



**Zsuzsanna E. Benedek**  
Associate General Counsel  
240 North Third Street, Suite 300  
Harrisburg, PA 17101  
Telephone: 717-775-3088  
Sue.benedek@centurylink.com

June 22, 2020

**VIA ELECTRONIC FILING**

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
400 North Street, 2<sup>nd</sup> Floor  
Harrisburg, PA 17101

Re: The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink  
2018 Annual Price Stability Index/Service Price Index Report Filing -  
Docket No. R-2018-3004019

The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink  
2019 Annual Price Stability Index/Service Price Index Report Filing -  
Docket No. R-2019-3012238

Office of Consumer Advocate v. The United Telephone Company of  
Pennsylvania LLC d/b/a CenturyLink  
Docket Nos. C-2018-3005400 and C-2019-3102876

Dear Secretary Chiavetta:

On behalf of The United Telephone Company of Pennsylvania, LLC d/b/a CenturyLink ("CenturyLink"), enclosed for filing please find CenturyLink's Exceptions in the above-referenced proceeding. Electronic copies of the attached Exceptions are served upon the Parties as indicated on the Certificate of Service. In addition, a courtesy copy of this cover letter and CenturyLink's Exceptions are emailed to the Commission's Office of Special Assistants at RA-osa@pa.gov. Finally, this filing does not contain confidential information.

Should you have any questions, please do not hesitate to contact me at 717-775-3088.

Sincerely,

A handwritten signature in blue ink that reads "Sue Benedek".

Sue Benedek

ZEB/sac

cc: The Honorable Joel H. Cheskis (via electronic) [jcheskis@pa.gov](mailto:jcheskis@pa.gov)  
The Honorable Benjamin Myers (via electronic) [benmyers@pa.gov](mailto:benmyers@pa.gov)  
All Persons on the attached Certificate of Service

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

The United Telephone Company of Pennsylvania LLC	:	
d/b/a CenturyLink 2018 Annual Price Stability	:	R-2018-3004019
Index/Service Price Index Report Filing	:	
Office of Consumer Advocate	:	
v.	:	
The United Telephone Company of Pennsylvania LLC	:	C-2018-3005400
d/b/a CenturyLink	:	
The United Telephone Company of Pennsylvania LLC	:	
d/b/a CenturyLink 2019 Annual Price Stability	:	R-2019-3012238
Index/Service Price Index Report Filing	:	
Office of Consumer Advocate	:	
v.	:	
The United Telephone Company of Pennsylvania LLC	:	C-2019-3012876
d/b/a CenturyLink	:	

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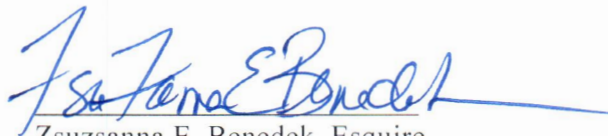
**CERTIFICATE OF SERVICE**

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I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, via electronic mail, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

Steven Gray, Esquire  
Office of Small Business Advocate  
555 Walnut Street, 1<sup>st</sup> Floor  
Harrisburg, PA 17101  
Email: sgray@pa.gov

Barrett C. Sheridan  
Office of Consumer Advocate  
555 Walnut Street, 5<sup>th</sup> Floor  
Harrisburg, PA 17101  
Email: bsheridan@paoca.org



Zsuzsanna E. Benedek, Esquire  
Attorney ID No. 60451  
Attorney for Respondent  
The United Telephone Company of Pennsylvania LLC  
d/b/a CenturyLink  
240 North Third Street, Suite 300  
Harrisburg, PA 17101  
Phone: (717) 775-3088  
E-mail: [sue.benedek@centurylink.com](mailto:sue.benedek@centurylink.com)

Date: June 22, 2020

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

The United Telephone Company of Pennsylvania LLC	:	
d/b/a CenturyLink 2018 Annual Price Stability	:	R-2018-3004019
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Index/Service Price Index Report Filing	:	
Office of Consumer Advocate	:	
v.	:	
The United Telephone Company of Pennsylvania LLC	:	C-2019-3012876
d/b/a CenturyLink	:	

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**EXCEPTIONS OF THE UNITED COMPANY OF PENNSYLVANIA LLC  
D/B/A CENTURYLINK**

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Zsuzsanna E. Benedek (PA ID#60451)  
Associate General Counsel  
240 North Third Street, Suite 300  
Harrisburg, PA 17101  
Telephone: 717-775-3088  
[Sue.benedek@centurylink.com](mailto:Sue.benedek@centurylink.com)

*Counsel for The United Company of  
Pennsylvania LLC d/b/a CenturyLink*

Date: June 22, 2020

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## **I. INTRODUCTION**

The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink (“CenturyLink”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”) – representing all parties in this consolidated docket – filed a Joint Petition for Approval of Settlement Agreement (“Settlement”) in this consolidated proceeding involving CenturyLink’s 2018 and 2019 annual Chapter 30 filings. In the Recommended Decision (“RD”), the presiding Administrative Law Judges (“ALJs”) rejected the Settlement “in its entirety” and remanded it “for further hearings” based upon the ALJs’ interpretation of the Commission’s October 2018 Order. RD at Ordering Paragraphs 1, 2.

Per the RD’s view, the Commission’s October 2018 Order directed parties to “determine whether the passage of the TCJA [Tax Change and Jobs Act] is a qualifying exogenous event under CenturyLink’s Chapter 30 Plan.” RD at p. 17. Compelled by the October 2018 Order, the RD finds that the Settlement’s utilization of banked revenues is not “substantial evidence” given the \$320 million implemented for 17 electric, natural gas, water and wastewater companies via a negative surcharge, as profusely cited in the RD. “Not increasing rates is not the same as providing a rate reduction or credit.” RD at p. 26. Of course, to force its result of rate reductions or credits, the RD on its own finds that the TCJA qualifies as an exogenous event.

Contrary to the RD, nothing in the Commission’s October 2018 Order prohibits settlement nor does that Order compel protracted litigation on the legal issue of whether the TCJA qualifies as an exogenous event. A settlement by its very nature does not resolve legal issues. The RD’s interpretation of the Commission’s October 2018 Order as compelling parties to litigate and develop a record on a legal issue remains flawed and creates numerous concerns, as addressed below.

Moreover, the RD's declaration that the TCJA qualifies as an exogenous event remains irrational and unreasonable. RD at pp. 18-19. The RD's declaration that the TCJA is an exogenous event is the RD's only recognized way under the Chapter 30 Plan to implement "the same" result of a negative surcharge – *i.e.*, rate reductions or a credit – as undertaken for 17 electric, natural gas, water and wastewater companies. The reality and import of the different paradigms operating as between alternative regulation and traditional rate of return regulation is completely discounted and ignored in this RD. The RD errs on all these issues.

In CenturyLink's view, the Settlement seeks an efficient resolution to the underlying regulatory quagmire regarding the TCJA and complaints filed by OCA and the interventions of OSBA to CenturyLink's 2018 and 2019 annual Chapter 30 filings. Direction from the Commission regarding the issue of whether the TCJA qualifies as an exogenous event certainly would have been preferred. In the absence of that occurring, CenturyLink viewed settlement as the only viable option to more protracted and inefficient litigation. In this regard, the RD's discounting of the benefits of conserving resources remains particularly disconcerting. RD at p. 25. In a competitive marketplace in which CenturyLink is a participant but other competitors are not, the RD's call for more regulatory process is problematic and highly inefficient.

The Settlement remains within the confines of the alternative regulatory scheme applicable to CenturyLink by utilizing existing banked revenues and commitments regarding CenturyLink's upcoming annual price cap filing. The Commission should reverse the RD and approve the Settlement without modification.

## II. EXCEPTIONS

### **EXCEPTION No. 1: The RD Erroneously Interprets And Applies The Commission's October 2018 Order from Docket Number M-2018-2641242.**

The RD cites a portion of the *October 2018 Order* and rejects the Settlement “because it fails to determine whether the passage of the TCJA is a qualifying exogenous event under CenturyLink’s Chapter 30 Plan.” RD at pp. 16-17. The RD reaches this conclusion based upon the view that this determination is a “fundamental issue” that the Commission “directed” in the *October 2018 Order* to “be decided.” *Id.*

CenturyLink disagrees. The RD erroneously interprets the reference to a fully developed evidentiary record in the *October 2018 Order* as a directive to create a record on the qualification and quantification of the TCJA as an exogenous event.

First, the Commission in the *October 2018 Order* noted that it had not had a “cause to review the impact of an event such as the TCJA.”<sup>1</sup> The Commission merely stated that the generic investigation will be aided by the record in the annual Chapter 30 filings of Incumbent Local Exchange Companies (“ILECs”).<sup>2</sup> By making these statements, the *October 2018 Order* does not mandate development of an evidentiary record in these annual Chapter 30 filings addressing the TCJA and its qualification and quantification as an exogenous event. If the Commission had intended to develop such a specific evidentiary record, then the Commission would have made that requirement explicit in the ordering paragraphs of the *October 2018 Order*. The Commission did not do so.

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<sup>1</sup> RD at p. 16, *citing* the *October 2018 Order* at p. 5.

<sup>2</sup> ILECs in Pennsylvania subject to alternative regulation under Chapter 30 submit annual filings to the Commission seeking rate changes as allowed under the Price Stability Mechanism (“PSM”), or otherwise referred to as the Price Stability Plan (“PSP”), of the ILEC’s Chapter 30 Plan (hereinafter “annual Chapter 30 Plan” or “annual PSM Plan”).

Second, if the *October 2018 Order* directed or required parties to provide an evidentiary record in this docket of the TCJA's impact, then the Commission would have involved the Bureau of Investigation and Enforcement to participate in the annual Chapter 30 filings of the ILECs in order to enforce the development of such the specific evidentiary record. The Commission did not do so. CenturyLink maintains that the Commission in the *October 2018 Order* did not in any explicit manner direct parties in these annual Chapter 30 filings to develop an evidentiary record on the TCJA's qualification or quantification as an exogenous event.

The RD improperly interprets and applies the *October 2018 Order*. The Commission should reject the RD and approve the Settlement without modification.

**EXCEPTION No. 2: The RD Erroneously Orders A Remand Because It Erroneously Views The Settlement As Not Supported By An Evidentiary Record.**

**A. The RD's conflates litigation and settlement and thus creates concerns.**

Once the RD interprets the *October 2018 Order* as directing an evidentiary record on the TCJA's qualification and quantification as an exogenous event in this docket, the RD rejects the settlement because it "leaves this fundamental issue [of whether the TCJA is an exogenous event] unresolved." RD at p. 17. Per the RD, the *October 2018 Order* demands record evidence of the TCJA's qualifying as an exogenous event in a settlement context.<sup>3</sup> The RD conflates litigation and settlement and erroneously requires parties to litigate disputed issues, thereby effectively foreclosing settlement. The RD creates concerns.

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<sup>3</sup> See, RD at p.19 ("[W]e now turn to whether the settlement submitted on January 23, 2020 should be recommended for approval because it provides a fully developed evidentiary record. . . *as was also requested in the October 2018 Order.*") (Emphasis added.). See also, RD at p. 20 ("The verified witness statements, however, do not fully develop an evidentiary record *that is responsive to the Commission's request.*") (Emphasis added).

CenturyLink’s 2018 and 2019 Chapter 30 filings do not reflect an exogenous adjustment for the TCJA.<sup>4</sup> CenturyLink is not privy to the arguments supporting the litigation positions of the other parties, nor should it be. Yet, that is precisely what this RD would have occur through its rejection of the Settlement and remand for hearings. The RD’s approach would unnecessarily foist a meaningless and protracted litigation track in this matter – and potentially for the other ILECs in a procedural stance behind this consolidated docket.

Given its unnecessarily literal view of the *October 2018 Order*, the RD then places settling parties in an untenable position of requiring an evidentiary record of their respective litigation positions simply to satisfy the RD’s position that this is what constitutes substantial evidence for review of the Settlement.<sup>5</sup> As an initial matter, CenturyLink excepts to the RD’s use of the “substantial evidence” standard of review for the Settlement. The Commission's findings must be supported by substantial evidence. The term "substantial evidence" has been defined by Pennsylvania appellate courts as such relevant evidence that reasonable minds might accept as adequate to support a conclusion.<sup>6</sup> The Settlement is an efficient conclusion and is in the public interest, particularly given the procedural interplay between this consolidated docket and the matter at Docket Number M-2018-2641242.

