VERIZON
STATEMENT NO. 1.0

INVESTIGATION REGARDING INTRASTATE ACCESS CHARGES AND INTRALATA TOLL RATES OF RURAL CARRIERS, AND THE PENNSYLVANIA UNIVERSAL SERVICE FUND

DOCKET NO.
I-00040105

VERIZON

STATEMENT NO. 1.0

(DIRECT TESTIMONY)

WITNESS: Don Price

DATED: December 10, 2008

EXPURGATED VERSION

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I. INTRODUCTION AND BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

Q. PLEASE BRIEFLY OUTLINE YOUR EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY AND YOUR EDUCATIONAL BACKGROUND.

A. I have 30 years of experience in telecommunications, most of which is in the area of public policy. During my career, I have been in the employ of an incumbent local exchange carrier, a state regulator, and an entity operating as an interexchange carrier and a competitive LEC. For the past 22 years, my job responsibilities have focused on policy issues relating to telecommunications competition. I have testified in at least 24 states in commission proceedings on a wide range of policy and business issues related to access charges, interconnection, and other competition-related matters on behalf of Verizon Business (and previously MCI). In addition, I help develop Verizon Business' policy positions on various issues, and I work closely with many different organizations, including those involved with the products Verizon Business sells and those who engineer and construct Verizon Business's networks.

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

II. PURPOSE OF TESTIMONY

Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS TESTIMONY?

A. I am submitting this testimony on behalf of Verizon Pennsylvania Inc. ("Verizon PA"), Verizon North Inc. ("Verizon North") and MCImetro Access Transmission Services LLC d/b/a Verizon Access Transmission Services (collectively "Verizon").[1]

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide relevant factual background and to outline Verizon's position on the issues set for investigation in the Pennsylvania Public Utility Commission's ("PUC") April 24, 2008 Order in this matter.

Q. WHAT ISSUES DID THE PUC SET FOR INVESTIGATION IN ITS APRIL 24, 2008 ORDER?

A. The PUC reopened this investigation on a limited basis to address two general issues: (1) The existence and potential alteration of any "caps" on the residential and business monthly service rates of the rural incumbent local exchange carriers ("RLECs");[2] and (2) potential increases or decreases in funding provided to RLECs from the Pennsylvania Universal Service Fund ("USF"). In particular, the PUC

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[1] To the extent that they intervene in this investigation, my testimony will also be on behalf of any other Verizon entities, such as Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance and MCI Communications Services, Inc. d/b/a Verizon Business Services.

[2] The RLECs are individually identified by name in Price Direct Table 1, attached to this testimony.

wished to examine whether it can and should preclude RLECs from increasing their basic residential and/or business rates over a particular rate level (*i.e.*, a rate cap) in the context of implementing the revenue increase permitted under inflation-based formulas of their Chapter 30 alternative regulation plans. If so, then the PUC wished to consider whether, and if so under what limitations, an RLEC whose rates are at the "cap" levels should be permitted to obtain increased USF subsidies funded by other carriers to provide the inflation-based revenue increase instead of collecting the revenue from its own end-users through noncompetitive service rate increases or banking the opportunity for future use.

Q. PLEASE SUMMARIZE VERIZON'S POSITION ON THE ISSUES UNDER INVESTIGATION.

A. The RLECs should not be permitted to implement their annual alternative regulation rate increases on the backs of other carriers by funding them through increased USF subsidies instead of rate increases to their own retail end users. In today's competitive environment, the PUC should be working to ***decrease*** the enormous flow of revenues from other PUC-regulated carriers to the RLECs, not to increase that flow with new or increased "subsidies"[3]--particularly where the RLECs have failed to make any demonstration of "need" for subsidies. Further, I demonstrate that in many cases the RLECs are not small "mom and pop" telephone companies, but rather affiliates of large, sophisticated communications providers that are well able to thrive without undue subsidies by their competitors.

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[3] I am not using the term subsidies here in the economic sense, but rather in the same sense used by the PUC in its prior orders.

With regard to the specific issues to be addressed in this portion of the investigation, the PUC should ***not*** introduce a whole new system of subsidies by requiring other carriers (through the USF) to fund the RLECs' annual revenue increases under their alternative regulation plans. Rather, the PUC should look to reduce and eventually eliminate the Pennsylvania USF. Further, in connection with their annual inflation-based revenue increases permitted by their alternative regulation plans, the PUC should not impose any blanket "cap" on the RLECs' ability to raise their retail rates, but rather should consider the justness and reasonability of the rates on a case-by-case basis if and when an individual RLEC proposes to increase rates to a level that is of concern to the PUC.

Finally, I recognize that the PUC has made a considered decision to omit the question of access reductions from this phase of the investigation and I do not intend to argue that issue here. However, much like both sides of a coin are parts of the whole, any discussion of the issue of reforming RLEC subsidies must at least acknowledge that there must also eventually be a reduction in excessive RLEC access charges so that they approach those of Verizon and other carriers. Most RLECs are already receiving large subsidies from other carriers through those rates, without even considering additional subsidies through the USF, a fact that the PUC cannot ignore when evaluating the prospect of forcing even more subsidization. The PUC has determined at this time to maintain the *status quo* with regard to RLEC access rates as it awaits FCC action on the issue. There should be no increase in other subsidy avenues such as the USF while the RLECs' access rates continue to go unexamined.

III. RELEVANT BACKGROUND OF THE USF AND RATE CAPS

Q. WHAT WAS THE ORIGIN OF THE STATE USF AND THE RATE CAPS THAT ARE AT ISSUE IN THIS INVESTIGATION?

A. The USF and the rate caps are interrelated. Both were originally approved by the PUC for the specific purpose of reducing RLEC access and toll rates. Specifically, RLECs were permitted to increase retail rates up to a certain level and/or to obtain USF subsidies to offset the reduced revenues from agreed-upon access and toll reductions, so that their overall revenues remained approximately the same.

It is therefore impossible to fully understand the development and purpose of the rate caps and USF without first understanding some of the history surrounding the PUC's regulation of RLEC switched access rates. Switched access rates are rates charged to other telephone carriers to carry non-local calls destined to or originating from the charging company's local service customers. For example, an RLEC would charge Verizon for switched access if a Verizon customer placed a toll call to the RLEC's local service customer (terminating access) or if Verizon were the long distance carrier for the RLEC's local service customer (originating access). Verizon (just like other local exchange carriers and interexchange carriers) has no choice but to pay the RLECs' excessive access rates because it must deliver calls placed to the RLECs' end users.[4] Switched access is therefore designated as a "protected service" and a "non-competitive service" as those terms are used in Chapter 30 of the Public

[4] *See, e.g., Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers; Low-Volume Long Distance Users; Federal-State Joint Board On Universal Service*, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1 (*CLEC Rate Cap Order)* (discussing "the unique difficulties presented by the case of terminating access, where the called party is the one that chooses the access provider, but it neither pays for terminating access service, nor does it pay for, or choose to place, the call.")

Utility Code. 66 Pa. C.S. § 3012. Historically, the PUC's ratemaking policy allowed local exchange rates to be "subsidized by access charges which are well in excess of their costs," so that access rates paid for by interexchange carriers and other local exchange carriers "performed the duty of an implicit 'universal service fund' in Pennsylvania."[5]

In recent years, however, the PUC, the FCC and other regulatory agencies have recognized that excessively priced access rates must be reduced. As the FCC has observed, economically efficient competition and the consumer benefits it yields cannot be achieved as long as carriers seek to recover a disproportionate share of their costs from other carriers, rather than from their own end users.[6] The FCC emphasized that such irrational access rate structures "lead to inefficient and undesirable economic behavior." *CALLS Order*, ¶ 129. Inefficient rate structures among carriers will have anti-consumer effects such as suppressing demand for the services of other carriers that must bear the costs and reducing incentives for local entry by firms that might be able to provide service more efficiently than the exchange carrier that is collecting excessive access fees. *Id.*, ¶ 114. By raising the price of a necessary input to other carriers, the cost, and therefore price, of those carriers' services are artificially elevated. Not only do such price distortions lead to allocative inefficiencies, but the result also distorts competitive outcomes.

