unless the Commission has determined the service to be competitive:

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

appropriate, to determine whether the customer qualifies for such service and, if so, whether the customer wishes to subscribe to the service. CTCO shall inform existing customers of the availability of lifeline service twice annually by bill insert or message. The notice shall be conspicuous and shall provide appropriate eligibility, benefits and contact information for customers who wish to learn of the lifeline service subscription requirements. CTCO shall not be required to provide, after November 30, 2004, any new lifeline service discount that is not fully subsidized by the federal universal service fund.

2. The Company provides discounts or exemptions to the disabled, which exemptions and percentage discounts will remain in effect during the Plan.

3. The Company shall file a cost benefit analysis and detailed description of a proposed program to identify and respond to the special needs of persons with disabilities.

4. The Company shall be fully qualified to participate as a recipient in any universal service program instituted by this Commission. Nothing in this Plan nor shall the Company's regulation under Chapter 30 disqualify it from full participation in any Pennsylvania universal service program.

D. New Services

1. The Company may introduce new services at any time.

2. If a new service is offered which falls within the definition of "protected services"¹², then the "60 day procedure" shall apply.

3. Any new service which does not fall within the definition of "protected service" shall become effective upon one day's notice to the Commission.

4. Revenues from new services shall be included in the calculation of PSI and SPI beginning with the first annual PSP filing after the new service has been in effect for one year.

E. Rates for Certain Services

1. Following December 31, 1997, the effective date for intraLATA presubscription, CTCO may revise its rates for intraLATA toll/WATS in accordance with the procedures set forth in Docket Nos. M-930496 and L-940099 as directed in the IntraLATA Presubscription Order at Docket No. 1-940034 (Order issued December 14, 1995). The SPI shall be adjusted accordingly and the next SPI filing shall fully reflect such revision in rates.

2. CTCO shall offer school customers¹³ in its service territory that meet the eligibility standards described in 47 CFR 54.501 (relating to eligibility for services provided by

¹² As used in the Plan, the term "Protected Service" shall refer to the following telecommunications services provided by CTCO, unless the Commission has determined the service to be competitive:

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

telecommunications carriers) and that agree to enter into a minimum three-year contract with CTCo for telecommunications services: i) a 30% discount (or greater discount at CTCo's discretion) in the otherwise applicable tariffed distance sensitive per-mile rate element; and ii) waiver of the associated nonrecurring charges for available intrastate broadband services, where the telecommunications service is used for educational purposes and not for the provision of telecommunications services to the public for compensation. The discount or waiver shall not be required where application of it to a particular service would conflict with applicable law. CTCo will assist school customers in applying for E-rate funding under 47 CFR 54.505 (relating to discounts).

3. CTCo, at its discretion, may offer and bill to customers, on one bill, bundled packages of services, which include nontariffed, competitive, noncompetitive or protected services, including services of an affiliate, in combinations and at a single price selected by CTCo. The Company may file an informational tariff for a bundled package effective on one day's notice.

4. The Commission may not require CTCo to reduce access rates¹⁴ except on a revenue-neutral basis.

¹³ As used in this Part 3.E.2., the term "school entity" shall mean an intermediate unit, school district, joint school district, area vocational-technical school, independent school, licensed private academic school, accredited school and any other public or nonpublic school serving students in any grade from kindergarten through 12th grade.

¹⁴ As used in this Plan, the terms "access rates," "access charges" and similar terms, unless the context requires otherwise, shall refer to special access service and switched access service. As used in this Plan, the term "special access service" shall mean service provided by the Company over dedicated, nonswitched facilities to interexchange telecommunications carriers or other large volume users that provides connection between an interexchange telecommunications carrier or private network and a customer's premises. As used in this Plan, the term "switched access service" shall mean service that provides for the use of common terminating, switching and trunking facilities of CTCo's public switched network. The term includes, but is not limited to, the rates for local switching, common and dedicated transport and the carrier charge.

5. No person or entity may refuse to pay tariffed access charges for interexchange services provided by CTCO.

PART 4 - ADDITIONAL COMPANY COMMITMENTS AND OTHER TERMS

A. Ongoing Regulatory Requirements

1. All services provided by the Company within the jurisdiction of the Commission are still subject to all provisions of Title 66 regarding safety, adequacy and reliability of telecommunications services. 66 Pa. C.S.A. §1501.