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<sup>4</sup> CenturyLink’s 2018 and 2019 PSM Filings were made pursuant to provisions of Act 183 of 2004, P.L. 1398 (66 Pa. C.S. §§ 3011 3019) (Chapter 30) and pursuant to CenturyLink’s Alternative Regulation and Network Modernization Plan. *Petition for Amended Alternative Regulation and Network Modernization Plan of The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink*, Docket No. P-00981410F1000 (Order entered June 23, 2005) (hereinafter “CenturyLink Chapter 30 Plan.”). A courtesy copy of CenturyLink’s Chapter 30 Plan is appended hereto at Attachment A.

<sup>5</sup> See, RD at p. 18 (“[P]arties never articulated their respective disagreements as to why the TCJA does or does not qualify as an exogenous event under CenturyLink’s Chapter 30 Plan.”).

<sup>6</sup> *Norfolk and Western Ry. v. Pa. Public Utility Commission*, 489 Pa. 109, 413 A.2d 1037 (1980); *Erie Resistor Corp. v. Unemployment Compensation Bd. Of Review*, 194 Pa. Super. 278, 166 A.2d 96 (1960); *Murphy v. Dept. of Public Welfare, White Haven Center*, 85 Pa. Commw. 23, 480 A.2d 382 (1984).

Second, under the RD settling parties are not accorded an opportunity to agree to disagree on the legal issue of whether the TCJA quantifies as an exogenous event. As a result, there is no meaningful way to implement the Commission's policy of encouraging settlements under the RD's constraining application of the *October 2018 Order*. Why pursue settlement options at all if required to create a record on the contentious legal issue of the TCJA's qualification as an exogenous event?

If the *October 2018 Order* truly intended to "direct" parties to develop a record and litigate their respective positions on the qualification and quantification of a TCJA impact on CenturyLink, then this interpretation and application of the *October 2018 Order* should have been raised by the ALJs early in this proceeding to give parties an opportunity to seek review or clarification of *October 2018 Order* from the Commission. It is patently unfair and inconsistent with due process to require settling parties to litigate their issues under the guise that the Commission in the *October 2018 Order* required a record or that the Settlement fails to be "substantial evidence" because the Settlement effectively does not come to agreement on this legal issue.

**B. Creating an evidentiary record for the sake of creating a record is not in the public interest.**

The RD recommends rejection of the Settlement and remand for evidentiary hearings "as deemed necessary consistent with the discussion above [in the RD]." RD at Ordering Para. 2. The scope of such hearings, however, has not been specified in the RD and remains unclear.

At this juncture, what is clear is that a remand for evidentiary hearings is unnecessarily inefficient and not in public interest. There is no need to create a record for the sake of protracted debate on whether, under CenturyLink's exogenous events provision, the TCJA affects "revenues or expenses to the extent not reflected in the overall inflation factor as measured by GDP-PI." The

RD has failed to explain how the issue of the TCJA's alleged qualification an exogenous event is a factual issue requiring litigation and an evidentiary record.

Parties reached the Settlement and thereby have agreed to disagree on the TCJA's qualification as an exogenous event. The RD errs in holding the Settlement to a standard that forces an evidentiary record on parties' arguments on a legal issue. In a settlement context, a record for the sake of litigating what is fundamentally a legal issue is not in the public interest.

**EXCEPTION No. 3: The RD Erroneously And Without Support Concludes That The TCJA Qualifies As An Exogenous Event Under CenturyLink's Chapter 30 Plan.**

The RD makes the sweeping declaration, and concludes without any demonstrated support, that the TCJA qualifies as an exogenous event under CenturyLink's Chapter 30 Plan.<sup>7</sup> The Commission should reject the RD's conclusion and its extraneous comments.<sup>8</sup>

The language in CenturyLink's Chapter 30 Plan is correctly cited in the RD at page 18 and in relevant part provides that, to qualify for exogenous treatment, an event must be outside the Company's control and must meet one of the following additional criteria:

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

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<sup>7</sup> RD at pp. 18-19. *See also*, RD at pp. 24-25.

<sup>8</sup> Specifically, the RD asserts without merit or support as follows:

If passage of the TCJA does not qualify as an exogenous event under CenturyLink's plan, then nothing would qualify and the exogenous event provision in the plan will be rendered meaningless. We do not believe that the Commission intended for this result when approving CenturyLink's Chapter 30 Plan and we likewise will not do so here. (RD at p. 19.)

The RD's extraneous comments are unwarranted, unhelpful, and should be dismissed.

The RD erroneously finds that the TCJA is an exogenous event under subpart (b) of CenturyLink’s language. The ALJs “believe” that the TCJA “affects CenturyLink’s revenues or expenses that is not captured in GDP-PI.” RD at p. 18 (citation omitted). Given the RD’s views on the *October 2018 Order*, the RD claims “parties have failed to provide evidence that demonstrates that the impact of the TCJA will be reflected in the GDP-PI.” RD at p. 19.

By its very operation, a settlement does not aim to resolve legal issues, nor should a settlement be required to engage in extensive esoteric debate of legal issues. As noted above, the RD’s interpretation of the *October 2018 Order* does not preclude a settlement, and nor does it require settling parties to create an evidentiary record and litigate their positions as to whether the TCJA qualifies as an exogenous event. The settling parties have stipulated to resulting public interest benefits without seeking to resolve the question of whether the TCJA is an exogenous event. If required to litigate this issue, then realistically there would be no impetus to settle.

The TCJA impacts all companies operating in the United States, not just CenturyLink. Harper CTL St. at para. 33. The question of whether the TCJA is an exogenous event is not a factual issue based upon the plain reading of the exogenous event provision. The TCJA affects all firms and companies and thus cannot be a change affecting “revenues or expenses to the extent not reflected in the overall inflation factor as measured by GDP-PI.” Thus, CenturyLink maintains, as it did in its pleadings and in support of the Pennsylvania Telephone Association’s (“PTA”) comments at Docket Number M-2018-2641242, the TCJA cannot qualify as an exogenous event.

Moreover, properly applying CenturyLink’s Plan language to the TCJA does not render the exogenous event provision in CenturyLink’s Chapter 30 Plan “meaningless” as the RD states. RD at pp. 19, 25. In resolving the intrastate switched access charges issues arising from the FCC’s

*ICC/USF Transformation Order*, the Commission found that the revenue reduction resulting from the FCC's regulatory changes were an exogenous event and that if the available recovery mechanisms were not sufficient, then the affected Chapter 30 regulated companies could file for adjustments to their rates through an exogenous factor. This is an example of what an exogenous factor was intended to recover – *i.e.*, an impact to revenues or expenses beyond a company's control, specific to the telecommunications industry, and not reflected in the GDP-PI. Conversely, the TCJA is nationally impactful upon all firms and companies in the United States and is reflected in the GDP-PI, thus disqualifying the TCJA from exogenous treatment. The Settlement does not render the exogenous event clause “meaningless,” the proper application of the TCJA to the clause demonstrates how the clause was intended to operate.

Specifically, the RD fails to grasp the import of the alternative regulatory scheme and the limiting – rather than expansive – nature of events that could qualify for exogenous treatment. Chapter 30 represented a complete substitution of traditional rate base/rate of return regulation in lieu of a price cap model form of alternative regulation. Like many other ILECs in Pennsylvania, the Price Stability Plan (PSP) employs the Price Stability Index (PSI) to calculate the allowable change in prices for non-competitive services based upon the annual change in GDP-PI, as adjusted for exogenous events. Harper CTL St. at para. 26. As a portion of the Commission's 1999 Order, the Commission stated as follows regarding CenturyLink's Chapter 30 Plan:

**In general, a price cap is linked to an aggregate measure of inflation like the Gross Domestic Product Price Index (GDP-PI) or the Consumer Price Index (CPI) with a productivity offset. . . . This system of regulation substitutes price caps for rate of return regulation. Prices subject to competition are excluded from Price Cap Regulation.**

Harper CTL St. at para. 15, *quoting* Commission Opinion and Order at Docket No. P-00981410 at page 9 (LEXIS copy) (emphasis added).

The pricing formula employed in CenturyLink's Chapter 30 Plan plainly references GDP-PI and makes clear that the alternative form of regulation in that Plan is tied to the rate of inflation as measured by changes to the national index, the GDP-PI.<sup>9</sup> Therefore, when a national tax change occurs, such as the TCJA's one-time change in corporate tax rate, that change is part of what is already captured in GDP-PI. As CenturyLink witness Mr. Harper further noted:

[T]he concept of a price cap model utilizing, as the Commission in CenturyLink's 1999 Chapter 30 Order noted, aggregate measures like the GDP-PI are by their nature designed to have price caps reflect the aggregate changes in cost inputs over time like broad tax changes that cut across the economy such as the TCJA and not to isolate a single event.<sup>10</sup>

Therefore, subpart (b) of the exogenous event provision in CenturyLink's Chapter 30 Plan cannot apply based upon the plain reading of language in CenturyLink's Chapter 30 Plan.

Indeed, the Commission has already determined on one occasion, for Verizon, that corporate income tax rate changes are not a qualifying exogenous event.<sup>11</sup> Changes arising from federal tax requirements are already captured in GDP-PI formula inflation index and are not

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<sup>9</sup> CenturyLink's Chapter 30 Plan in part provides that the Company will annually calculate the PSI pursuant to the following formula:  $PSI_t = PSI_{t-1} \times [1 + \% \Delta \text{ GDP-PI}_{t-1} - 0.0\% \pm Z]$ . Not only is GDP-PI expressly included in the formula, the formula in the pricing model explicitly utilizes the percentage change in the national index, GDP-PI:

$\% \Delta \text{ GDP-PI}_{t-1} =$  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.

See, *CenturyLink Chapter 30 Plan*, Part 3 (PRICE STABILITY PLAN FOR NONCOMPETITIVE SERVICES), Part A, at para. 2 (emphasis added).

<sup>10</sup> Harper CTL St. at para. 18.

<sup>11</sup> *Re: Bell Atlantic – Pennsylvania, Inc.'s Petition and Plan for Alternative Form of Rate Regulation Under Chapter 30*, Docket No. P-00930715; P-00930715C001; and P-00930715C002 (Order entered June 28, 1994), slip op. at 114-122.

exogenous events. The RD simply fails to comprehend the import of alternative regulation and the futility of trying to isolate for one change in federal tax law. RD at pp. 23-24.

The RD fixates on mirroring what may have been done with the 17 fixed utilities subject to rate of return regulation. This approach is inapplicable in the alternative regulation context. What worked for companies subject to traditional regulation where rates and earnings are directly tied to costs does not work for companies subject to alternative regulation under Chapter 30. As CenturyLink's witness Mr. Harper explained:

A pricing model utilizing a formula and an aggregate measure (such as the GDP-PI component in CenturyLink's pricing cap model) that has been operating for over 20 years cannot be easily unraveled for one component, like the TCJA. The underlying information and data, as existing for fixed utilities, does not exist for CenturyLink. CenturyLink does not have a defined rate base or allowable expenses and its prices are not linked to anything similar.<sup>12</sup>

The inability to effectuate a similar method or result as done for the 17 rate-of-return utilities noted by the RD appears to have been lost on the ALJs.

The RD's statement that the TCJA qualifies as an exogenous event is unsupported by the plain reading of CenturyLink's Chapter 30 Plan. The only way the RD's finding that the TCJA is an exogenous event would be to eliminate references to changes in GDP-PI in the formula of CenturyLink's Chapter 30 Plan. This is not an option.<sup>13</sup> The RD wrongly assumes that GDP-PI will not reflect an impact of the TCJA on prices across the economy. The TCJA affects all firms and companies and thus this tax change cannot qualify as an exogenous event.

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<sup>12</sup> *Id.*, at para. 18-19.

<sup>13</sup> 66 Pa.C.S. § 3013(b). This provision in Act 183 provides that any changes to any alternative form of regulation or network modernization plan may be made without the express agreement of both the commission and the local exchange telecommunications company. CenturyLink certainly does not agree to the RD's attempt to change the Plan by ignoring express language therein that expressly reference to changes in GDP-PI to CenturyLink's Chapter 30 Plan.