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[5] *Joint Petition of Nextlink Pennsylvania, Inc.*, Docket Nos. P-00991648; P-00991649, 196 P.U.R.4th 172, slip op. at 13-14, n. 8 (Pa. PUC 1999) ("*Global Order*"), *aff'd Bell Atlantic-Pennsylvania, Inc. v. PUC*, 763 A.2d 440 (Pa. Cmwlth 2000), *vacated in part sub nom MCI Worldcom Inc. v. PUC*, 844 A.2d 1239 (Pa. 2004).

[6] *See generally CLEC Rate Cap Order*; Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, 15 FCC Rcd 12962 (May 31, 2000) ("*CALLS Order*").

With regard to intrastate access rates in Pennsylvania, Verizon's local exchange carriers and most competitive local exchange carriers now charge rates that are comparatively much lower than those of most RLECs.[7] However, many RLECs still maintain very high access rates that continue to serve as a source of implicit subsidies paid by other telephone carriers or, more precisely, their end user customers.[8] For at least ten years the PUC's stated goal has been to reduce these RLEC access rates as "necessary steps to strive to replace the system of implicit subsidies with 'explicit and sufficient' support mechanisms to attain the goal of universal service in a competitive environment."[9] The USF and rate caps were instituted as part of the PUC's efforts to make the subsidies explicit.

Q. HOW DID THE RATE CAP AND THE USF RESULT FROM THE PUC'S POLICY OF REDUCING RLEC ACCESS RATES?

A. To enable RLECs to take a small step in reducing access rates while limiting increases to retail rates, the PUC's 1999 *Global Order* approved a settlement creating for the first time a state USF as a "means to reduce access and toll rates for the benefit of the end-user customer" by having other regulated carriers make payments to the RLECs to reimburse them for the access and toll rate decreases agreed to in the same settlement.[10] The fund would be an "explicit" rather than an

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7 With all rate elements including tandem switching Verizon PA charges approximately 1.76 cents per minute of use, while Verizon North charges approximately 1.46 cents per minute of use on a tariffed basis. The rates of CLECs operating in Verizon territory are capped at Verizon's level, absent cost justification. 66 Pa. C.S. § 3017(c).

8 The average rate per minute of use for intrastate switched access charged by each of the RLECs varies. A few carriers (some of the Frontier RLECs) charge rates in the range of Verizon's rates, while others charge rates in the 4 to 7 cents a minute range, or higher.

9 *Global Order*, slip op. at 25.

10 The Global Order USF Settlement is attached hereto as Exhibit 2.

"implicit" source of subsidies because it would collect its money from all telecommunications providers (excluding wireless carriers) based on their intrastate end-user telecommunications revenues, but only the RLECs would be eligible to collect support from the fund. As the PUC explained, "[a]lthough it is referred to as a fund, it is actually a passthrough mechanism to facilitate the transition from a monopoly environment to a competitive environment -- an exchange of revenue between telephone companies which attempts to equalize the revenue deficits occasioned by mandated decreases in their toll and access charges."[11] The fund was sized and distributed based only on the specific rate changes contemplated by the *Global Order* settlement.

The settlement plan that created the USF also relied on a $16 residential rate level as a point of reference. It required carriers to reduce their access and toll rates and increase their local rates if they were below a certain level, but also allowed three RLECs that had residential rates over $16 to reduce those rates and receive a contribution from the USF to replace that revenue. In addition, the *Global Order* itself implemented "a rate ceiling . . . which caps the one-party residential local rates of each [RLEC], including charges for dialtone, touchtone, and local usage, at $16.00 per month ***until December 31, 2003***."[12]

Q. WAS THE PLAN ADOPTED BY THE PUC IN THE 1999 *GLOBAL ORDER* INTENDED TO STAY IN EFFECT IN PERPETUITY?

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[11] *Global Order*, slip op. at 135.

[12] *Global Order*, slip op. at 192 (emphasis added).

A. No. Both the USF and this rate ceiling were temporary or interim measures, and were not intended to be permanent. As the PUC stated in the *Global Order*, "[t]he interim funding mechanism that we create through this order will function until December 31, 2003, or until the subsequent . . . investigation develops a new process, ***whichever occurs first.***"[13] This plan, with its $16 rate cap and the USF, was therefore set to expire by its own terms on December 31, 2003.

Q. DID THE PUC TAKE ANY FURTHER ACTION REGARDING THE RATE CAP AND THE USF AFTER THE GLOBAL ORDER?

A. Yes. The settlement agreement that created the USF contemplated that there would be further RLEC access reductions.[14] In January of 2002, the PUC opened a docket "to accommodate the access charge investigation required by the *Global Order* in the form of a collaborative proceeding."[15] A group of RLECs proposed a settlement that would avoid litigation and the filing of cost studies to attempt to justify the access rates, and instead would allow RLECs to rebalance their rates in defined steps by increasing end user rates and decreasing access rates. The PUC accepted this settlement proposal on July 15, 2003, explaining the benefits of the settlement as follows:

> the proposed access charge reductions are in the public's interest and in accordance with the Commission's objective to reduce implicit subsidy charges such as access charges that impede competition in the telecommunications market. As implicit charges become explicit charges, competitors are better able to compete for local and long

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[13] *Global Order*, slip op. at 146 (emphasis added).

[14] Exhibit 2 at 2 ("Pennsylvania can and should take steps toward implementing access and toll rate reform and begin addressing subsidy levels now.").

[15] *Access Charge Investigation per Global Order of September 30, 1999*, Docket Nos. M-00021596, etc., (Opinion and Order entered May 5, 2003).

distance customers in an ILEC's service territory because IXCs are not hindered by paying ILECs excessive access charges in providing competitive toll services and CLECs are better able to compete with ILEC local service rates that have been kept artificially low as a result of the access charge subsidies. Thus, although our approval of the Joint Proposal will allow the rural ILECs and Sprint/United to raise their local residential monthly service rates up to a cap of $18.00 per month, ($2.00 more than the current $16.00 cap), this increase is incremental so as to avoid customer rate shock, and, at the same time, encourages the IXCs, CLECs and wireless telecommunications carriers to compete on a more level playing field with the ILECs.[16]

The settlement proposal that the PUC accepted on July 15, 2003 stated that "[t]he monthly $16.00 cap on R-1 average rates established in the Global Order and any ILEC-specific weighted average rate cap which may have been established in any individual ILEC's Chapter 30 Plan will be increased for all ILECs to the weighted average $18.00 cap for a minimum three (3) year period January 1, 2004 through December 31, 2006." [17]

Q. DID THE PUC TAKE ANY ACTION TO EXTEND THIS PLAN BEYOND DECEMBER 31, 2006?

A. No.

Q. DOES THE PUC HAVE REGULATIONS RELATING TO THE USF OR THE RATE CAP?

A. Yes and no. The PUC has regulations relating to the USF, but these regulations contain no reference to an $18 or $16 rate ceiling and do not provide for an expansion of the USF for new subsidies. 52 Pa. Code § 63.161, et seq. The stated "purpose of the Fund is to maintain the affordability of local service rates for end-

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[16] *Access Charge Investigation per Global Order of September 30, 1999*, Docket Nos. M-00021596, etc., (Opinion and Order entered July 15, 2003) ("7/15/03 Order").

[17] The new plan, which was attached to the 7/15/03 order, is attached hereto as Exhibit 3.

user customers while allowing rural telephone companies to reduce access charges and intraLATA toll rates, on a revenue-neutral basis, thereby encouraging greater competition." 52 Pa. Code §63.161(3).

Q. DID EITHER OF THESE PLANS IMPOSE A CAP ON BUSINESS RATES?

A. I am aware that the D&E companies in the proceeding described below argued that there was a "corresponding" business cap of $23.58, but that Verizon did not agree. There is no reference to a $23.58 business rate cap in either the *Global Order* or the July 15, 2003 Order, or the settlements they adopted, and the rate cap section of the *Global Order* discussed only a $16 cap (of limited duration) on residential rates and did not mention a cap on business rates. Likewise, the July 15, 2003 Order only discusses extending and increasing to $18 the ***residential*** cap, and does not mention a specific business cap. In this testimony, therefore, I only discuss the issue of a potential cap to RLEC residential local service rates.

Q. YOU STATED THAT THE PUC NOW WISHES TO LOOK AT THE USF AND THE RATE CAPS IN CONNECTION WITH THE RLECS' ANNUAL CHAPTER 30 REVENUE INCREASES. COULD YOU EXPLAIN WHAT THESE ANNUAL REVENUE INCREASES ARE?