2. The Company will continue to monitor service quality in compliance with Commission regulations in Chapter 63. 52 Pa. Code §§63.1, *et seq.*

3. The Company will continue to comply with the extended area service regulations established by the Commission, as they may be amended from time to time. 52 Pa. Code §§63.71, *et seq.*

4. The Company will continue filing affiliated interest and affiliated transaction agreements, unless such agreements involve services found to be competitive in accordance with the Plan. However, such filings shall constitute notice to the Commission only and review of the associated costs and benefits shall be deemed unnecessary. The Commission

may seek information necessary to audit CTCo's accounting and reporting systems with affiliates pursuant to 66 Pa.C.S. § 2101 *et seq.* (relating to relations with affiliated interests).

5. Approval of this Plan shall not operate in any way to foreclose the Company from exercising any of its options pursuant to the enactment of new state or federal legislation.

6. In the event that the Company discontinues F AS 71 or otherwise affects a change to either its depreciation expense or depreciation reserve, Commission approval shall not be required. However, in the event of the reinstatement of any form of rate base/rate of return regulation of the Company, any impact of such changes in depreciation reserve or expense which occur during the period of the operation of this Plan shall be captured and recognized as a debit (or credit) in the ratemaking formula.

7. In the event that CTCo applies to the Commission for the sale, merger, acquisition or other transaction required to be approved under 66 Pa. C.S. § 11 02(a)(3) of another local telecommunications company or any facilities used to provide telecommunications services, CTCo shall not propose to reduce the existing advanced service or broadband deployment obligations agreed to by the local exchange carrier that previously served the sold, merged or acquired property.

B. Reporting Requirements

1. The Commission's filing and audit requirements for CTCo shall be limited to the following:

- i. The Network Modernization Plan Report filed pursuant to Parts I.E. I. and 2. of this Plan.

- ii. An annual financial report consisting of a balance sheet and income statement.
- iii. An annual deaf, speech-impaired and hearing-impaired relay information report.
- iv. An annual service report.
- v. Universal service reports.
- vi. An annual access line report.
- vii. An annual statement of gross intrastate operating revenues for purposes of calculating assessments for regulatory expenses.
- viii. An annual State Tax Adjustment ("STAS") computation for years in which a tax change has occurred, if applicable.¹⁵

2. Notwithstanding any other provision of the Public Utility Code (Title 66) to the contrary, no report, statement, filing or other document or information, except as specified in Part 4.B.1. of this Plan, shall be required of CTCo, unless the Commission, upon notice to CTCo and an opportunity to be heard, has first made specific written findings supporting conclusions in an entered order that: (i) the report is necessary to ensure that CTCo is charging rates that are in compliance with Chapter 30 of the Public Utility Code (66 Pa.C.S. §3012 *et seq.*) and its effective alternative form of regulation; and (ii) the benefits of the report substantially outweigh the attendant expense and administrative time and effort required of CTCo to prepare it.

¹⁵ This includes the State Tax Adjustment Surcharge (ST AS) tariff filings pursuant to Commission ST AS Guidelines (52 Pa. Code 69.51, *et seq.*), the State Tax Adjustment Surcharge Order and the Company's STAS tariff. STAS-related changes shall be excluded from the SPI calculation. The Company shall serve copies of its STAS filings on OCA, OSBA, and OTS, coincident with its submission of such filings to the Commission.

(3) Nothing in this Plan shall be construed to impede the ability of the Commission to require the submission of further information to support the accuracy of or to seek an explanation of the reports specified in Part 4.B.1. of this Plan.

C. Term of Plan

1. In the event of any appellate court reversal, remand, vacation, amendment or other modification of any Commission order approving or interpreting this Plan or any aspect thereof, CTCo retains the right to withdraw from the Plan.

2. No change to may be made to this Plan without the express agreement of both the Commission and CTCo. CTCo may subsequently petition the Commission for approval of further modifications to this Plan, which the Commission may grant upon good cause shown.