**EXCEPTION No. 4: The RD's Negative Surcharge Recommendation Is Flawed And Inapplicable.**

The RD cites a negative surcharge totaling \$320 million per year as arising from 17 other jurisdictional traditional rate regulated electric, natural gas, water and wastewater utilities. RD at p. 22. Per the RD, the proposed Settlement “does not provide a similar benefit to the public arising from the passage of the TCJA.” RD at p. 22. Having declared the TCJA to be an exogenous event, which is the only way under Chapter 30's alternative regulation scheme to effect such a “similar benefit,” the RD's concludes as follows:

The TCJA was passed to provide benefits to Americans. Customers of 17 electric, natural gas, water, and wastewater companies have realized these benefits for a total amount of negative surcharge of \$320 million. CenturyLink's agreement to not reserve for future use \$1.3 million in annual revenue on top of more than \$9 million in annual revenue that they have already reserved – just because it is difficult or costly to determine a specific dollar figure – is not in the public interest. ***Not increasing rates is not the same as providing a rate reduction or credit.*** This is particularly true as the issue of whether the TCJA constitutes an exogenous event may also be relevant to other Pennsylvania local exchange carriers as well.

RD at pp. 25-26 (emphasis added).

The RD's march to mirror what was done with other fixed utilities further demonstrates the RD's failure in understanding the difference between alternative regulation and traditional rate regulation. The RD's approach is flawed and should be rejected.

First, as noted above, the RD errs because it presumes the TCJA is a legislative change that affects CenturyLink's revenues or expenses that is somehow not captured in the GDP-PI index. RD at p. 18. The TCJA is a tax change affecting all firms and prices in the United States and thereby is included in a national index measurement such as GDP-PI. Conversely, the RD presumes that the GDP-PI index will not reflect the impact of the TCJA on prices across the economy and therefore, the RD fails to recognize that by the use of GDP-PI in the annual PSM

filings those impacts will be translated to the maximum allowable revenue increases for CenturyLink. As addressed above in Exception 3, the RD errs when failing to recognize that the Chapter 30 Plan's requirement that the change not be captured in GDP-PI.

Second, the RD also presumes the only benefit from the TCJA is a direct one – specifically, rate reductions or a negative surcharge credit. The TCJA has indirect consumer benefits. Such indirect benefits could include increased or sustained investment that would have not otherwise been possible. It could also include reductions to prices or enhanced services, or features offered in response to competitors' actions. The driving purpose of price cap regulation was to incent efficiency and innovation given the competitive telecommunications marketplace. The annual Chapter 30 filings (or PSM filings) of companies operating under alternative regulation are impacted by the TCJA as the TCJA's impacts are translated to the maximum allowable revenue increases for CenturyLink. The indirect impacts of the TCJA have been overlooked in the RD. Accordingly, the RD's proposal of rate reductions or credits as if *to isolate an assumed direct impact* from a national tax change like the TCJA remains inapplicable. Not only is the approach a holdover from monopoly-minded rate-of-return regulation, but it is the antithesis to efficiency and innovation under alternative regulation.

Third, the RD is misguided in attempting to mirror TCJA-related adjustments undertaken for 17 traditional rate-of-return utilities. Those utilities do not operate under a Chapter 30 regulatory scheme and do not face the competitive realities that companies operating under alternative regulation face. These are key distinguishing differences between the alternative regulatory paradigm and traditional rate regulation that appear to be lost upon the rationale employed in the RD. As Mr. Harper's testified as to the competitive equity of the Settlement's approach:

Unlike fixed utilities where rates are tied to a recently computed revenue requirement that includes an allowance for taxes, such a linkage was broken many years ago for CenturyLink and for good reason. ***There is no one-to-one connection between a revenue requirement calculation and CenturyLink's rates. CenturyLink functions in a competitive marketplace and the PSM was designed to allow some pricing flexibility and incentive to increase efficiency for alternatively regulated carriers like CenturyLink.*** The results have certainly been good for the consumer. CenturyLink's prices for services within the basket have been constrained by the price cap formula and CenturyLink's competitors are now the voice service provider for over 75% of the housing units in CenturyLink's serving area. Therefore, the quantification exercise fails both in terms of necessity and in terms of competitive equity. ***CenturyLink's competitors will not be forced to arbitrarily reduce rates but instead will have the freedom to choose how to reflect any tax savings in its product offerings or investments.***

Harper CTL St. at para. 22 (emphasis supplied).

If the RD's approach of a negative surcharge was adopted, CenturyLink's competitors would not be subject to a negative surcharge while CenturyLink would. Conversely, the Settlement's use of forgoing banked revenues available accumulating from Commission-approved annual Chapter 30 filings does not disadvantage CenturyLink as a competitor. *The Settlement is in the public interest because it promotes competitive equity.*

Fourth, it is not a simple matter of unavailability of "financial data" as the RD overly-simplistically assumes. RD at p. 24. It is not as simple as "keeping sufficient records" since CenturyLink's Chapter 30 Plan was approved. RD at p. 25. These statements in the RD demonstrate the RD's lack of appreciating that alternative rate regulation in Chapter 30 fundamentally and permanently changed the ability to turn back the clock. We would not be here 2+ years after passage of the TCJA if the quantification of the RD's assumption that the TCJA qualifies as an exogenous event was as simple as mirroring what was done for 17 fixed utilities operating under a completely different regulatory scheme.

Finally, to CenturyLink's knowledge, no "negative surcharge" has ever been implemented relative to a company subject to Chapter 30's price cap model form of alternative regulation.

CenturyLink also operates as an ILEC in 37 states. CenturyLink’s other ILEC affiliates are subject to some type of alternative regulation scheme in virtually all these states. Harper CTL St. at para. 24. While the RD views other states as not relevant (RD at p. 24), the fact remains that only one other state (Arizona) has an active proceeding examining the TCJA and in no state in which CenturyLink operates as an ILEC has the state commission ordered a “negative surcharge” due to the TCJA.

The RD would effectively step out of alternative regulatory paradigm in an issue of first impression to implement a negative surcharge. The RD fails to provide any support for how the negative surcharge is consistent with Chapter 30 or CenturyLink’s Chapter 30 Plan. Moreover, assuming the negative surcharge as envisioned (but not explained in the RD) is an exogenous event, then this opens the door for imposing other types of surcharges – not just a negative surcharge. The RD’s attempt to legislate from the bench should be dismissed.

**EXCEPTION No. 5: The RD Erred In Rejecting The Settlement.**

**A. The Settlement is an appropriate response to the passage of the TCJA.**

As addressed above, the RD’s view of the *October 2018 Order* permeates all aspects of the RD, including the RD’s evaluation of the Settlement. As a result, the RD evaluates the Settlement from the incorrect assumption that the Commission’s *October 2018 Order* requires demonstration of the TCJA’s direct impact on CenturyLink.<sup>14</sup>

CenturyLink disagrees. First, as addressed above, the Commission in the *October 2018 Order* did not intend to limit possible solutions in this docket to only those that are “similar” to the

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<sup>14</sup> See, RD at p. 21 (“As a result, the settlement will be recommended for rejection because there is no fully-developed evidentiary record that supports finding that CenturyLink should forgo banking...in response to the TCJA.”) (Emphasis added). See also, RD at p. 22 (“[Q]uestions remain as to whether such agreement should be adopted as resolution of the issue regarding the impact of the TCJA on CenturyLink.”).

fixed utilities or only those that directly result “from passage of the TCJA.” The RD’s interpretation and application of the *October 2018 Order* is too constraining for purposes of evaluating the Settlement.

Second, the RD fails to recognize the record regarding CenturyLink’s circumstances. CenturyLink, an ILEC in Pennsylvania, does not file federal income tax returns and does not have any federal income tax obligations. CenturyLink, Inc., as the ultimate parent of various operating subsidiaries, including CenturyLink the ILEC in Pennsylvania, and files a consolidated federal income tax return on behalf of all qualifying entities and subsidiaries. Due to offsetting Net Operating Losses (NOLs) applied on the parent company federal tax return, CenturyLink Inc. did not have a cash tax obligation for federal income taxes in 2018 and does not anticipate having a federal income tax liability for several years to come. The amount of CenturyLink, Inc.’s federal income taxes paid in recent years has been reduced significantly or completely offset by net operating loss carry forwards that have been utilized.<sup>15</sup> As Mr. Harper explained, CenturyLink expects little to no impact from the TCJA on the company’s federal tax obligations for calendar year 2018 and several subsequent tax years. Harper CTL St. at para. 21.

While the TCJA may have mathematically reduced the corporate rate, it would be extremely difficult and highly controversial to identify and determine with confidence and integrity any TCJA impact given CenturyLink’s circumstances. Harper CTL St. at para. 25. OSBA witness Mr. Gillan, in spite of providing his rough estimate of the potential impact of the TCJA on CenturyLink, also confirms that there is no way to translate any TCJA “savings” to the group of services that remain in CenturyLink’s price stability mechanism in its Chapter 30 Plan.

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<sup>15</sup> As set forth in CenturyLink, Inc.’s 2019 Annual 10-K, at December 31, 2019, CenturyLink, Inc. reported federal net operating losses of \$6.2 billion. CenturyLink, Inc. expects to use substantially all of these tax attributes to reduce future federal tax liabilities, although the timing of that use will depend upon our future earnings and future tax circumstances. Harper CTL St. at para. 21.

This is the complete context of OSBA witness Gillan's testimony, which appears to have been overlooked in the RD.<sup>16</sup>

**B. The Settlement's agreement to forgo banked revenues is an acceptable public interest benefit.**

The RD rejects the Settlement's forgoing of over \$1.3 million in banked amounts because CenturyLink's bank already contains \$9 million. RD at p. 22. In other words, because banked amounts exist and regularly have not been utilized in the past to increase rates, the RD disregards their use and value in the Settlement. The RD's dismissal of Settlement on these grounds is misplaced and should not be adopted.

The Settlement's provision to forgo banking of an additional \$1.3 million in annual rate increases will never satisfy the RD's application of substantial evidence because banked revenues are not directly based upon the TCJA's impact. The reality of a pricing model form of alternative rate regulation is banked revenues. CenturyLink's bank has been properly accumulated pursuant to CenturyLink's Chapter 30 Plan and annual Commission orders approving CenturyLink's annual Chapter 30 filings. It may not be "similar" to the 17 other utilities cited in the RD and it may not *directly* arise from passage of the TCJA like a negative surcharge, but such points are not relevant.

There is nothing about CenturyLink's regulatory status, price plan, or the competition it faces (and thus the revenue and customer loss it has experienced) that is similar to the 17 other utilities referenced in the RD.<sup>17</sup> The creation of banked revenues (future price increase opportunity) is what is recognized and allowed by the alternative regulatory scheme in

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<sup>16</sup> RD at pp. 23-24. OSBA witness Mr. Gillan confirms that the Settlement's outcome on forgone banked amounts as commensurate with his high-level estimate.

<sup>17</sup> RD at p. 23 ("CenturyLink's agreement to forgo a certain amount of rate increases it has not implemented in the past when able, and when it can use other available resources to increase current rate, support finding that the settlement submitted in this case should be rejected.").

Pennsylvania and CenturyLink's Chapter 30 Plan. The reduction of those amounts represents an inability to raise rates in the future.

The RD also fails to recognize that the Commission has approved at least one other settlement which relied upon the forgoing of banked revenues. The Commission in a merger context approved a settlement in which CenturyLink committed not to bank revenue increases allowable under the operation of CenturyLink's Chapter 30 Plan.<sup>18</sup>

Finally, on several occasions, the RD seemingly downplays the *value* of the Settlement's provision to forgo over \$1.3 million in banked revenue increases. First, the RD states that the Settlement's provision to forgo over \$1.3 million in banked amounts is "minimized" in light of the facts that CenturyLink has only implemented \$1.6 million in rate increases and that CenturyLink still has millions in its bank that it could implement for rate increases. RD at pp. 22-23. The referenced \$1.6 million is the amount of banked revenue CenturyLink has used to increase prices in last eight years, 2012 through 2019. Harper CTL St. at para. 38. The RD misses that fact. The Commission approved increases in CenturyLink's rates of services in the price stability mechanism by a total of \$3.5 million over this time period, including the utilization of that \$1.6 million of its banked revenues. Thus, CenturyLink has utilized banked revenues four times in the last eight years in addition to the maximum allowed revenue increase through the PSM formula.