A. Yes. Chapter 30 of the Public Utility Code allows incumbent LECs to choose to operate under the alternative form of regulation permitted by that statute, instead of under traditional rate base, rate of return regulation. An RLEC that elects alternative regulation must have an alternative regulation plan approved by the PUC. Under alternative regulation, an RLEC's overall revenue from noncompetitive services generally can be increased each year based on the change in the rate of inflation, and

this is largely the only way that rates for noncompetitive services may be increased. The alternative regulation plans contain an inflation-based formula that calculates an allowable increase to annual revenue from noncompetitive services, based on the previous year's noncompetitive revenue and the change in the rate of inflation from the prior year. A carrier typically makes a price change filing each year presenting its calculation of the allowed overall revenue increase and detailing the changes to rates for noncompetitive services from which it proposes to secure the additional revenue. Carriers also have the option to bank the revenue opportunity for future use.

Q. WHAT PRECIPITATED THIS INVESTIGATION?

A. This investigation was precipitated by a series of arguments made in connection with the 2006 price change filing by D&E,[18] which is described in the PUC's April 24, 2008 Order. The PUC rejected D&E's attempt to increase switched access rates as the recovery mechanism for its allowable increase to noncompetitive revenue. D&E then argued that implementing the price change opportunity through a retail rate increase would require one of its companies (Denver & Ephrata) to increase its residential rates over $18 and its business rates over what it claimed was a corresponding business rate cap of $23.58.[19] D&E argued that it could not charge end users for any amounts over these levels, but instead had an absolute right to be reimbursed for this revenue by the USF. The PUC rejected this argument. D&E

[18] The three RLEC companies, collectively referred to as "the D&E companies" or "D&E", are Denver & Ephrata Telephone & Telegraph Company ("Denver & Ephrata"), Buffalo Valley Telephone Company ("Buffalo Valley") and Conestoga Telephone & Telegraph Company ("Conestoga").

[19] The other two D&E companies conceded that they could implement their 2006 price changes without exceeding the rate caps, but they chose not to raise their retail rates and instead banked the revenue opportunity.

and OCA have appealed the PUC's orders to the Commonwealth Court, where the case remains pending.

IV. RELEVANT BACKGROUND REGARDING THE RLECS

Q. IN THIS TESTIMONY YOU HAVE REFERRED TO THE "RLECS" AS A GROUP. ARE THERE ANY MATERIAL DIFFERENCES AMONG THE RLECS?

A. Yes. The RLEC companies are by no means identical or fungible. Each of these 32 independent telephone companies is a unique entity and there are some very significant differences among them – and particularly between the larger RLECs and the rest of the group. Price Direct Table 1 to my testimony (appended at the end of the text, before the Exhibits) provides details about each RLEC's revenues, lines, basic rates and affiliations, based on materials provided in discovery consisting largely of data reported to the PUC for the year 2007.[20] Also attached as Exhibit 1 to this testimony is a map showing the portions of Pennsylvania served by each of the RLECs.

Q. WHAT ARE THE DIFFERENCES AMONG THE RLECS AS TO SIZE?

A. The RLECs can be divided into two general groups. The largest of the RLECs (or groups of affiliated RLECs) had annual operating revenues for 2007 of $60 million or more, ranging from **[BEGIN PROPRIETARY]** **[END PROPRIETARY],** and served 40,000 or more POTS access lines (ranging from 44,000 to almost 300,000). I refer to this group as the "mid-tier RLECs," and

[20] In order to keep the comparison as apples-to-apples as possible, the information on the table is taken where possible from each company's 2007 revenue and access line reports to the PUC, which were produced in discovery. The underlying documents from which the data was taken are appended as exhibits to this testimony as described in the table.

they consist of Embarq, the Frontier group of companies, Windstream, the D&E group of companies, and Consolidated Communications (formerly North Pittsburgh).

There is a fairly large gap between the mid-tier RLECs and the smaller companies. The small RLECs each had annual 2007 operating income of $12 million or less, some even less than $2 million, and each serve less than 12,000 POTS lines, most of them less than 5,000.

Q. IS IT REASONABLE TO CONTINUE TO VIEW THE MID-TIER RLECS IN THE SAME CATEGORY AS THE SMALLER COMPANIES WHEN EVALUATING THE ISSUE OF SUBSIDIES?

A. No. These mid-tier RLECs have enjoyed being lumped in with the smaller companies and being viewed as one group because this has obscured the fact that these are actually large, well-capitalized and thriving businesses. As I discuss below, these are no "mom and pop" telephone companies. There is no policy justification for continuing to permit these mid-tier RLECs to recover their network costs disproportionately from other carriers through subsidies rather than from their own end users. As a group, the mid-tier carriers are receiving over $24 million of the approximately $30 million paid out by the Pennsylvania USF each year.

Q. DO YOU HAVE ANY SPECIFIC DATA REGARDING EMBARQ THAT SUPPORTS YOUR ARGUMENT THAT THIS IS NOT THE TYPE OF COMPANY THAT SHOULD BE SUBSIDIZED BY OTHER MEMBERS OF THE INDUSTRY?

A. Yes. Embarq is a New York Stock Exchange company that "offers a complete suite of communications services," has operations in 18 states and is in the Fortune 500® list of America's largest corporations."[21] Embarq reported revenue for the third quarter of 2008 of $1.53 billion.[22] According to its 2007 PUC reporting, Embarq served almost 300,000 access lines in Pennsylvania. *See* Price Direct Table 1. Notwithstanding its size and sophistication, Embarq is receiving over **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** each year from the state USF. *See* Price Direct Table 1.

Q. DO YOU HAVE ANY SPECIFIC DATA REGARDING FRONTIER THAT SUPPORTS YOUR ARGUMENT THAT THIS IS NOT THE TYPE OF COMPANY THAT SHOULD BE SUBSIDIZED BY OTHER MEMBERS OF THE INDUSTRY?

A. Yes. Eight of the RLECs are owned by Frontier Communications Company, a New York Stock Exchange Company that bills itself as "one of the nation's largest rural local exchange carriers" and states that it "offer[s] local and long-distance telephone service, Internet access, wireless Internet access, digital phone, DISH satellite TV and more" in 24 states, providing service to approximately 3 million access lines and High-Speed Internet subscribers.[23] Frontier reported third quarter 2008 revenue of $557.9 million.[24] According to Frontier's own SEC reporting: "We are a full-

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21 http://investors.embarq.com, Investor Relations.

22 Press Release, EMBARQ Reports Third Quarter Results Highlighted by Strong Cash Flow, 10/27/08, available at http://investors.embarq.com.

23 http://www.czn.com, Investor Relations, Business Overview.

24 Press Release, "Frontier Communications Reports Solid 2008 Third-Quarter Results," 11/10/08, available at http://www.czn.com,

service communications provider and one of the largest exchange telephone carriers in the country."[25] Frontier also reported that "[r]evenues from data and internet services such as High-Speed Internet continue to increase as a percentage of our total revenues." (*Id.*) The Frontier companies together serve almost 300,000 access lines in Pennsylvania, the bulk of which are served by Frontier Commonwealth. Frontier also operates a CLEC in Pennsylvania, CTSI, which competes with Verizon in Verizon's territory.

Notwithstanding its size and sophistication, Frontier in Pennsylvania received **[BEGIN PROPRIETARY] [END PROPRIETARY]** million in access and USF payments from other carriers in 2007 – a full 57% of the Frontier RLECs' operating income. The bulk of this was received by Frontier/Commonwealth. *See* Price Direct Table 1.

Q. DO YOU HAVE ANY SPECIFIC DATA REGARDING WINDSTREAM THAT SUPPORTS YOUR ARGUMENT THAT THIS IS NOT THE TYPE OF COMPANY THAT SHOULD BE SUBSIDIZED BY OTHER MEMBERS OF THE INDUSTRY?

A. Yes. Windstream is also a New York Stock Exchange traded company, which according to its own website serves 2 million access lines in 16 states and has $3.3 billion in annual revenues.[26] Windstream states that it has "sufficient scale to compete and is appropriately capitalized to take advantage of strategic operational and financial opportunities" and "it is positioned to make investments and capitalize

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[25] Frontier Form 10-Q for Third Quarter 2008.