3. The terms of this Plan shall govern the regulation of the Company and, consistent with the provisions of this Plan and Chapter 30 of the Public Utility Code (66 Pa.C.S. § 3011 *et seq.*), shall supersede any conflicting provisions of Title 66 or any other laws of the Commonwealth of Pennsylvania and shall specifically supersede the following provisions of Title 66: all provisions of Chapter 13 (relating to rates and rate making), other than § 1301 (relating to rates to be just and reasonable), § 1302 (relating to tariffs; filing and inspection), § 1303 (relating to adherence to tariffs), § 1304 (relating to discrimination in rates), § 1305 (relating to advance payment of rates; interest on deposits), § 1309 (relating to rates fixed on complaint; investigation of costs of production) and § 1312 (relating to refunds).

-END-

EXHIBIT CY-2

PUBLIC VERSION



January 29, 2016

Ms. Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Frontier Communications Commonwealth Telephone Company PSI/SPI Filing for Year 2016; Docket Nos. P-00961024 and R-2016-2524592

Dear Secretary Chiavetta:

Pursuant to the Alternative Form of Regulation and Network Modernization Plan of Frontier Communications Commonwealth Telephone Company ("Company"), as amended, at Docket No. P-00961024, enclosed for filing at the above-referenced dockets are the original and three (3) copies of each of the following:

- **Proprietary and Public Versions of the Company's 2016 PSI/SPI Report**

It should be noted that the Company is concurrently filing tariff supplements seeking local service increases for residential and business dial tone lines. The tariffs carry a proposed effective date of April 17, 2016.

Please feel free to contact me at (717) 355-7324 with any questions regarding this matter.

Sincerely,


James Warta
Government & External Affairs

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the Company's PSI/SPI filings upon the participants listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by participant).

Service by First Class Mail:


Mr. Johnnie E. Simms, Esquire
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
P.O. 3265
Harrisburg, PA 17105-3265

Barrett C. Sheridan, Esquire
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101

Steven Gray, Esquire
Office of Small Business Advocate
300 North Second Street, Suite 202
Harrisburg, PA 17102

Ms. Janet Tuzinski
Pennsylvania Public Utility Commission
P.O. 3265
Harrisburg, PA 17105-3265

Dated this 29th day of January, 2016



James Warta
Government & External Affairs
Frontier Communications

Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Frontier Communications Commonwealth	:	Docket No.	P-00961024
Telephone Company	:		R-2016-2524592
PSI/SPI Filing for Year 2016	:		

**FRONTIER COMMUNICATIONS COMMONWEALTH TELEPHONE COMPANY
PRICE STABILITY INDEX/SERVICE PRICE INDEX
FILING**

January 29, 2016

PUBLIC VERSION

PUBLIC VERSION

CHAPTER 30 FILING
FRONTIER COMMUNICATIONS COMMONWEALTH TELEPHONE COMPANY
PSI - SPI - DCI REPORT
(All figures rounded to four decimal places)

Date: January 29, 2016

Price Stability Index (PSI) -- Effective 4/1/2016 through 3/31/2017

1	Gross Domestic Product Price Index (GDP-PI) for the 3Q2015		110.0450
2	GDP-PI for 3Q2014		109.0490
3	GDP-PI percentage change	(line 1 - line 2) / line 2	0.0091
4	Exogenous changes	as % of annual revenue	-
5	Change to PSI	line 3 - line 4	0.0091
6	Prior PSI		1.1908
7	PSI	line 6 * (1 + line 5)	1.2016

Service Price Index (SPI)

8	Prior SPI		1.1213
9	Rate changes		0.0093
10	SPI	line 8 + line 9	1.1306

Deferred Change Index (DCI)

11	PSI	line 7	1.2016
12	SPI	line 10	1.1306
13	DCI	line 11 - line 12	0.0710

Revenue Category	Present Revenue (1)	Proposed Revenue (2)	Proposed Revenue Change (3)	Percent Change (4)= (3)/(1)	Present SPI (5)	Proposed SPI Change (6)=(5)x(4)	Proposed SPI (7)=(5)+(6)
Local Service							
Intrastate Access							
IntraLATA Toll							
Vertical Services							
Miscellaneous							
Noncompetitive Revenue	\$ 47,754,625	\$ 48,151,099	396,474	0.83%	1.1213	0.0093	1.1306