The RD errs in failing to recognize the public interest benefit of the Settlement's provision to forgo over \$1.3 million banked amounts as future revenue increases in addition to agreeing to not increase any rate in its upcoming 2020 annual Chapter 30 filing. By eliminating these revenues from the cumulative bank through the Settlement, CenturyLink has agreed to no future revenue

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<sup>18</sup> CenturyLink Statement in Support at p. 3, *citing, Joint Application for Approval Under Chapter 11 of the Pennsylvania Public Utility Code of the Change of Control of Qwest Communications Company, LLC and For All Other Approval Required Under the Public Utility Code*, Docket No. A-2010-2176733, Order entered October 14, 2010.

recovery opportunity for those amounts. The fact that there are additional revenues in CenturyLink's bank does not eliminate the value of permanently eliminating over \$1.3 million from CenturyLink's bank.

Second, the RD uses the statement of OSBA witness Gillan, claiming that Mr. Gillan's analysis demonstrates that a "quantifiable benefit...as a result of the passage of the TCJA could be estimated...more so than CenturyLink agreeing to forgo banking revenues increases..." RD at p. 23. Mr. Gillan's estimate appears to validate that the benefits provided by the Settlement were commensurate with his "rough measure of reasonableness" of a TCJA benefit to CenturyLink in Pennsylvania.<sup>19</sup> The RD fails to recognize the import of Mr. Gillan's approach.

**C. The proposed Settlement is supported by an evidentiary record and is in the public interest.**

The Commission should approve the proposed Settlement without modification. The Settlement is supported by credible record evidence and is in the public interest.

First, the Settlement would permanently eliminate from CenturyLink's cumulative bank \$473,890 and \$438,621 in revenues, representing the revenue amounts banked in CenturyLink's 2018 and 2019 annual Chapter 30 filings. In addition, when it submits its 2020 annual Chapter 30 Filing on or before September 1, 2020, the Settlement would require CenturyLink not to increase its cumulative bank by the maximum allowed noncompetitive revenue increase from that upcoming filing, an amount which is estimated to range from \$425,000 to \$475,000. The total value associated with these provisions of the Settlement ranges from an estimated \$1.337 million to \$1.387 million. This amount – over \$1.3 million in banked revenues – represents *potential*

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<sup>19</sup> RD at p. 21 Mr. Gillan further stated: "Attempting to create a special, single-use, cost allocation mechanism for this one purpose is impractical, while the core benefit of the settlement – *i.e.*, retail price protection for the next two years – is a valuable concession." OSBA Gillan St. at 3.

*future end user rate increases* that the Settlement forecloses from future recovery. Harper CTL St. at para. 39.

The record further demonstrates that CenturyLink has utilized amounts from its bank in years 2012, 2014, 2015 and 2016 for rate increases. The reduction of banked amounts is a tangible benefit to customers, eliminating over \$1.3 million in potential future rate increases. “That is \$3.89 per month for every basic service residential and business customer” in CenturyLink’s price stability plan.<sup>20</sup> Harper CTL St. at para. 42.

Second, the Settlement is in the public interest because CenturyLink’s customers will enjoy rate stability through mid-December 2021. This occurs because, under the Settlement, CenturyLink has agreed not to increase any noncompetitive rates as part of its 2020 annual Chapter 30 Filing and current noncompetitive services would remain in effect until CenturyLink files its 2021 Chapter 30 Filing (on or before September 1, 2021). This rate stability will benefit nearly 27,000 residential and business basic service customers, E911 providers, 9,000 customers with customer calling features or Caller ID, and many businesses with data circuits. Absent the Settlement, CenturyLink could propose in its upcoming 2020 annual Chapter 30 Filing to raise rates based on the change in GDP-PI and any portion of its cumulated \$10.5 million in banked revenues. Harper CTL St. at para. 40.

Third, the Settlement sets aside contentious and disputed arguments which would have been time consuming and expensive to continue to litigate. While the RD fails to grasp the public interest benefit of avoiding protracted litigation (e.g., RD at p. 25), the Settlement efficiently brings to a reasonable conclusion litigation already spanning a two-year period.

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<sup>20</sup> Confidential Attachment 1 to CenturyLink witness Mr. Harper’s Statement identifies some of the services and the number of customers (demand) that would be impacted by changes in CenturyLink’s price stability mechanism.

Should the RD be adopted, more litigation and more regulatory delay would occur. This result is not in the public interest. The TCJA was signed into law on December 22, 2017, and CenturyLink's annual PSM Filings of 2018 and 2019, have been implicated by the regulatory processes that have ensued in this docket and the Commission's proceeding at Docket Number M-2018-2641242. Meanwhile, CenturyLink's competitors that are not regulated by the Commission are free to conduct business without having to maneuver through the possible imposition of a negative surcharge and having to devote resources to a remand.

Accordingly, resolution to the regulatory delay is in the public interest. The Settlement recognizes the need for resolution and provides for a disposition of contentious legal arguments and claims, while honoring the alternative regulation scheme and CenturyLink's Chapter 30 Plan.

## CONCLUSION

For the reasons set forth above, CenturyLink respectfully submits these Exceptions to the Recommended Decision (“RD”) of Administrative Law Judges Joel H. Cheskis and Benjamin J. Myers and requests that the Commission enter an ORDER:

1. That grants CenturyLink’s Exceptions;
2. That rejects the RD consistent with CenturyLink’s Exceptions;
3. That approves the Joint Petition for Approval of Settlement Agreement (“Settlement”) without modification; and,
4. That takes any other action deemed necessary and proper and in the public interest.

Respectfully submitted,



Zsuzsanna E. Benedek (PA ID#60451)

Associate General Counsel

240 North Third Street, Suite 300

Harrisburg, PA 17101

Telephone: 717-775-3088

[Sue.benedek@centurylink.com](mailto:Sue.benedek@centurylink.com)

*Counsel for The United Company of  
Pennsylvania LLC d/b/a CenturyLink*

Date: June 22, 2020

"ATTACHMENT A"

NON-REDLINED FINAL  
AS FILED MARCH 15, 2005  
AND FURTHER REVISED JUNE 9, 2005

IN THE COMMONWEALTH OF PENNSYLVANIA  
BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF THE UNITED TELEPHONE :  
COMPANY OF PENNSYLVANIA FOR :  
APPROVAL UNDER CHAPTER 30 AND : Docket No. P-00981410  
ACT 183 OF THE PUBLIC UTILITY CODE :  
OF AN ALTERNATIVE REGULATION :  
AND NETWORK MODERNIZATION PLAN :

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**AMENDED**  
**ALTERNATIVE REGULATION PLAN**  
**OF**  
**THE UNITED TELEPHONE COMPANY OF PENNSYLVANIA,**  
**DOING BUSINESS AS "SPRINT"**  
**Revised March 15, 2005**  
**And Further Revised June 9, 2005**

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Dated: Amended March 15, 2005 (Revised Per Commission Order Entered July 16, 1999;  
Amended Pursuant to Act 183 of 2004, as filed on March 15, 2005 and Further Revised  
June 9, 2005.)

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## EXECUTIVE SUMMARY

This Amended Alternative Regulation Plan ("Plan") introduces a state-of-the-art telecommunications network in the service territory of The United Telephone Company of Pennsylvania d/b/a Sprint ("Sprint" or "the Company") and also provides a new regulatory framework for the Company.<sup>1</sup> It is designed to replace entirely rate base/rate of return regulation and procedures. Sprint will operate under a regulatory framework that will allow the Company to meet its customers' telecommunications needs in a more efficient way, while continuing to provide adequate consumer and competitive safeguards.

The Plan has five principal components: (1) a Network Modernization Plan ("NMP"); (2) a Competitive Services Deregulation Plan ("CSP"); (3) a Price Stability Plan ("PSP") for noncompetitive services; (4) commitments regarding quality, safety, adequacy and reliability of service; and (5) commitments arising as a result of Act 183.<sup>2</sup> These five parts of the Plan are interrelated and dependent upon one another.

Part 1 of the Plan is the Network Modernization Plan, which describes the Company's commitment to provide accelerated broadband availability to at least 80% of its total retail access lines in its distribution network by December 31, 2010 and 100% of its total retail access lines in its distribution network by December 31, 2013.

Part 2 of the Plan is the Competitive Services Deregulation Plan, which allows for the deregulation of the rates and earnings of competitive services, but preserves Commission authority over the quality of these services consistent with Act 183. In addition, the CSP

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<sup>1</sup> Sprint 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.*

<sup>2</sup> In addition, Sprint's Plan includes several illustrative attachments, none of which have been modified due to Act 183.

contains safeguards to protect competitors from potential abuses and to mitigate the economic risk of competitive services upon basic ratepayers.

Part 3 of the Plan is the Price Stability Plan, which governs revenue changes for noncompetitive services for the duration of the Plan, as amended to be consistent with Act 183. The PSP also constrains noncompetitive service revenue changes, based on an independent inflation index and Commission review, and provides for interim rate adjustments, as amended to be consistent with Act 183.

Part 4 of the Plan describes Sprint's ongoing obligations and commitments regarding quality, safety, adequacy and reliability of telecommunications services and other business activities. It also describes the reports that the Company will continue to file with the Commission, as amended to be consistent with Act 183.

Finally, Part 5 of the Plan was added as a result of Act 183. Part 5 sets forth the various additional commitments Sprint will undertake pursuant to Act 183 and Sprint's election pursuant to Act 183 options for continuation of Sprint's Commission-approved alternative regulation and network modernization plan, including the implementation of a Bona Fide Retail Request Program (BFRR) and a Business Attraction or Retention Program (BARP).

## **PART 1. NETWORK MODERNIZATION PLAN**

### **A. Introduction**

Sprint's Amended Network Modernization Plan ("NMP") establishes the Company's commitment to modernize its network infrastructure leading to 100% broadband availability by December 31, 2013. Under Act 183 of 2004, Sprint has elected in its NMP, to commit to accelerate 80% broadband availability by December 31, 2010 and 100% broadband availability by December 31, 2013. Among other commitments, Sprint shall be required to offer a Bona Fide Retail Request Program and a Business Attraction or Retention Program within the guidelines of Act 183.

Included in the NMP are details of the network facilities that the Company already has deployed or plans to deploy, descriptions of service capabilities, and examples of the services each network facility will support. The NMP portrays how the existing network infrastructure will evolve to support broadband availability.<sup>3</sup> The Company's network strategy for broadband implementation includes the continued deployment of technologies that will upgrade the existing switching, signaling, interoffice and exchange distribution network to support future, increased bandwidth requirements.

Sprint's NMP relies on digital switching, fiber optics and ADSL/DS1 technology; however, the Company projects that the existing copper distribution network, with the appropriate overlay electronics, will be able to support broadband availability to 100% of small business and residential customers by the year 2013. Sprint cannot predict future technological evolution with any degree of certainty. The NMP, therefore, does not commit the Company to deploying any specific technology for broadband implementation and broadband availability.

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<sup>3</sup> For purposes of this Plan and NMP, "Broadband Availability" is defined as access to broadband service by a retail telephone customer of The United Telephone Company of Pennsylvania d/b/a Sprint. Moreover, "Broadband" is defined as 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.

As future technologies are developed, the Company will modify its infrastructure plans accordingly. Such changes in deployment strategy will be included in periodic updates to the NMP that will be filed with the Commission. Sprint's commitment to Act 183, however, will not change, so long as Act 183 remains in effect.

This NMP outlines Sprint's commitment for broadband availability. It represents the Company's plan to conform to the intent of Act 183 for broadband availability to customers on a demand basis, predicated on standard service arrangements and terms as set forth in the Company's tariffs. As the existing network evolves to support broadband capabilities, customers will benefit from network capabilities as they are made available throughout the time period of the NMP, including services based on the digital network already in place.

The General Assembly in Act 183 found and declared that it was the policy of the Commonwealth to strike a balance between mandated deployment and market driven deployment of broadband facilities and advanced services and to continue alternative regulation. Act 183 requires that a Local Exchange Telecommunications Carrier "shall reasonably balance deployment of its broadband network between rural, urban and suburban areas within its service territory, as those areas are applicable..." 66 Pa.C.S. §3014(k). Sprint has classified each of its exchanges as rural.<sup>4</sup> See Attachment C.

The Company commits to biennial updates to the NMP in compliance with approved PUC filing requirements, with the first report due March 15, 2007 for the Plan Years 2005 and 2006. Absent exceptional circumstances<sup>5</sup>, the Company will commit to meeting its deployment schedule.

Forecasting construction costs is difficult to determine in view of potential changes in technology, the economy and the financial condition of the Company. Thus, while the

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<sup>4</sup> See footnote 1, herein.

<sup>5</sup> Such exceptional circumstances shall be set forth in a petition to the Commission, with all Chapter 30 parties in this proceeding being given notice and the opportunity to respond, and shall be subject to Commission approval.