[26] http://www.windstream.com/about/overview.aspx.

on growth opportunities." (*Id.*) According to Windstream's SEC Form 10-K for the year 2007, Windstream "is the fifth largest local telephone company in the country" and provides "local telephone, high-speed Internet, long distance, network access, and video services in sixteen states."

For purposes of interstate regulation, the FCC earlier this year granted Windstream Corporation's request for authority to convert its remaining rate-of-return local exchange properties to federal price-cap regulation to put itself in a "similar regulatory position to other comparable price cap carriers," which include Verizon and the other Regional Bell Operating Companies.[27] Windstream explained that its "focus over the long term is on running its operations efficiently in order to compete effectively *rather than on maximizing universal service and regulated access revenues* over the short term." *Id.* at 2 (emphasis added). Windstream's petition boasted that it has already "eliminated its CCL charges" in the interstate jurisdiction, *id.* at 25, and emphasized lower interstate access rates as a consumer benefit of its move to the price-cap switched access rate structure established in the FCC's CALLS Order. The FCC agreed that granting Windstream's petition would "benefit consumers directly or indirectly through lower access prices."[28]

By its own account, Windstream is an able competitor that is profiting handsomely from the investments it has made to deliver advanced services to its

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[27] Windstream Petition for Conversion to Price Cap Regulation and for Limited Waiver Relief, WC Docket No. 07-171, at 2 (Aug. 6, 2007).

[28] *Windstream Petition for Conversion to Price Cap Regulation and for Limited Waiver Relief*, Order, WC Docket No. 07-171, FCC 08-81 ("*Windstream Price-Cap Order*"), ¶¶ 8, 1, (March 18, 2008). In addition to other benefits, the FCC found that granting Windstream's request would "likely reduce the universal service support that Windstream receives in the future." *Id.*, ¶ 10.

subscribers. Based on its FCC filings, Windstream recognizes that efficient operation, rather than undue reliance on access (and universal service) revenues is the key to competitive success in the long run. There is, therefore, no justification for continuing to allow Windstream the unfair advantage of recovering its network costs disproportionately from other carriers through USF subsidies, rather than from its own end users.

Q. DO YOU HAVE ANY SPECIFIC DATA REGARDING CONSOLIDATED/NORTH PITTSBURGH THAT SUPPORTS YOUR ARGUMENT THAT THIS IS NOT THE TYPE OF COMPANY THAT SHOULD BE SUBSIDIZED BY OTHER MEMBERS OF THE INDUSTRY?

A. Yes. North Pittsburgh Telephone Company was recently acquired by Consolidated Communications, which bills itself on its website as "the 12th largest independent local telephone company in the nation."[29] Consolidated, which is publicly traded on the NASDAQ, reported to the SEC at the end of the third quarter of 2008 that it is "an established rural local exchange company ("RLEC") providing communications services to residential and business customers in Illinois, Texas and Pennsylvania. With approximately 270,352 local access lines, 74,762 Competitive Local Exchange Carrier ("CLEC") access line equivalents, 89,129 digital subscriber lines ("DSL") and 15,454 digital television subscribers, the Company offers a wide range of telecommunications services, including local and long distance service, Voice Over Internet Protocol ("VOIP") calling, custom calling features, private line services, dial-up and high-speed Internet access, digital TV, carrier access services, network

[29] http://www.consolidated.com/about_us/

capacity services over our regional fiber optic network, directory publishing and CLEC calling services. The Company also operates a number of complementary businesses, including telemarketing and order fulfillment; telephone services to county jails and state prisons; equipment sales; operator services; and mobile services."[30]

North Pittsburgh in particular operates in the customer-dense and competitive Pittsburgh metropolitan area. For this reason it is perhaps not surprising that North Pittsburgh's operating revenues in comparison to its reported number of access lines are higher than most of the other RLECs. *See* Price Direct Table 1. North Pittsburgh also has a CLEC affiliate, PTI, which competes against Verizon in Verizon's territory in the Pittsburgh area. Notwithstanding its size and sophistication, North Pittsburgh obtains nearly **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** annually from the USF.

Q. DO YOU HAVE ANY SPECIFIC DATA REGARDING D&E THAT SUPPORTS YOUR ARGUMENT THAT THIS IS NOT THE TYPE OF COMPANY THAT SHOULD BE SUBSIDIZED BY OTHER MEMBERS OF THE INDUSTRY?

A. Yes. Three of the RLECs are commonly owned by D&E Communications, Inc., a company publicly traded on the NASDAQ. D&E Communications describes itself as "a leading provider of integrated communications services in central and eastern Pennsylvania." D&E Communications offers "high-speed data, Internet access, local and long distance telephone, data networking, network management and

[30] Consolidated Communications Form 10-Q for Quarter ending September 30, 2008.

security, and video services."[31] Together, the three D&E companies serve over 100,000 access lines in Pennsylvania. They also operate a CLEC affiliate that competes with Verizon in Verizon's territory. Notwithstanding their size and sophistication, the D&E companies receive over **[BEGIN PROPRIETARY] [END PROPRIETARY]** each year from the USF.

Q. EVEN AMONG THE RLECS THAT YOU CATEGORIZE AS "SMALL" IN REGARD TO THEIR PENNSYLVANIA OPERATIONS, ARE THEY ALL PROPERLY VIEWED AS "MOM AND POP" TELEPHONE COMPANIES?

A. No. There are differences in size and sophistication even among the small companies. For example, two of the companies – Mahoney & Mahantango Telephone Company and Sugar Valley Telephone Company – are owned and operated by TDS Telecom, one of several companies owned by Telephone and Data Systems Inc., a publicly traded New York Stock Exchange company that "serves more than 6.1 million wireline and wireless customers in 36 states," and provides voice, video, internet and wireless services.[32] Telephone and Data Systems Inc. earned a ranking of 478 on the 2008 Fortune 500® list of the nation's largest corporations,

Similarly, Bentleyville Telephone Company and Marianna and Scenery Hill Telephone Company are owned by Fairpoint Communications, a publicly traded New York Stock Exchange company that "operates 32 local exchange companies in

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[31] D&E Communications press release dated November 7, 2006, "D&E Communications reports Third Quarter 2006 Results," obtained via the company's website on December 5, 2006.

[32] http://www.tdstelecom.com/about/family_of_companies.asp

18 states," has "approximately 1.9 million access line equivalents" and bills itself as "the eighth largest telecommunications company in the United States."[33]

Armstrong Telephone Company – PA and Armstrong Telephone Company – North are owned by the Armstrong Group, which according to Wikipedia is a privately held company that "owns and operates independent telephone companies in West Virginia, Maryland, Pennsylvania, and New York. These local offices are setup to provide local and long distance calling services, optional digital calling features, as well as dial-up and DSL Internet services. Recently, development of digital phone service has caused cable companies such as Armstrong to begin expanding their service areas and upgrading lines from traditional phone systems to a Voice Over Internet Protocol (VOIP) system, where phone service is provided via fiber optic and coax cable traditionally reserved for television service."[34] They are also affiliated with Armstrong's cable television operations, which the company itself states is "the 16th largest multi-system operator in the nation."[35] Indeed, I understand that Armstrong's cable arm even offers competitive telephone service in the territories of other RLECs, such as North Pittsburgh.

Q. ARE ALL OF THE RLECS SUBJECT TO ALTERNATIVE REGULATION?

A. No. This is another material difference of which the PUC should be aware. To the extent any RLECs has not chosen to be regulated under Chapter 30's alternative form of regulation, it will not have annual inflation-based increases to their non-

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[33] http://www.fairpoint.com/about_us/

[34] http://en.wikipedia.org/wiki/Armstrong_Group_of_Companies

[35] http://www.agoc.com/overview.htm

competitive revenue, and accordingly there is no need for the PUC to consider whether additional subsidies are required to fund such annual increases.

Q. DO ALL OF THE RLECS HAVE R-1 RATES APPROACHING THE $18 LEVEL?

A. No. This is another material difference of which the PUC should be aware. Price Direct Table 1 depicts the R-1 rates reported by the RLECs in discovery.[36] As noted there, many RLECs have R-1 rates that are lower than $18. Further, the companies' own data produced in discovery and depicted on the table shows that some RLECs have already raised R-1 rates over $18. Price Direct Table 1 also shows that there is considerable disparity in the RLECs' B-1 rates.