PSI PERIOD 2015 BANKING REPORT					
PSI Period	Principle	Interest	Principle + Interest	Retired Amount	Net Banked Amount
2015 (4/1/15 - 3/31/16)	\$ 942,493		\$ 942,493		\$ 942,493
2014 (4/1/14 - 3/31/15)	\$ 1,018,374		\$ 1,018,374		\$ 1,018,374
2013 (4/1/13 - 3/31/14)	\$ 1,164,556		\$ 1,164,556		\$ 1,164,556
2012 (4/1/12 - 3/31/13)	\$ -		\$ -		\$ -
2011 (4/1/11 - 3/31/12)	\$ -		\$ -		\$ -
2010 (4/1/10 - 3/31/11)	\$ -		\$ -		\$ -
2009 (4/1/09 - 3/31/10) *	\$ -		\$ -		\$ -
Total all PSI Periods	\$ 3,125,423		\$ 3,125,423		\$ 3,125,423

* Note: Pursuant to the Citizens/Commonwealth Merger Agreement (A-310800F0010), no banking was permitted to occur for this period.

EXHIBIT CY-3

PUBLIC VERSION

PUBLIC VERSION

April 17, 2016 R1/B1 Increases:

1/25/2016

Tariffed Item by Legal Entity	S&E Codes	Current Rate	Increase Amount	Proposed Rate	Units	Estimated Annual Revenues	2016 Estimated Incremental Revenue
Commonwealth Telephone (PCI)							
R1 Measured Service	RIU55	\$14.25	\$1.00	\$15.25			
R1 Metered Service	RILM5	\$14.25	\$1.00	\$15.25			
Flat Rate R1							
RG 1	RIG1	\$17.99	\$1.00	\$18.99			
RG 2	RIG2	\$18.24	\$0.75	\$18.99			
RG 3	RIG3	\$18.49	\$0.50	\$18.99			
RG 4	RIG4	\$18.74	\$1.00	\$19.74			
RG 5	RIG5	\$19.24	\$0.50	\$19.74			
RG 6	RIG6	\$19.74	\$0.00	\$19.74			
Second Line							
RG 1	RIA1	\$13.34	\$1.00	\$14.34			
RG 2	RIA2	\$13.59	\$0.75	\$14.34			
RG 3	RIA3	\$13.84	\$0.50	\$14.34			
RG 4	RIA4	\$14.09	\$1.00	\$15.09			
RG 5	RIA5	\$14.59	\$0.50	\$15.09			
RG 6	RIA6	\$15.09	\$0.00	\$15.09			
Total Resi						\$212,412	\$141,608
Business Lines:							
B1 Measured Service	BIU55	\$15.13	\$1.00	\$16.13			
B1 Metered Service	BILM5	\$15.13	\$1.00	\$16.13			
Flat Rate B1							
RG 1	BIG1	\$18.20	\$2.00	\$20.20			
RG 2	BIG2	\$18.70	\$1.50	\$20.20			
RG 3	BIG3	\$20.20	\$0.00	\$20.20			
RG 4	BIG4	\$22.45	\$2.00	\$24.45			
RG 5	BIG5	\$23.45	\$1.00	\$24.45			
RG 6	BIG6	\$25.70	\$0.00	\$25.70			
PBX Trunk							
RG 1	PBXT1	\$22.27	\$2.00	\$24.27			
RG 2	PBXT2	\$23.27	\$1.00	\$24.27			
RG 3	PBXT3	\$26.27	\$0.00	\$26.27			
RG 4	PBXT4	\$30.27	\$2.00	\$32.27			
RG 5	PBXT5	\$33.27	\$0.00	\$33.27			
RG 6	PBXT6	\$38.27	\$0.00	\$38.27			
COCOT	PAYC1	\$16.53	\$2.00	\$18.53			
COCOT	PAYC2	\$17.03	\$2.00	\$19.03			
COCOT	PAYCO	\$37.45	\$0.00	\$37.45			
Total Business						\$184,062	\$122,708
Grand Total						\$396,474	\$264,316

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 :

VERIFICATION

I, Carl Yastremski, Manager of Regulatory Affairs for Frontier Communications Corporation, hereby state that the facts set forth in **Frontier Commonwealth Statement No. 1 and Exhibits CY-1, CY-2, and CY-3**, containing my prepared Rebuttal Testimony and accompanying exhibits, 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).



Carl Yastremski
Manager, Regulatory Affairs
Frontier Communications Corporation
100 CTE Drive
Dallas, Pennsylvania 18612

DATED: September 13, 2016