Company recognizes there will be significant capital required to meet the demands of the NMP, it emphasizes its right to make or change decisions regarding how to fund deployment or as to what technology or services should be used or offered to meet the broadband standard at any given point in time during the life of the NMP. Sprint will make broadband available, within 10 business days of a request, for 80% of its retail customers by December 31, 2010 and for 100% of its retail customers by December 31, 2013.

**B. Digital Switching**

The Company's first digital central office switch was deployed in 1978. The Company's analog switch replacement program continued over the years, culminating in 100% digital central office status in 1996. The Company will continue to modernize its central office plant, as evidenced by the fact that some first generation digital switches already have been replaced with newer technology. Other vintage digital network facilities will be identified for future replacement so that customers will continue to enjoy state-of-the-art digital services throughout the period of the NMP.

**C. Integrated Services Digital Network ("ISDN")**

**1. Basic Rate ISDN ("BRI")**

BRI service provides the capability for simultaneous transmission of voice and data over a single subscriber line. Each BRI line has two 64 kbps bearer ("B") channels and one 16 kbps data ("D") channel. A typical operation would provide for the simultaneous transmission of two voice calls and one data connection. Other options are possible, however. In addition to plain old telephone service ("POTS") calls, BRI can be used for services such as internet access, computer to computer dial-up data telecommunications and facsimile transmission. Basic Rate ISDN service is available for all of Sprint's retail customers in Pennsylvania.

## **2. Primary Rate ISDN ("PRI")**

PRI provides the capability of dial-up voice and data calls on the public switched telephone network. Typically, a PRI line operates at 1.544 Mbps. The line is divided into twenty-four 64 kbps DS-0 channels and is arranged with 23 bearer ("B") channels and one data ("D") channel. There can be various combinations of voice and/or data calls on a PRI line at any given time. These combinations can be reconfigured dynamically by the customer, as needed. A PRI line requires a T-1 (DS-1 equivalent) carrier facility between the customer's location and the Company's PRI serving office. In addition to voice calls, PRI can be used for internet access, video conferencing, facsimile, computer to computer dial-up data communications and mainframe to mainframe computer applications. Primary Rate ISDN service is available to 100% of Sprint's retail customers in Pennsylvania.

## **3. Asynchronous Transfer Mode ("ATM")**

The explosion in demand for new high bandwidth services, such as internet access, company intranets, telecommuting and remote local area network ("LAN") access, is a driving factor in the development of new transmission technology. One of these technologies is Asynchronous Transfer Mode ("ATM"). ATM is a networking technology developed by American National Standards Institute ("ANSI") and Consultative Committee for International Telephone and Telegraph ("CCITT") for a high speed, fixed cell-based network. The ATM network is capable of transporting different types of services--voice, data and video applications--multiplexed over the same bandwidth. With transmission speeds reaching from 1.5 Mbps to the Gigabit per second ("Gbps") range, ATM has the potential to become the universal transmission medium for many future applications. The Company has ATM switching nodes deployed within the existing network.

## **D. Signaling and Intelligent Network**

### **1. Signaling System 7 ("SS7")**

Another important element for migrating the Company's network to broadband capability is SS7. SS7 is a signaling system that overlays the traditional interoffice voice switching network and is an intelligent transport and switching platform that enables internodal features and services to work. The SS7 network requires hardware and software in digital host switches. The SS7 protocol is a 56 kbps packet data network that moves SS7 call management messages from one node to another. The main elements in the SS7 network are Service Switching Points ("SSP"), Signal Transfer Points ("STP") and Service Control Points ("SCP").

The Company's SS7 equipped central offices provide network features and services, such as interoffice trunk setup and teardown capabilities. The SS7 network also provides enhanced subscriber features and services such as Custom Local Area Signaling Services ("CLASS"). All of Sprint's central offices in Pennsylvania have access to and utilize SS7 signaling.

### **2. Intelligent Network ("IN")**

The Intelligent Network uses the SS7 network as a platform to provide network functions in the traditional voice environment. IN is based on SS7 queries and data elements within SS7 messages. Enhanced 800 ("E800") and Line Information Database ("LIDB") services use SS7 to query data bases, (i.e., E800 service queries a database to determine the appropriate interexchange carrier ("IXC") for call routing, and LIDB queries a database to guarantee that billing information is legitimate). The IN also is used to complete data dips for CLASS services. The Company has E800 and LIDB service fully deployed in its network.

The Advanced Intelligent Network ("AIN") is an evolution of the Intelligent Network. Like the IN, AIN uses the capabilities of the SS7 network as a platform to provide network functions. AIN is based on switch trigger software that, when encountered, causes SS7 query messages to be sent to other nodes in the SS7 network. The Company has equipped AIN switch triggers to 100% of its central offices in Pennsylvania.

**E. Interoffice Trunking**

Another important part of the Company's universal broadband availability strategy is the deployment of fiber optic facilities in the interexchange ("IX") network. The Company has aggressively deployed fiber to 100% of its central offices in Pennsylvania. .

**F. Public Schools, Administrative Offices, Industrial Parks and Healthcare Facilities**

The Company has broadband available to all public schools, administrative offices supporting public schools, industrial parks and healthcare facilities<sup>6</sup> in its Pennsylvania service area.

**G. Biennial Updates**

The Company will provide biennial NMP reports on its provision of broadband availability as required by Act 183 and, absent exceptional circumstances, as set forth in footnote 5 above, will meet or exceed its 2010 and 2013 commitment schedules as addressed herein in Part 1, Section A. Biennial reports will be provided on March 15, 2007, March 15, 2009, March 15, 2011, March 15, 2013 and March 15, 2014 for the preceding year-end reporting period.

Such biennial reports shall be submitted in the form and detail required by the Commission as of July 1, 2004,<sup>7</sup> unless such reporting requirements are subsequently reduced

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<sup>6</sup> 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.

<sup>7</sup> 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*

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 Sprint.

#### **H. Failure to Provide Universal Broadband Availability**

Utilizing the biennial NMP reports filed with the Commission by Sprint under Part 1, Section G of this Plan, the Commission shall monitor and enforce Sprint's compliance with the interim (80%) and final (100%) commitments for broadband availability set forth in this Plan. In the event that Sprint 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 commitment, then the Commission shall require Sprint 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 by Sprint 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).

#### **I. Construction**

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

2. Sprint shall be permitted to participate, should they choose to do so, in joint ventures with other entities in meeting advanced services and broadband deployment commitments under this Plan and NMP.

3. Under no circumstances shall Sprint be compelled to publicly release maps or other information describing the actual location of Sprint's facilities.

## **PART 2 - COMPETITIVE SERVICES DEREGULATION PLAN**

The Company's Competitive Services Deregulation Plan ("CSP") allows for the price and earnings deregulation of any services or locations that have been, or may be, found by the Commission to be competitive or declared by the Company to be competitive in accordance with Act 183. The Company may submit future requests to classify services as competitive in accordance with Act 183.

### **A. Competitive Services**

1. The following services are currently competitive and shall continue to be classified as competitive under Chapter 30: Customer premises equipment, inside wire, billing and collection and voicemail. The following services were determined competitive pursuant to Chapter 30: Directory Assistance, Directory Assistance Call Completion and National Directory Assistance and IntraLATA Toll services. The following services were declared competitive by Sprint on February 23, 2005 pursuant to Act 183: directory listings, feature packages, and basic local service bundled with other services.

2. Services not deemed to be competitive under this Plan are classified as "noncompetitive" for purposes of the Price Stability Plan ("PSP").

3. The Commission may not fix or prescribe the rates, tolls, charges, rate structures, rate base, rate of return or earnings of competitive services or otherwise regulate competitive services except as set forth in Act 183.

4. Sprint 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, exchange or group of exchanges, or density cell 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 the filing date where a protest is timely filed, or the petition shall be deemed granted. Sprint 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 Sprint'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, exchange or group of exchanges or density cell 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 the Company.

5. Notwithstanding the provisions of Part 2, Section A, paragraph 5 of this Plan, Sprint 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 Sprint's Network Modernization Plan that was in effect on December 31, 2003 was approved by the Commission, provided that Sprint may not use this declaration process for any service that the Commission previously has reclassified as noncompetitive under either Part 2, Section A, paragraph 6 of this Plan or prior law. A declaration of a retail nonprotected service as competitive shall be effective upon filing by Sprint with the Commission.

6. 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

Sprint, the Office of Consumer Advocate, the Office of Small Business Advocate, and each of the parties to the Commission's proceeding in which Sprint'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 the 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. Sprint shall not use revenues earned or expenses incurred in conjunction with noncompetitive services to subsidize competitive services.
2. 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 66 Pa.C.S. §3016(d). This provision shall not be construed to prevent the marketing and billing of packages containing both noncompetitive and competitive services to customers.
3. The price that the Company charges for competitive services shall not be less than the costs to provide the services. Subject to the foregoing limitation, the Company may price competitive services at the Company's discretion. There is no cross-subsidy between services when the price charged for that service covers its incremental cost. Incremental cost

shall be defined as forward-looking costs directly attributable to the specified service. The price for each of the Company's services deemed to be competitive shall cover its incremental cost. Such cost documentation will be provided only under appropriate proprietary protection.

4. Sprint will perform its own cost studies in order to comply with competitive costing and pricing safeguards addressed herein, and will share those studies with intervenors, if challenged, under appropriate proprietary agreements.

5. Tariffs may not be required to be filed by the Company for ~~future~~ competitive services. At its option, the Company may tariff its rates, subject to the rules and regulations applicable to the provision of competitive services. The Commission may require the Company to maintain price lists with the Commission applicable to competitive services. Price changes that are filed in the Company's tariff for competitive services will go into effect on a one-day notice.

6. Formal challenges to the Company's compliance with the provisions of the CSP can be made only 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. That party, however, bears the burden of proof under 66 Pa.C.S. §332(a). The Commission retains the right to institute proceedings on its own motion, and the Company shall have the burden of proof in those proceedings.

### **PART 3 - PRICE STABILITY PLAN FOR NONCOMPETITIVE SERVICES**

The Company's Price Stability Plan ("PSP") sets forth the principles and procedures applicable to changes in the Company's rates.

The PSP will calculate the allowable change (increase or decrease) in rates for noncompetitive services, equal to 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 events. The PSI changes based upon this formula then are tracked cumulatively after 2001.

The PSP also addresses revenue neutral rate rebalancing/restructuring, the introduction of new services and the banking of price changes.

The PSP in the Plan is a complete replacement of rate base/rate of return regulation for the Company and is the exclusive basis upon which the Company's rates and services will be regulated, upon implementation of this Plan. All tariff filings for noncompetitive services are subject to review under the terms of this Plan. Noncompetitive services are defined as regulated services or business activities that have not been determined or declared to be competitive.

#### **A. Modified Price Stability Mechanism ("PSM")**

1. The Price Stability Index ("PSI") is based upon the Company's rates in effect on October 16, 1998, as a starting point. Those rates are just, reasonable, nondiscriminatory and otherwise fully in compliance with all Pennsylvania laws.

2. Annually the Company will calculate the PSI as follows:

$$PSI_t = PSI_{t-1} \times [1 + \% \Delta \text{ GDP-PI}_{t-1} - 0.0\% \pm Z]$$

When:

$PSI_t$  = The new maximum change in price for the noncompetitive service category for the current twelve month period.

$PSI_{t-1}$  = The current maximum change in price for the noncompetitive service category for the previous twelve month period.<sup>8</sup>

$\% \Delta \text{ GDP-PI}_{t-1}$  = 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 the Company's revenues or expenses as defined in the Plan. In the calculation of the PSI, exogenous changes are expressed as a percentage of the Company's revenue received from intrastate, noncompetitive services.

0.0% = Inflation offset.

An example of how the Price Stability Mechanism will work is attached as Attachment B.

3. The PSI started at 100 upon Commission approval of this Plan in 1999. The PSI remained at 100 through the year 2001. Sprint's first calculation of the PSI was for the annual price cap filing in the year 2002.

4. The Service Price Index ("SPI") is the cumulative price change from current and prior years which tracks the actual total price changes for noncompetitive services. No Company proposed SPI may exceed, on a total intrastate basis, the PSI, except as otherwise

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<sup>8</sup> The PSI relates to the sum of effective rates and units of demand which were realized during the previous twelve-month period. Growth in revenues that occurs as a result of growth in demand, customers, new services or any other source that is unrelated to the PSP formula rate changes already is reflected in the Price Stability Mechanism. Such growth in revenues is solely the productivity gain of the Company and may not be used for any other purpose.

expressly provided in this Plan (e.g., banking of decreases as set forth in Part 3, Section E, paragraph 1. herein).