V. ISSUES DESIGNATED FOR INVESTIGATION IN PUC'S 4/24/08 ORDER

A. RATE CAPS

Q. THE PUC HAS ASKED WHETHER "THE CAP OF $18.00 ON RESIDENTIAL MONTHLY SERVICE RATES AND ANY CORRESPONDING CAP ON BUSINESS MONTHLY SERVICE RATES SHOULD BE RAISED." (4/24/08 ORDER AT 30). WHAT IS YOUR RESPONSE TO THAT QUESTION?

A. First, as I noted earlier, there is no cap on business rates nor should there be one. There is a question as to whether there is currently an effective $18 rate cap on RLEC residential rates in light of the relevant orders and the applicable expiration

[36] *See* Exhibit 4 (PTA Response to OCA I-5 and Embarq Response to Verizon I-3).

dates, but that is a legal issue that is not appropriate for testimony and will be addressed by counsel in briefing. Presuming for the sake of argument, however, that either there is an $18 rate cap in place or the PUC is considering whether to impose a new rate cap, my response to the PUC's question is as follows.

It is not necessary or appropriate to establish a generic "cap" on RLEC rates in this proceeding. The intention and purpose of the original $16 and $18 rate caps was in the context of controlling access rate rebalancing, so that either retail rate increases or USF subsidies would serve to maintain each company's approximate level of revenues. The "cap" marked the level above which retail local service rates would not be raised as part of the rebalancing. A rate cap in the context of the RLECs' annual inflation-based increase to noncompetitive revenue is not the same thing and is not necessary.

Q. WITHOUT A RATE CAP, HOW WILL THE PUC PREVENT THE RLECS FROM INCREASING THEIR RESIDENTIAL RATES IN AN UNCONTROLLED MANNER?

A. Even if the RLECs are free in theory to raise their residential rates, there are other disciplining factors besides a rate cap that will control RLEC prices and provide the PUC with authority to intervene in a more targeted and efficient manner.

First, not all RLECs are approaching the $18 level, and even those who do have residential rates near that level may choose to implement their increases in a different way or to bank them, rather than increase residential rates over $18. It is not necessary to devise a "one-size-fits-all" solution to what at this point might at best be an issue for only a few RLECs. Indeed, many of the RLECs have chosen to

bank their revenue increase opportunities. For example, Windstream, which reports residential R-1 rates ranging from $13.38 to $16.00 (Price Direct Table 1), and thus could in theory increase its residential rates without running afoul of an alleged residential rate cap, has chosen to bank almost **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** in revenue increase opportunities. Similarly, D&E affiliates Conestoga and Buffalo Valley chose to bank their 2006 opportunities even though the record in that case showed that they could raise rates without hitting the $18 level. Thus, even if the PUC announces that RLECs may raise their residential rates above $18, it is by no means certain that all of the RLECs that could do so will actually attempt to do so.

Second, competition will discipline and regulate the RLECs' retail rates and provide options if the RLECs' rates become higher than customers are willing to pay. Indeed, the presence of competitive alternatives from cable companies, wireless companies and/or Voice over IP providers – each of which generally offer bundles including unlimited toll and long distance calling – may explain why some RLECs are choosing to bank these opportunities rather than raise rates. Additionally, the existence of competitors means that consumers have alternatives to the RLECs' services.

Third, the Legislature and the PUC through its alternative regulation plans limited the RLECs' ability to increase noncompetitive revenue each year to an amount equal to the rate of inflation (with an offset if applicable under the statute). Therefore, the increases would be limited and in keeping with what the Legislature intended; there is no reason to establish a generic "cap" in this proceeding.

Finally, the PUC retains authority to review rate levels on a case-by-case basis. The PUC may investigate whether the rate increases are just and reasonable under 66 Pa. C.S. § 1301 (just as it declared D&E's access increases not to be just and reasonable). The answer to that question may be different depending on the individual facts of the particular RLEC's serving area and the economic and competitive circumstances at the time. So rather than imposing an absolute cap that would not be appropriate for every case and that would restrict the PUC's discretion, the PUC should consider the matter on a case-by-case basis.

Q. IF THE PUC IMPOSES ANY BENCHMARK, CAP OR CEILING FOR RLEC RESIDENTIAL RATES, SHOULD IT REMAIN AT THE $18 THAT RESULTED FROM THE 2003 SETTLEMENT?

A. No. That rate level is five years old, and even when it was set it was the product of a settlement and not any analysis of a reasonable level for basic residential rates. Just accounting for the change in the rate of inflation, $18 in 2003 would be over $21 today.[37] There should be no rate cap or ceiling, but if the PUC imposes one in any form it should be no lower than $21 (for touch-tone, dial tone line and usage), and the PUC should explore whether a higher level is appropriate. The rate level should also be increased each year based on the rate of inflation. Further, the necessity of a cap at any rate level should be reevaluated within a set period of time.

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[37] http://www.bls.gov/data/inflation_calculator.htm ($18 in 2003 has the same buying power as $21.19 in 2008).

Q. IF THE PUC IMPOSES A RATE BENCHMARK IN THE CONTEXT OF RLEC ANNUAL ALTERNATIVE REGULATION REVENUE INCREASES, SHOULD IT BE AN ABSOLUTE CAP?

A. No. The PUC should not impose an absolute cap on RLEC residential rate increases because this is not a situation that lends itself to a "one-size-fits-all" solution. The rate level that this PUC would find to be just and reasonable may be different depending on the individual circumstances. Therefore, if the PUC is to establish any residential rate benchmark, it should function more as a safe harbor than an absolute cap. Specifically, it would mean that so long as an RLEC's rates remain below the safe harbor level, any increases are automatically deemed just and reasonable and do not require further scrutiny. If the RLEC proposes to increase residential rates above the safe harbor level, then the PUC may conduct a more detailed analysis.

Q. SHOULD THERE BE ANY ADDITIONAL REQUIREMENTS BEFORE AN RLEC IS PERMITTED TO INCREASE RESIDENTIAL RATES OVER THE SAFE HARBOR LEVEL?

A. Yes. The PUC should first make sure that if an RLEC is at or close to the rate ceiling (at whatever level it is set), that it exhausts other reasonable opportunities to increase other rates for noncompetitive services (other than switched access rates) before it raises rates over the ceiling level. For example, in the case that precipitated this portion of the investigation, Denver & Ephrata insisted that it would increase some residential rates over $18. However, Denver & Ephrata had several residential rate bands that were far below $18, and it did not demonstrate why it could not allocate the rate increase to the lower-priced bands as well as to business or other

noncompetitive rates before increasing any residential rates above the benchmark level. Such a showing should be required.

Q. THE PUC HAS ASKED HOW IT HAS "THE AUTHORITY UNDER CHAPTER 30 AND OTHER RELEVANT PROVISIONS OF THE PUBLIC UTILITY CODE TO PERFORM A JUST AND REASONABLE RATE ANALYSIS OF THE RURAL ILECS' RESIDENTIAL RATES FOR BASIC LOCAL EXCHANGE SERVICES WHEN SUCH RATES EXCEED THE APPROPRIATE RESIDENTIAL RATE BENCHMARK"(4/24/08 ORDER AT 31)? DO YOU HAVE A RESPONSE TO THAT QUESTION?

A. That is a legal question, and as I am not a lawyer it is not a subject I am prepared to address in testimony. It will be addressed by counsel in briefing. I am presuming in this testimony that the PUC does have that authority.

B. THE USF

Q. THE PUC HAS ASKED WHETHER "FUNDING FOR THE USF [SHOULD] BE INCREASED." WHAT IS YOUR RESPONSE?

A. Funding absolutely should ***not*** be increased, for the reasons discussed in this testimony. The PUC should be decreasing revenue flows from other carriers to the RLECs, not increasing them. The USF is funded exclusively by other telephone carriers and was acknowledged at its creation to be nothing more than a "passthrough mechanism to facilitate the transition from a monopoly environment to a competitive environment -- an exchange of revenue between telephone companies which attempts to equalize the revenue deficits occasioned by mandated decreases in

their toll and access charges."[38] The PUC should conclude that there is no longer a need for such a "transition" mechanism.

Q. THE PUC HAS ASKED WHETHER USF FUNDING SUPPORT SHOULD "BE RECEIVED BY RURAL ILECS THAT INCREMENTALLY PIERCE[] THE APPROPRIATE RESIDENTIAL RATE CAP BECAUSE OF THE REGULAR ANNUAL CHAPTER 30 REVENUE INCREASES?" WHAT IS YOUR RESPONSE?

A. No USF funding should be provided in such situations. The USF was not established or intended as a mechanism to generate additional revenues under Chapter 30. In establishing Chapter 30 as the alternative regulation mechanism, the Legislature chose not to include a provision requiring other carriers to fund the RLECs' annual revenue increases. The RLECs' end users, who are the direct beneficiaries of any investment and network deployment enabled by the increase, should provide the new revenue through rates. There is no reasonable basis to force other carriers, some of whom may also be attempting to compete with the RLECs in their own territory, to fund the RLECs' revenue increases and doing so would be anti-competitive and harmful to consumers, for the reasons discussed below.

Q. THE PUC HAS ASKED WHETHER THE "POTENTIAL AVAILABILITY OF PAUSF SUPPORT DISTRIBUTIONS TO THOSE RURAL ILECS THAT PIERCE THE APPROPRIATE RESIDENTIAL RATE CAP BECAUSE OF THEIR RESPECTIVE ANNUAL CHAPTER 30 ANNUAL REVENUE

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[38] *Global Order*, slip op. at 135.

INCREASES" WOULD HAVE "ANY ANTI-COMPETITIVE OR OTHER ADVERSE EFFECTS"? WHAT IS YOUR RESPONSE?

A. It absolutely would have an anti-competitive effect, as even the present level of subsidies through the USF and excessive access rates already has an anticompetitive effect. The PUC should not encourage the RLECs to rely on anticompetitive business plans that depend more on generating revenues from other carriers – and their customers – than from their own end users. As the FCC has observed, economically efficient competition and the consumer benefits it yields cannot be achieved as long as carriers seek to recover a disproportionate share of their costs from other carriers, rather than from their own end users.[39] Further, where the RLECs are able to obtain subsidies toward their operating costs competition is discouraged and competitors disadvantaged because the competitors must operate without those subsidies, and in some cases the competitors themselves or their affiliates are partially funding the subsidies through their own USF assessments. This is of particular concern in the territories of the mid-tier RLECs, where there is decisive competitive presence.[40]

Q. THE PUC HAS ASKED WHETHER "THE PA. USF LEVEL OF SUPPORT DISTRIBUTIONS TO THE RECIPIENT RURAL ILECS SHOULD BE ADJUSTED IN RELATION TO THE REVENUE INCREASES IN LOCAL EXCHANGE RATES THAT HAVE BEEN OR ARE IMPLEMENTED THROUGH THEIR RESPECTIVE CHAPTER 30 MODIFIED

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[39] *CLEC Rate Cap Order*; *CALLS Order*.

[40] *See* Exhibit 5 (PTA and Embarq Response to Verizon I-4).

ALTERNATIVE REGULATION PLANS AND PRICE STABILITY MECHANISMS"? WHAT IS YOUR RESPONSE?

A. If the PUC determines to permit USF subsidies to be used to fund RLEC noncompetitive revenue increases -- which it should not for the reasons discussed herein – then it should not increase the size of the USF. Rather, it should decrease the USF contributions to all carriers. The Commission should also consider reallocating some of the USF money currently provided to the mid-tier RLECs to the smaller RLECs for this purpose. Eventually, it should reduce or eliminate the USF, commencing with the subsidies provided to the mid-tier RLECs.

Q. THE PUC HAS ASKED WHETHER THE PUC SHOULD "ESTABLISH A 'NEEDS BASED' TEST (AND APPLICABLE CRITERIA) FOR RLEC SUPPORT FUNDING FROM THE USF TO DETERMINE WHICH RURAL RLECS QUALIFY FOR USF FUNDING," AND IF SO SHOULD "THE OVERALL FINANCIAL HEALTH OF THE RURAL ILECS THAT CONTINUE TO GET BOTH PA. USF AND FEDERAL USF SUPPORT . . . PLAY A ROLE FOR CONTINUING TO RECEIVE PA. USF SUPPORT DISTRIBUTIONS"? WHAT IS YOUR RESPONSE?

A. If the PUC determines to continue with the USF at all, then it should be phased out and eventually eliminated or at least confined only to those small RLECs that demonstrate need. The first step would be to eliminate subsidies to the mid-tier RLECs. The second step would be to conduct a thorough needs based test to determine which of the remaining carriers actually need USF support. The burden should be on the RLEC and if it is not willing to submit the necessary information,

its USF support should be terminated. Further, all RLECs that do not demonstrate need for USF subsidy should be eliminated from USF. Finally, the Commission should schedule a clear end date to the USF so that the small carriers that demonstrate need may plan accordingly.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

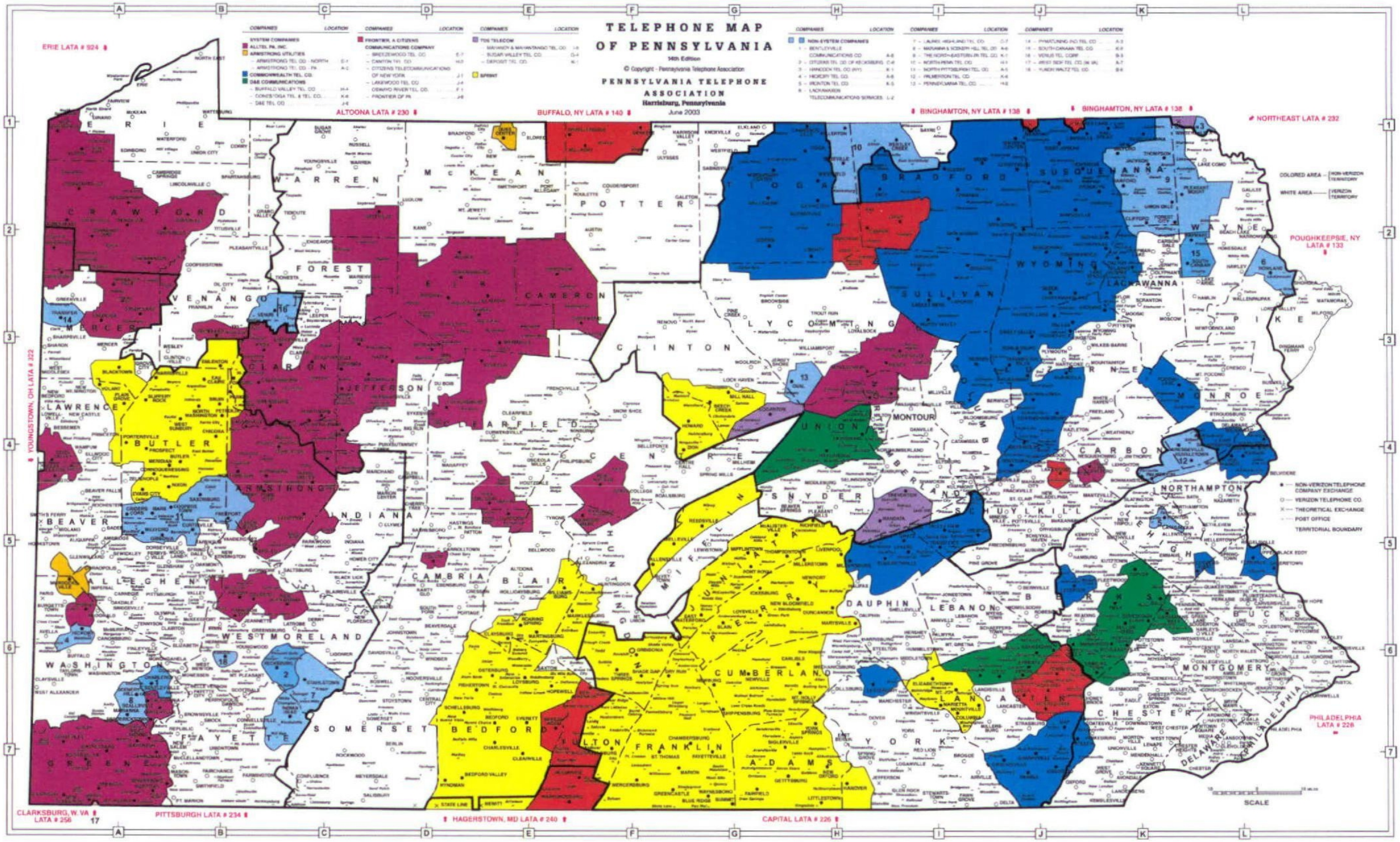
A. Yes.