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

$$SPI_t = SPI_{t-1} [\sum_i V_i (P_t/P_{t-1})]^9$$

When:

- |             |   |  |
|-------------|---|--|
| $SPI_t$     | = | The proposed new SPI value.  |
| $SPI_{t-1}$ | = | The existing SPI value as of the last approved tariff filing.  |
| $P_t$       | = | 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, the demand for the new service during the base period must be included in determining the weights to be used in calculating the SPI.

6. On September 1st of each year (or the closest Commission working day to such date), beginning in 2000, the Company shall file with the Commission a PSI and SPI Report. Each such annual filing may be accompanied by tariffs to implement any required or authorized SPI.

7. The proposed tariffed rates will become effective subject to the Tariff Filing Process set forth below. The Commission shall review the tariff rate change proposals to determine whether they are designed to produce revenues so that the SPI is not greater than the PSI. If the Commission determines that the Company's rate proposals do not comply with this

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<sup>9</sup> If the Department of Commerce should cease reporting 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.

criterion, then the Commission may order the Company to modify them to produce an SPI value which is equal to the PSI. If the Company's proposals comply with this criterion, then the Commission shall approve them subject to the Consumer Protections in Part 3, Section F. herein.

8. The Company's annual PSP will be approved according to the following Tariff Filing Process. The Company will provide fifteen (15) days' advance notice of filing to the Commission and will generally describe the anticipated filing.<sup>10</sup> The Company will provide financial and cost data to the extent required by Act 183. Any and all interventions or complaints shall be due within ten (10) days of such filing. Twenty (20) days shall be reserved for Commission review of recommended decisions, if any, in this process. Responses to interrogatories would be due within ten (10) days of service. A Commission Order must be entered within one hundred five (105) days of the filing; otherwise, the tariff(s) shall become effective as filed, and shall be deemed to be approved. This procedure, as specified in this paragraph, is hereinafter referred to as the "Tariff Filing Process."

9. Notwithstanding any other limitations specified herein, the Company, or any other party, may request that the Commission make special revenue adjustments within the scope of the PSI to recognize significant exogenous events that are outside the Company's control as follows:

- (a) Jurisdictional shifts in cost recovery when interstate revenues actually change;
- (b) Subsequent state or federal regulatory and legislative changes which affect revenues or expenses, to the extent they are not captured in GDP-PI; and

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<sup>10</sup> Notice may be provided to the public through newspaper advertisements, bill inserts or bill messages. Notice also will be served upon the OCA, OSBA, OTS and any other Chapter 30 party, as identified by the Commission's Secretary.

(c) Unique changes in the telephone industry that are not reflected in the overall inflation factor as measured by GDP-PI.

For example, the institution of a universal service fund in Pennsylvania, and any requirement that the Company participate as a contributor, shall be a qualifying exogenous event.

Exogenous revenue changes shall be flowed through on a dollar-for-dollar basis, using the most recent per books 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, and using the most recent per books level of such expense. Results shall be adjusted to recognize the impact of gross receipts taxes. The Tariff Filing Process and Part 3, Section A, paragraph 8 herein shall apply to any such exogenous changes.

#### **B. Rate Restructuring and Rebalancing**

1. The Company restructured its rates during the first year of this Plan for residential and business customers and included touch tone charges as part of basic service rates, eliminated zone charges and multi-party service, consolidated its rate bands to three, and performed other local restructuring on a revenue neutral basis as provided for in Attachment A, attached hereto and incorporated herein by reference.

2. The Company shall be allowed to rebalance its rates in order to reduce Sprint's access rates, including the Carrier Charge,<sup>11</sup> in accordance with Act 183, subject to the following conditions:

- (a) After December 31, 2003, the Company shall be permitted to increase residential local basic service rates above any weighted average rate cap ordered by the Commission if (1) the Commission requires the Company

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<sup>11</sup> See footnote 16, *infra*

to charge a residential local basic service rate in excess of the rate cap in order to receive universal service funding, or (2) the Commission requires the Company to reduce its access rates and the Commission determines that it would be just, reasonable and affordable to increase residential basic service rates to fund all or a portion of such access reduction.

- (b) The Company shall also have the opportunity to petition the Commission to increase or eliminate the aforementioned residential rate cap after December 31, 2003. All parties to the Company's Chapter 30 proceeding will have the opportunity to respond to such a petition.
- (c) The rate rebalancing set forth under the subsections of this Plan was used to reduce the Company's access rates to an effective switched access rate of \$.12 per minute of use. The Company received universal service funding as a result of the Global Telecommunications Settlement. Any other Settlement, or Commission Order, relative to the rate rebalancing set forth under Part 3, Section B. of this Plan was unaffected by such funding. Any universal service funding received by the Company shall be on a revenue neutral basis and shall be used to reduce access rates or to reduce other rates.

3. The Company may file tariffs proposing to rebalance and/or restructure its rates for noncompetitive services, either an increase or a decrease, upon the implementation date of the Plan, as authorized under Act 183. If a proposed tariff would not cause the Company's SPI to exceed the PSI as calculated in the most recent annual filing, then such tariff shall be approved, subject to Part 3, Section F. provided that:

- (a) The SPI is not greater than the PSI except for the banking of decreases;

- (b) Beginning in the year 2002, no other rate restructuring/rebalancing filing has become effective in the same calendar year which affects exchange service rates<sup>12</sup> exclusive of changes made pursuant to the PSI/SPI formula and exogenous events;
- (c) 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 proceeding or any successor docket; and
- (d) In the event that an affordable rate is not established by the Commission, exchange service rates may not exceed the cost of providing such service.

4. The Company may also propose revenue neutral tariff rate changes to implement the results of Commission orders involving generic industry issues.

5. The Company may make rate decreases at any time.

6. The Commission shall review the tariff proposals to determine whether they are within the criteria listed in paragraph 3 above. If the Commission determines that the Company's rate proposals are not within these criteria, then the Commission may order the Company to modify them to produce a tariff which does not exceed these criteria. If the tariff proposals are within the criteria listed in paragraph 3. above, then the Commission shall approve them.

7. The Commission authorized process shall apply to all rate restructuring and rebalancing filings, and the Commission's standards at 66. Pa.C.S. §1308 would apply for any increase above the Commission approved weighted average rate cap for local residential service.

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<sup>12</sup> Exchange service, as defined in Sprint's tariffs, is the general telephone service rendered in accordance with individual Local Exchange Tariff and General Exchange Tariff provisions. See, Tariff Telephone Pa. P.U.C. No. 26, First Revised Page 13, attached hereto as Attachment D.

### **C. Modified Lifeline Service, Link Up Service and Universal Service**

1. The Company provides Lifeline and Link Up programs for qualifying, low-income residential customers, which programs will remain in effect during the Plan. Lifeline service provides qualifying, residential service customers with the applicable residence local service monthly rate, minus the applicable discount in accordance with the approved tariff . The Link Up America program continues in accordance with the approved tariff discount.

2. Sprint also provides Optional Local Measured Service ("LMS") which allows measured calling to all points within the existing non-toll calling area. LMS is an economical way for customers to reduce their exchange service bills. LMS also will remain in effect during the Plan.

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

4. The Company shall be fully qualified to participate as a recipient of any universal service program instituted by the Commission. Nothing in this Plan, or the Company's regulation under Chapter 30, or its successor Act 183, shall disqualify it from full participation in any Pennsylvania or federal universal service programs.

5. 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.

6. Whenever a prospective lifeline customer seeks to subscribe to local telecommunications service, the Company shall explicitly advise the customer of the availability of lifeline service and shall make reasonable efforts, where appropriate, to

determine whether the customer qualifies for such service and, if so, whether the customer wishes to subscribe to the service.

7. The Company 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.

8. The Company 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.

#### **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,"<sup>13</sup> then the Commission's existing regulations for tariff filing requirements at 52 Pa. Code §53.59 shall apply

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

4. Revenues from new noncompetitive 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.

5. Sprint may file special tariffs offering experimental treatment for new services, and such tariffs shall be effective when filed.

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<sup>13</sup> As used in this Plan, the term "Protected Service" shall refer to the following telecommunications services provided by Sprint, 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.

**E. Banking of Annual Price Decreases**

1. After 2001, annual price decreases calculated under the PSI filed on September 1 of each year may be banked for application in future years, not to exceed four (4) consecutive years.<sup>14</sup> Such banking of decreases will be with interest at a rate set forth in 66 Pa. C.S. §1308.
2. The banked price changes must be implemented no more than four (4) years after the annual price change is applied.
3. If a decrease is greater than \$500,000, the Company will implement the decrease immediately.

**F. Consumer Protections**

1. Nothing in this Plan shall be construed to limit the requirement of section 1301 (relating to rates to be just and reasonable) that rates shall be just and reasonable. The annual rate change limitations set forth in Sprint's Plan or any other Commission-approved annual rate change limitation shall remain applicable and shall be deemed just and reasonable under section 1301.
2. Financial and cost data, as authorized by Act 183, shall be provided for all rate increase proposals for protected services, except those provided under Section B, paragraph 2 above.

**G. Other Act 183 Provisions**

1. The Company, at its discretion, may offer and bill to customers on one bill bundled packages of services which include non-tariffed, competitive, noncompetitive or protected services, including services of an affiliate, in combinations and at a single price

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<sup>14</sup> For annual price increases, the Company may apply them in future years, without limitation as to time.

selected by the Company. The Company may file an informational tariff for a bundled package effective on a one day notice.

2. When an alternative service provider is offering local exchange telecommunications services within an exchange of the Company, Sprint may reduce its prices on services offered within the exchange below the rates set forth in its otherwise applicable tariff in order to meet such competition. The Company may not offset revenue reductions resulting from such competitive pricing by increasing rates charged to other customers through its price stability mechanism or otherwise.

3. The Commission may not require Sprint to reduce access rates<sup>15</sup> except on a revenue-neutral basis to Sprint.

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

5. The Commission retains the authority to ensure that Sprint does not make or impose unreasonable preferences, discriminations or classifications for protected services and other noncompetitive services.

6. The Commission shall retain the power to review and revise quality of service standards contained in 52 Pa. Code (relating to public utilities) that address the safety, adequacy, reliability and privacy of telecommunications services and the ordering, installation, suspension, termination and restoration of any telecommunications service. Any review or revision shall take into consideration the emergence of new industry participants, technological advancements, service standards and consumer demand.

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<sup>15</sup> 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 Sprint'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.

## **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 66 Pa. C.S. §1501, et seq., regarding safety, adequacy and reliability of telecommunications services. See, 66 Pa.C.S. §3019(b)(2).

2. The Company will continue to monitor service quality for noncompetitive services in compliance with Act 183. 66 Pa.C.S. §3019(b)(2).

3. The Company will comply with the Commission's Extended Area Service ("EAS") regulations, as revised by the Universal Service task force, on an interim basis. The Company may petition for waivers from those regulations as needed and can petition for an automatic waiver if a waiver is granted to a similarly situated company.

The Company will continue to provide EAS on required routes, will continue to regroup exchanges as appropriate and will be allowed to implement EAS-related rate increases, subject to restrictions in Section B, paragraph 2 above on Rate Rebalancing.

4. The Company will file affiliated interest agreements, in accordance with 66 Pa. C.S. §2101, et seq., unless such agreements involve services found or declared to be competitive in accordance with this Plan. The filings shall constitute notice to the Commission only and shall not require approval by the Commission. Review of the associated costs and benefits shall be deemed to be unnecessary. The Commission may seek information necessary to audit Sprint's accounting and reporting systems with affiliates pursuant to 66 Pa.C.S. §2101 et seq. (relating to relations with affiliated interests) and as set forth in Part 4, Section B, paragraph 2 of this Plan.

5. The Company shall continue to comply with Chapter 63 and 64 of the Commission's regulations as amended from time to time. The Company reserves the right to

petition for waivers of those regulations and to petition for an automatic waiver if it is granted to a similarly situated company.

6. 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.

7. In the event that the Company effects a change either to 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, then the Company will request permission from the Commission to establish booked amounts for depreciation at that time.

8. In the event that Sprint applies to the Commission for the sale, merger, acquisition or other transaction required to be approved under 66 Pa.C.S. §1102(a)(3) of another local telecommunications company or any facilities used to provide telecommunications services, Sprint 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.

9. The terms of this Plan relating to access charges are subject to modifications resulting from the Generic Access Charge Investigation and the Global proceedings, Docket Nos. I-00960066, P-00991648 and P-00991649, as well as any other applicable final Commission order(s) entered, or to be entered, after the foregoing named proceedings.

10. The Company has complied, to the extent applicable to it, with the resolution of Docket Nos. L-00990141 and M-00960799, relating to imputation requirements for intraLATA toll services.

## **B. Reporting Requirements**

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

- (i) The Network Modernization Plan Report filed pursuant to Part 1 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 Surcharge ("STAS") computation for years in which a tax change has occurred, if applicable.<sup>16</sup>
- (ix) A bona fide retail request report in the form determined by the Commission.

2. Notwithstanding any other provision of the Public Utility Code (Title 66), no report, statement, filing or other document or information, except as specified in Part 4, Section B, paragraph 1 of this Plan, shall be required of Sprint, unless the Commission, upon notice to

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<sup>16</sup> This includes the State Tax Adjustment Surcharge (STAS) tariff filings pursuant to Commission STAS 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.

Sprint and an opportunity to be heard has first made specific written findings supporting conclusions in an entered order that: (i) it is necessary to ensure that Sprint is charging rates that are in compliance with Chapter 30 of the Public Utility Code (66 PA.C.S. §3011 et seq.) and their effective alternative form of regulation; and (ii) the benefits substantially outweigh the attendant expense and administrative time and effort required of Sprint to prepare it.

**C. Term of the Plan**

1. The legislation underlying the original Plan had a sunset date of December 31, 2003.. The amendments to this Plan are submitted pursuant to Act 183. Act 183 does not have a sunset date.

2. 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, the Company retains the right to withdraw from the Plan.

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

4. The terms of Sprint's Plan and NMP shall govern the regulation of Sprint and, consistent with the provisions of Act 183, shall supersede any conflicting provisions of Title 66 or other laws of the Commonwealth and shall specifically supersede 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 or production) and §1312 (relating to refunds).

#### **D. Miscellaneous**

1. Except as otherwise provided in 66 Pa.C.S. §3019(d), Sprint may not disclose to any person information relating to any customer's patterns of use, equipment and network information and any accumulated records about customers with the exception of name, address and telephone number. Sprint may disclose such information: (i) pursuant to court order or where otherwise required by federal or state law; (ii) to its affiliates, agents, contractors or vendors and other telecommunications carriers, as permitted by federal or state law; (iii) where the information consists of data which does not identify individual customers.

### **PART 5 - ADDITIONAL ACT 183 COMMITMENTS**

#### **A. Bona Fide Retail Request Program**

No later than 90 days after the effective date of its amended Plan, the Company will implement a Bona Fide Retail Request ("BFRR") program in areas where it does not provide broadband. The Company's BFRR program will be implemented in accordance with the Company's written description of the program, to be filed with the Commission and provided to the Department of Community and Economic Development, not later than 30 days in advance of program implementation. The Company's BFRR filing, along with the applicable requirements set forth in Act 183, shall govern Sprint's implementation of a BFRR program.

#### **B. Business Attraction or Retention Program**

1. No later than 90 days after the effective date of its network modernization plan, Sprint shall establish a Business Attraction or Retention Program ("BARP") to permit the Department of Community and Economic Development ("DCED") to aggregate customer demand where necessary and facilitate the deployment of advanced or broadband services to

qualifying businesses which DCED seeks to attract to or retain in this Commonwealth and whose requests for such services are submitted by or through DCED.

2. The Company's participation in DCED's Business Attraction or Retention Program shall continue through December 31, 2015, or such earlier date as the Company achieves 100% broadband availability throughout its service territory.

**C. Broadband Outreach and Aggregation Fund and Education Technology Program**

1. The Company shall be assessed by the Commission for contribution to a Broadband Outreach and Aggregation Fund ("BOAF") and to the Education Technology Fund ("E-Fund") an amount of 20% of the first year's annual revenue effect of any rate increase permitted by the elimination or reduction of the offset under 66 Pa.C.S. §3015(a) and placed into effect. For purposes of this paragraph, the term "first year's annual revenue effect" means the projected or actual increased revenues received by the Company during the one-year period from the effective date of its rate increase. The Commission shall begin the assessments provided for in this paragraph on June 30, 2005, and thereafter shall make such assessments annually on June 30 until June 30, 2010, for assessments that include amounts for the BOAF and the E-Fund and until June 30, 2015, for assessments that include amounts for only the BOAF. Each assessment shall be based on the first year's annual revenue effect of any covered rate increase effective after the date of the last annual assessment.

2. An amount not to exceed 50% of such assessment shall be allocated to the BOAF. The remainder of the assessment shall be allocated to the E-Fund provided for under 66 Pa.C.S. §3015(d) until its termination on June 30, 2011. After the E-Fund termination, the maximum assessment percentage shall be reduced from 20% to 10%, and contributions shall be made only to the BOAF until the Company achieves 100% broadband availability.

Contributions of allocated amounts shall be paid to the BOAF and the E-Fund by the Company in equal quarterly installments.

3. In the event of overfunding in excess of the total BOAF amount, the overcollection shall be credited by DCED to the next year's contribution amount.

4. The BOAF shall continue until July 1, 2016, at which time the BOAF shall terminate, and DCED shall return any funds remaining in the BOAF, on a pro rata basis, to the local exchange telecommunications companies that contributed to the BOAF.

5. The E-Fund shall continue until June 30, 2011, at which time the E-Fund shall terminate and the Department of Education shall return any funds remaining therein, on a pro rata basis, to the local exchange telecommunications companies that contributed to the E-Fund.

#### **D. Broadband School Discount**

1. The Company shall offer school customers<sup>17</sup> in its service territory, that meet the eligibility standards described in 47 CFR §54.501 (relating to eligibility for services provided by telecommunications carriers) and that agree to enter into a minimum three-year contract with Sprint for telecommunications services, a 30% discount (or greater discount at the Company's discretion), in the otherwise applicable tariffed distance sensitive per-mile rate element and also will waive the associated nonrecurring charges for available intrastate broadband services where the telecommunications services are 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.

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<sup>17</sup> As used in Part 5, Section E, paragraph 1 of this Plan, 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 12<sup>th</sup> grade.

2. The Company will assist school customers in applying for e-rate funding under 47 CFR § 54.505 (relating to discounts).

**E. Assistance To Political Subdivisions**

Sprint commits to make technical assistance available to political subdivisions<sup>18</sup> located in its service territory, in pursuing the deployment of additional telecommunications infrastructure or services provided by Sprint.

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<sup>18</sup> “political subdivision” is defined as any county, city, borough, incorporated town, township, municipality, municipal authority, or county institution district.

# Pennsylvania Rate Rebalancing

## Attachment A

## Summary

Year 0  
Roll In Touch Tone and Zone Charges; Eliminate Multi-Party Service; Consolidate Rate Bands

Description	Revenue Per Line	Revenue Per Line	Base Revenues	Proposed Revenues	Revenue Impact	Comments
<b>Touch Tone</b>						
Rotary			583,149	0	(503,149)	Roll In
Residential			2,152,021	0	(2,152,021)	Roll In
Business			811,507	0	(811,507)	Roll In
<b>Total Touch Tone</b>			<b>3,546,677</b>	<b>0</b>	<b>(3,546,677)</b>	
<b>Zone Charges</b>						
			2,939,289	0	(2,939,289)	Roll In
<b>Access</b>						
			68,515,225	68,515,225	0	
<b>BASIC LOCAL SERVICES</b>						
<b>Residential</b>						
One Party	10.00	11.33	33,706,962	30,295,554	4,490,592	Consolidate rate bands
Two Party	7.91	11.23	192,751	273,430	80,607	Eliminate; Consolidate rate bands
Four Party	6.37	11.20	194,313	341,500	147,267	Eliminate; Consolidate rate bands
Measured (75%)	7.57	8.53	147,931	166,812	18,681	Consolidate rate bands
Measured (60%)	5.89	6.73	229,756	262,483	32,727	Consolidate rate bands
Rotary	15.02	15.08	18,209	19,368	1,159	Consolidate rate bands
<b>Total Residential</b>			<b>34,579,922</b>	<b>39,359,035</b>	<b>4,779,113</b>	
<b>Business</b>						
One Party	20.25	22.46	11,819,471	13,090,397	1,270,926	Consolidate rate bands
Two Party	16.68	22.75	3,003	4,095	1,092	Eliminate; Consolidate rate bands
Four Party	12.18	21.55	5,665	10,020	4,355	Eliminate; Consolidate rate bands
Measured (60%)	12.16	13.48	200,143	221,827	21,604	Consolidate rate bands
Rotary - Measured (60%)	23.12	25.06	181,472	196,668	15,194	Consolidate rate bands
Key Rotary	32.44	34.58	6,553,294	6,987,327	434,033	Consolidate rate bands
PBX Trunk	20.33	22.43	160,762	177,348	16,586	Consolidate rate bands
PBX Trunk - Rotary	35.18	34.64	3,698,273	3,641,256	(57,017)	Consolidate rate bands
<b>Total Business</b>			<b>22,622,003</b>	<b>24,328,938</b>	<b>1,706,853</b>	
<b>Total Basic Local Services and Access</b>			<b>132,203,196</b>	<b>132,203,196</b>		

# Pennsylvania Rate Rebalancing

## Summary

Year 0

Residential Increased by \$1.00 / Business Increased by \$.50 / Implement PBX Differential / Other Rebalancing

Description	Revenue Per Line	Revenue Per Line	Base Revenues	Proposed Revenues	Revenue Impact	Comments
<b>Touch Tone</b>						
Rotary			0	0	0	
Residential			0	0	0	
Business			0	0	0	
<b>Total Touch Tone</b>			<u>0</u>	<u>0</u>	<u>0</u>	
<b>Zone Charges</b>			0	0	0	
<b>Access</b>			66,515,225	60,877,195	(7,638,031)	Reduced from .152542 to .135965
<b>BASIC LOCAL SERVICES</b>						
<b>Residential</b>						
Combined One Party	11.33	12.33	30,912,404	42,345,449	3,432,905	Increase by \$1.00
Measured (75%)	8.53	9.28	166,612	181,273	14,661	
Measured (80%)	6.73	7.33	202,483	285,897	23,414	
Rotary	15.98	15.98	19,368	19,368	-	
<b>Total Residential</b>			<u>39,360,947</u>	<u>42,831,907</u>	<u>3,471,040</u>	
<b>Business</b>						
Combined One Party	22.48	22.98	13,104,513	13,398,823	292,110	Increase by \$.50
Measured (80%)	13.48	13.78	221,827	226,768	4,939	
Rotary - Measured (80%)	25.08	25.08	196,666	196,666	-	
Key Rotary	34.58	34.58	6,987,327	6,987,327	-	
PBX Trunk	22.43	34.39	177,348	271,953	94,605	1.5 X B1
PBX Trunk - Rotary	34.64	48.73	3,641,258	4,912,832	1,271,376	1.5 X B1 plus Rotary addor of \$11.95
<b>Total Business</b>			<u>24,328,937</u>	<u>25,991,907</u>	<u>1,663,030</u>	
<b>Total Basic Local Services and Access</b>			<b>132,205,109</b>	<b>129,701,149</b>	<b>(2,503,961)</b>	
<b>Custom Calling Features</b>			9,342,581	11,381,030	2,040,449	
IntraLATA MTS/Sprint Sense			30,898,005	30,558,058	(340,629)	
DigiLink Private Line			4,413,314	4,784,453	371,139	
Directory Assistance			545,000	970,001	425,001	
<b>Total Services</b>			<b>176,857,689</b>	<b>176,432,688</b>	<b>-</b>	