TABLE 1 IS PROPRIETARY AND THEREFORE IS NOT INCLUDED IN THIS EXPURGATED VERSION

VZ St. 1.0, Price Direct
Docket I-00040105

Exhibit 1

PTA Map


TELEPHONE MAP
OF PENNSYLVANIA
14th Edition
© Copyright - Pennsylvania Telephone Association
PENNSYLVANIA TELEPHONE
ASSOCIATION
Harrisburg, Pennsylvania
June 2003
ERIE LATA # 924
ALTOONA LATA # 230
BUFFALO, NY LATA # 140
BINGHAMTON, NY LATA # 138
NORTHEAST LATA # 232
POUGHKEEPSIE, NY LATA # 133
YOUNGSTOWN, OH LATA # 322
PHILADELPHIA LATA # 228
CLARKSBURG, W. VA LATA # 256
PITTSBURGH LATA # 234
HAGERSTOWN, MD LATA # 240
CAPITAL LATA # 226
ERIE
CRAWFORD
WARREN
McKEAN
POTTER
TIOGA
BRADFORD
SUSQUEHANNA
WAYNE
FOREST
ELK
CAMERON
VENANGO
MERCER
CLARION
JEFFERSON
CLINTON
LYCOMING
SULLIVAN
WYOMING
LACKAWANNA
PIKE
LAWRENCE
BUTLER
CLEARFIELD
CENTRE
UNION
MONTOUR
MONROE
CARBON
BEAVER
ARMSTRONG
INDIANA
SNYDER
NORTHAMPTON
ALLEGHENY
CAMBRIA
BLAIR
JUNIATA
PERRY
DAUPHIN
LEBANON
BUCKS
WESTMORELAND
CUMBERLAND
MONTGOMERY
WASHINGTON
SOMERSET
BEDFORD
FRANKLIN
ADAMS
YORK
LANCASTER
CHESTER
DELAWARE
PHILADELPHIA
FAYETTE
GREENE
COLORED AREA - NON-VERIZON TERRITORY
WHITE AREA - VERIZON TERRITORY
NON-VERIZON TELEPHONE COMPANY EXCHANGE
VERIZON TELEPHONE CO.
THEORETICAL EXCHANGE
POST OFFICE
TERRITORIAL BOUNDARY
SCALE
17

VZ St. 1.0, Price Direct
Docket I-00040105

Exhibit 2

Global Order USF Settlement

APPENDIX II

SMALL COMPANY UNIVERSAL SERVICE FUND SETTLEMENT

CONTENTS

SETTLEMENT

A. The Need for Resolution

1. One of the major issues presented at Docket Nos. I-00940035 and I-00960066 has been the identification of any subsidies to support Universal Service, and whether and how to move and/or supplant any existing implicit subsidies in local exchange carrier access and toll revenue streams.

2. One of the fundamental issues in the Universal Service debate has been the development of a cost model. The Commission has been investigating several cost proxy models that various parties have proposed for use in establishing a Fund. However, to date, a cost proxy model has not been perfected to the point of accurately reflecting the cost of providing Universal Service for any company, but particularly so for the smaller and rural companies. Moreover, for the smaller, rural telephone companies, the FCC has stated that a four year transition period is required to investigate properly the issue of Universal Service cost development.[79]

3. In the Access Charge Investigation at Docket No. I-00960066, many of the parties have contended that carrier access charges are one of the sources of subsidy for basic universal services, and proposals have been made to reduce this subsidy and/or make it "explicit."

[79] In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order released May 8, 1997.

4. From the standpoint of the smaller incumbent local exchange carriers, this Settlement Agreement proposes a means to reduce access and toll rates for the benefit of the end-user customer and in order to encourage greater toll competition, while at the same time continuing to maintain the affordability of local service rates. Pennsylvania can and should take steps toward implementing access and toll rate reform and begin addressing subsidy levels now. The settlement proposal advanced herein will take those steps without the need to become embroiled prematurely in the debate over hypothetical costing models and bring to an end the costly litigation in the Universal Service and Access Charge investigation dockets.

B. **Summary of Terms**

5. This portion of the Settlement Agreement proposes to resolve all of the open issues applicable to the Small ILECs[80] and Bell Atlantic-Pennsylvania ("BA-PA"), at Docket Nos. I-00940035, L-00950105, I-00940034 and I-00960066, in a pragmatic, but equitable, manner that provides benefits to all

[80]The Small ILECs include ALLTEL Pennsylvania, Inc., Armstrong Telephone Company - PA, Armstrong Telephone Company - North, The Bentleyville Telephone Company, Buffalo Valley Telephone Company, Citizens Telephone Company of Kecksburg, Citizens Communications Services Company, Commonwealth Telephone Company, Conestoga Telephone and Telegraph Company, Denver and Ephrata Telephone and Telegraph Company, Deposit Telephone Company, Frontier Communications of Breezewood, Inc., Frontier Communications of Canton, Inc., Frontier Communications of Lakewood, Inc., Frontier Communications of Oswayo River, Inc., Frontier Communications of Pennsylvania, Inc., The Hancock Telephone Company, Hickory Telephone Company, Ironton Telephone Company, Lackawaxen Telephone Company, Laurel Highland Telephone Company, Mahonoy & Mahantango Telephone Co., Marianna & Scenery Hill Telephone Company, The North-Eastern PA Telephone Company, North Penn Telephone Company, North Pittsburgh Telephone Company, Palmerton Telephone Company, Pennsylvania Telephone Company, Pymatuning Independent Telephone Company, South Canaan Telephone Company, Sugar Valley Telephone Company, Venus Telephone Corporation and Yukon Waltz Telephone Company.

involved parties and promotes the public interest. A general summary is set forth below.[81]

a) A Universal Service Fund of approximately $20.5 million will be established. The effective date of the Fund is July 1, 1999.

b) All telecommunications service providers (excluding wireless carriers) will contribute to the Fund on the basis of their intrastate end-user telecommunications revenues. The Small ILECs and BA-PA will not implement an end-user surcharge to recover their Fund contributions.

c) All Small ILECs, which include all ILECs other than Bell Atlantic, Sprint and GTE, will be Fund Recipients. The Fund will be used to fund the immediate rate rebalancing needs of these smaller, rural local exchange carriers.

d) The Small ILECs will restructure and reduce their access and toll rates, as follows:

1) Intrastate traffic sensitive switched access rates and structure (including local transport restructure) will be converted to interstate switched access rates and structure in effect on July 1, 1998.

2) The carrier common line ("CCL") charge of the Small ILECs will be restructured as a flat-rate Carrier Charge ("CC") and reduced to an

[81] The precise terms and conditions of the settlement are set forth in Section C hereto and in Appendix A which is attached hereto. The terms and conditions set forth in Section C and Appendix A govern in the event of any ambiguity or conflict with this summary.

intrastate rate of approximately $7.00 per line.[82] Further reductions are possible in the first year of the Fund if needed to pass through to ratepayers the full benefit realized from the Fund as well as reductions in terminating access costs.

3) The Small ILECs also will be given the opportunity to reduce their toll rates to an average rate not lower than $.09 per minute.[83]

4) The Small ILECs also will be permitted to increase their residential one-party basic, local rates up to an average monthly charge of at least $10.83, to the extent necessary to offset the reduced toll rates. This change affects only eight companies. Any excess needed to fund the toll rate reduction is designed to come from the Fund.[84]

5) Small ILECs with monthly residential one-party basic, local rates above $16.00 at the time the Fund is implemented will provide a Universal Service credit in an amount that will effectively reduce the rate to $16.00 with their business rates receiving a proportionate credit. See Appendix A, Exhibit 1, page 4.

6) If the Fund is permitted to be dissolved with no alternative funding established, residential and business Universal Service Credits

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[82]This tariff rate change, and all others described in this Settlement Agreement, shall be made as compliance filings pursuant to any Pa. P.U.C. Order approving this Settlement Agreement and shall be permitted to be effective on ten (10) days notice.