# Pennsylvania Rate Rebalancing

## Summary

Year 1

Residential Increased by \$1.00 / Business Increased by \$.50

Description	Revenue Per Line	Revenue Per Line	Base Revenues	Proposed Revenues	Revenue Impact	Comments
<b>Touch Tone</b>						
Rotary			0	0	0	
Residential			0	0	0	
Business			0	0	0	
Total Touch Tone			0	0	0	
<b>Zone Charges</b>						
			0	0	0	
<b>Access</b>						
			60,904,914	62,927,263	(4,037,651)	Reduced from .135965 to .127705
<b>BASIC LOCAL SERVICES</b>						
<b>Residential</b>						
Combined One Party	12.33	13.33	44,463,371	48,060,132	3,596,761	Increase by \$1.00
Measured (75%)	9.20	10.03	190,337	205,731	15,394	
Measured (60%)	7.33	7.93	300,192	324,777	24,585	
Rotary	15.98	15.98	20,336	20,336	-	
Total Residential			44,974,236	48,610,976	3,636,740	
<b>Business</b>						
Combined One Party	22.96	23.46	14,066,454	14,373,169	306,715	Increase by \$.50
Measured (80%)	13.78	14.00	238,105	243,291	5,186	
Rotary - Measured (60%)	25.06	25.06	200,499	200,499	-	
Key Rotary	34.58	34.58	7,336,693	7,336,693	-	
PBX Trunk	34.39	35.14	285,551	291,779	6,228	
PBX Trunk - Rotary	46.73	47.48	5,158,263	5,241,045	82,782	
Total Business			27,291,565	27,692,476	400,911	
<b>Total Basic Local Services and Access</b>			139,230,715	139,230,715	-	

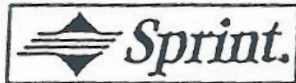
# Pennsylvania Rate Rebalancing

## Summary

Year 2

Residential Increased by \$1.00 / Business Increased by \$.50

Description	Revenue Per Line	Revenue Per Line	Base Revenues	Proposed Revenues	Revenue Impact	Comments
<b>Touch Tone</b>						
Rotary			0	0	0	
Residential			0	0	0	
Business			0	0	0	
Total Touch Tone			0	0	0	
<b>Zone Charges</b>			0	0	0	
<b>Access</b>			69,219,909	64,995,227	(4,224,762)	Reduced from .127765 to .119005
<b>BASIC LOCAL SERVICES</b>						
<b>Residential</b>						
Combined One Party	13.33	14.33	50,357,017	54,120,493	3,702,070	Increase by \$1.00
Measured (75%)	10.03	10.78	215,527	231,655	16,128	
Measured (60%)	7.93	8.53	310,243	365,999	25,756	
Rotary	15.98	15.98	21,304	21,304	-	
Total Residential			60,934,891	64,739,451	3,004,760	
<b>Business</b>						
Combined One Party	23.48	23.98	15,057,608	15,378,927	321,321	Increase by \$.50
Measured (60%)	14.08	14.38	254,878	260,309	5,433	
Rotary - Measured (60%)	25.08	25.08	218,333	218,333	-	
Key Rotary	34.58	34.58	7,606,060	7,606,060	-	
PBX Trunk	35.14	35.89	305,673	312,197	6,524	
PBX Trunk - Rotary	47.48	48.23	5,490,619	5,577,343	86,724	
Total Business			29,011,167	29,431,169	420,002	
<b>Total Basic Local Services and Access</b>			149,165,847	149,165,847	-	



PRICE STABILITY MECHANISM

Price Stability Index (PSI) Calculation

Definition: Aggregate price cap for all non-competitive services.

Formula:  $PSI_t = PSI_{t-1} \times [1 + \%change\ GDP-Pi_{t-1} - Productivity\ Offset +/- Z]$

1	GDP-Pi <sub>t</sub>	6 months prior to annual filing	112.50
2	GDP-Pi <sub>t-1</sub>	18 months prior to annual filing	111.00
3	Productivity Offset		1.10%
4	Z		0.00%
5	PSI <sub>t-1</sub>		100.00
6	PSI <sub>t</sub>	$[Ln5(1.0+((Ln1-Ln2)/Ln2)-Ln3+Ln4)]$	100.25

Service Price Index (SPI) Calculation

Definition: Measure of cumulative price changes.

Formula:  $SPI_t = SPI_{t-1} [\sum V_i (P_t / P_{t-1})]$

Service Offering	Quantity	Current Price	Proposed Price	Current Revenue	Proposed Revenue	Current SPI	Proposed SPI
	A	B	C	D = A*B	E = A*C	F = (D/sumD)*PSL <sub>t</sub>	G = (C/B)*F
	t	P <sub>t-1</sub>	P <sub>t</sub>	t	t	V <sub>i</sub>	V <sub>i</sub> (P <sub>t</sub> /P <sub>t-1</sub> )
1	1,000	\$10.00	\$9.50	\$120,000	\$114,000	1.88	1.79
2	250	\$15.00	\$14.00	\$45,000	\$42,000	0.70	0.66
3	100	\$18.00	\$17.00	\$21,600	\$20,400	0.34	0.32
4	15	\$8.00	\$8.00	\$1,440	\$1,440	0.02	0.02
5	2,250	\$0.35	\$0.30	\$9,450	\$8,100	0.15	0.13
6	5,000	\$5.00	\$5.40	\$300,000	\$324,000	4.70	5.07
7	875	\$100.00	\$97.60	\$1,050,000	\$1,024,800	16.44	16.05
8	1,250	\$2.50	\$1.53	\$37,500	\$22,950	0.59	0.36
9	40,000	\$10.00	\$10.09	\$4,800,000	\$4,843,200	75.18	75.85

sum V<sub>i</sub>(P<sub>t</sub>/P<sub>t-1</sub>) \$6,384,990 \$6,400,890 100.00 100.25

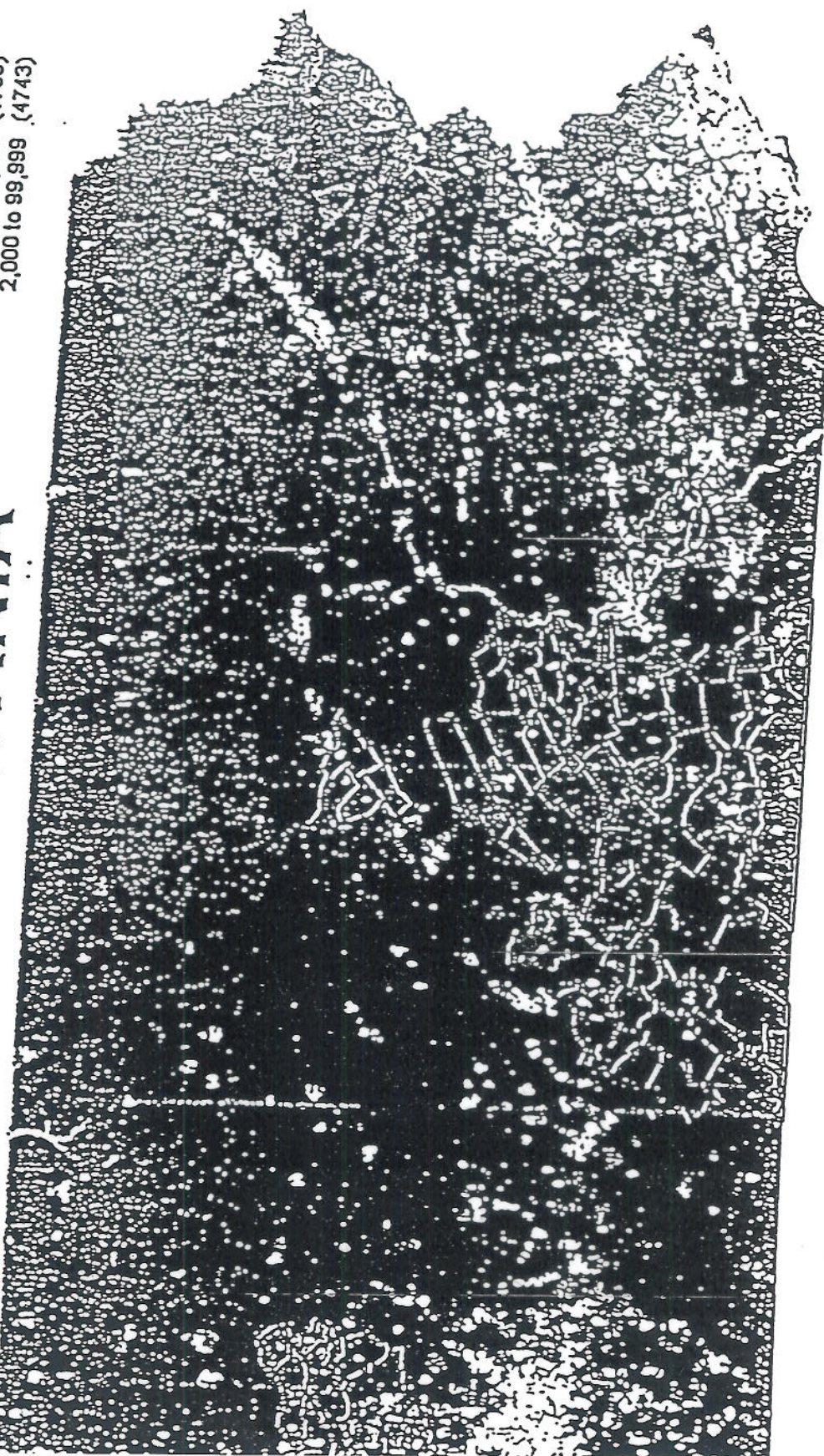
7	SPI <sub>t-1</sub>	100.00
9	SPI <sub>t</sub>	100.25
11	PSI <sub>t</sub>	100.25
13	SPI <sub>t</sub> less PSI <sub>t</sub>	0.00

Price Stability Plan requirements are met if (SPI<sub>t</sub> less PSI<sub>t</sub>) is less than or equal to 0.00

HOUSING UNITS / SQUARE MILE

0 to 100	(2559)
100 to 500	(1584)
500 to 1,000	(1207)
1,000 to 2,000	(1769)
2,000 to 99,999	(4743)

# PENNSYLVANIA



The United Telephone  
Company of Pennsylvania

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EXPLANATION OF TERMS (Continued)

DATA ACCESS ARRANGEMENT

The term "data access arrangement" denotes a protective connecting arrangement for use with the network control signaling unit, or in lieu of the connecting arrangement, an arrangement for use with the network control signaling unit to identify a central office line and protective facilities and procedures to determine compliance with criteria set forth in this Section of the tariff.

DIRECT CURRENT SUPPLY

Electrical energy for talking and signaling purposes, other than ringing.

DIRECT ELECTRICAL CONNECTION

A physical connection of the electrical conductors in the communications path.

EXCHANGE SERVICE

The general telephone service rendered in accordance with individual Local Exchange Tariff and General Exchange Tariff provisions. Exchange service is a general term describing the facilities together with the right to send and receive a specified or an unlimited number of local messages at charges in accordance with the provisions of the Local or General Exchange Tariffs.

- (a) Extension Service: A classification of exchange service that is connected on the same central office access line as main service. Extension instruments are provided by the customer.
- (b) Flat Rate Service: A classification of exchange service furnished a subscriber under tariff provisions, for which a stipulated charge is made, regardless of the amount of use.
- (c) Foreign Exchange Service: A classification of exchange service furnished under tariff provisions by means of a circuit connecting a subscriber's main service with a central office of an exchange other than that which regularly services the exchange area in which the subscriber is located.
- (d) Individual Line Service: A classification of exchange service furnished under tariff provisions which provide that only one main service shall be served by the circuit connecting such service with the central office.

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EXPLANATION OF TERMS (Continued)

EXCHANGE SERVICE (Continued)

(e) Party Line Service: A classification of exchange service furnished under tariff provisions which provide that two but no more than four main services may be served by the same central office circuit.

(C)

(f) Pay Telephone Line Service (PTL): Pay Telephone Line Service is one-party exchange service for use by pay telephone providers, location owners and interexchange carriers and is furnished solely for connection with coin, coinless or combination coin/coinless pay telephone equipment to the Telephone Company's network.

(C)

(g) U-Touch Calling Service: A classification of exchange service furnished from central offices whereby calls are originated through the use of push buttons in lieu of a rotary dial.

GRANDFATHERED SERVICE

Any service that has been grandfathered is considered to be obsolete as of the grandfathered date. Only those customers who had the service at the time it was grandfathered can continue with the service and only if they remain at the same location and make no changes to the existing account. Upon any customer initiated change to their account, the grandfathered service will no longer be available to the customer. Such changes include but are not limited to: physical address changes, addition of services, change of responsibility, discontinuance of service, or any other changes requiring service orders.

NETWORK CONTROL SIGNALING

The term "Network Control Signaling" denotes the transmission of signals used in the Telephone Company's exchange facilities which perform functions such as supervision (control, status, and charging signals), address signaling (dialing), calling and called number identification, audible tone signals (call progress