[83]There is no expectation, express or implied, that a toll rate of $.09 per minute will be sufficient to meet competition throughout the life of the Settlement Plan. In fact, numerous interexchange carrier toll plans are substantially below $.09. However, $.09 was chosen as appropriate to the size of the Fund. Nothing in this Settlement Agreement or Appendix A precludes a Small ILEC from proposing lower toll rates in individual proceedings.

[84]Nothing in this Settlement Agreement or Appendix A precludes any local exchange carrier from proposing greater local exchange rates in individual proceedings. Further reductions to a level not below $.09 will be provided by the Fund and ITORP expense savings.

will be eliminated, and toll and access rates will immediately return, at a company's option, to their pre-funded levels pursuant to a compliance filing.

6. Nothing in this Settlement Agreement or Appendix A precludes any Party from seeking rate increases or decreases not specifically outlined herein.

7. Approval of the rate structure changes proposed in this Settlement Agreement will be a dramatic first step by the Pennsylvania Public Utility Commission in undertaking Universal Service Funding and access charge reform for the Small ILECs and BA-PA. The changes proposed are not the end of the road, but a strong beginning which is needed to address these issues.

8. The collection and distribution of the Fund and the uses for which it is to be applied are set forth in Appendix A hereto.

9. The participants to this Settlement Agreement estimate that the access charges of Small ILECs will be reduced by over $15 million. This is a significant reduction in access service charges which have historically generated a subsidy to local service and which have not been materially reduced since originally established over ten years ago. Moreover, if the reductions are passed through to end user customers by the interexchange carriers, as they have stipulated in this Settlement Agreement, the reductions will result in significant customer savings.

10. The Small ILEC toll rates, which have also been a source of subsidy, will be reduced by an estimate of approximately $10.6 million annually, thereby producing additional customer dividends.

C. **Specific Terms and Conditions**

11. This Settlement Agreement proposes to resolve the aforementioned pending dockets from the standpoint of the Small ILECs and BA-PA on the following terms and conditions.

a) A Universal Service Fund will be established on the terms and conditions described in full in Appendix A and Appendix B hereto, which is incorporated herein by reference.

b) The Commission will issue the proposed regulations for implementation and administration of the Universal Service Fund, in the form set forth in Appendix B hereto, which is incorporated herein by reference.

c) In addition to the rate changes described in Appendix A that are applicable to the Small ILECs, Bell Atlantic and the Small ILECs shall be permitted to restructure their intrastate CCLC as a flat-rate Carrier Charge ("CC") to be recovered from all toll carriers on a proportional minutes of use basis. The CC will be implemented on a revenue neutral basis for all Small ILECs in a manner similar, but not identical, to that proposed by Sprint in its Main Brief in the Access Charge Investigation,[85] including the imputation into the revenue pool of the CCL revenues associated with the Small ILECs and BA-PA toll minutes

and the allocation of recovery on the basis of all originating and terminating minutes. Such rate changes will be filed as compliance filings pursuant to the Commission's Order approving this Settlement Agreement to be effective July 1, 1999. Consistent with the provisions of the Public Utility Code, the Commission shall permit such tariffs to become effective or, should a complaint be filed or investigation instituted, permit the tariffs to go into effect subject to the resolution of such complaint or investigation.

d) The Small ILECs and BA-PA shall be entitled to recover intraLATA presubscription costs from the interexchange carriers pursuant to the Commission's Order at I-00940034, entered on December 14, 1995. The direct, incremental costs associated with implementing presubscription shall be recovered, subject to an annual true up/down, from the interexchange carriers operating in Pennsylvania over a three year period based upon each interexchange carrier's share of total originating and terminating intrastate toll minutes of use.

e) During the term of this Agreement, the Small ILECs shall not be required to pass any imputation test, unless all interexchange carriers operating in Pennsylvania agree or are lawfully required to comply with the same exact imputation test as may be imposed on the local exchange carriers.

f) The Small ILECs which have filed Chapter 30 Plans prior to the date of this Settlement Agreement which Plans contain provisions relating to the cost of universal service may provide embedded cost data in support of any

[85] Specifically, this proposal is solely limited to restructuring the CCLC, and does not include any NTS cost recovery from existing TS rates. In addition, no intrastate SLC will be implemented. See Sprint/United

tariff rate changes permitted under the terms of such Plans. Further, with respect to the Small ILECs which have Chapter 30 Plans pending before the Commission at the date of this Settlement Agreement, the intrastate access charges to be established pursuant to the approval of this Settlement Agreement shall be considered just and reasonable rates for the purpose of resolving such Plans.

g) The Commission will initiate a proceeding on or about January 2, 2003, to determine how the aforesaid fund/pool shall be reduced or otherwise modified. If the Fund is permitted to be dissolved with no alternative funding established, residential, business, toll and access rates will immediately return, at the companies' option, to their pre-funded levels pursuant to a compliance filing.

h) This Settlement Agreement completely resolves all of the issues in Docket I-00940035 (Universal Service Investigation); Docket L-00950105 (Universal Service Rulemaking); and Docket I-00940034 (Presubscription Cost Recovery) from the standpoint of BA-PA and the Small ILECs. No cost proxy model will be selected by the Commission for submission to the Federal Communications Commission for use in connection with federal universal service funding. Nothing herein shall prevent the Commission from generally investigating costing methodologies; provided, however, that the Universal Service Fund established hereunder shall be unaffected thereby.

Main Brief at 7-10.

i) This Settlement completely resolves all of the issues in Docket I-00960066 (Access Charges), including all issues of payphone subsidies and the removal thereof, where applicable, from access charges for BA-PA and the Small ILECs. In all respects, the Commission will terminate this docket and mark it closed upon final approval of this Settlement.

APPENDIX A

TERMS AND CONDITIONS OF UNIVERSAL SERVICE FUND

I. SIZE AND ASSESSMENT OF UNIVERSAL SERVICE FUND CONTRIBUTION

A. All telecommunications service providers (excluding wireless carriers) will contribute to the Universal Service Fund ("Fund").

B. Bell Atlantic-Pa., Inc.'s ("BA-PA") contribution share to the Fund shall be capped at $12 million per year to support the funding requirements of the participants.

C. The total size of the Fund and the contributions of other telecommunications providers shall be calculated as follows:

1. The total size of the Fund in the initial period on an annual basis will be equal to $12.0 million divided by BA-PA's percentage of the total intrastate (Pennsylvania) end-user telecommunications revenues for the preceding calendar year (BA-PA assessment percentage),[86] as shown:

1999 Fund = $12.0 million / BA-PA assessment percentage
= $12.0 million / 56.6%[87]
= $21.2 million

2. Each year of the subsequent calendar years, beginning with the Year 2000, the total size of the Fund shall be increased by first calculating the

[86] Initially, until such time as the total intrastate end-user telecommunications revenues are determined by the fund administrator, total gross intrastate revenues as reported to the Commission pursuant to 66 Pa. C.S.A. § 510 may be used to determine BA-PA's assessment percentage and all telecommunication service providers' contributions to the Fund.

size of the Fund as described above, and then by increasing the total amount for that year by the average annual access line growth rate for the Fund participants (compounded annually). For example:

2000 Fund	=	$12 million/BA-PA assessment percentage
	=	$12 million/56.6% (assumes no change in assessment rate)
	=	$21.2 million x 1998 access line growth rate
	=	$21.2 million x 1.03 (assumes 3% growth)
	=	$21.8 million.

Each Fund Recipient's share shall be adjusted annually to reflect its annual actual access line growth.

3. The contributing share of each telecommunications service provider except BA-PA (BA-PA's share is capped at $12M) will be based on its respective pro rata share of total intrastate end-user telecommunications revenues,[88] so that the total contributions equal the total size of the Fund.

4. All telecommunications service providers will be required to file statements annually with the Commission specifying their total end-user telecommunications revenues for purposes of calculating the size of the Fund and each telecommunications service provider's allocated contribution.

D. No credits or offsets, either explicit or implicit, will be provided to any telecommunications service provider's contribution based upon access charges (including the carrier charge) paid by the contributor.

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[87]This is BA-PA's 1998 PUC assessment percentage, used for illustrative purposes.

[88]End-user revenues expressly do not include revenues from access charges, toll resale, local service resale, unbundled network elements or other activities which are essentially wholesale in nature.

E. BA-PA will not implement a customer surcharge to recover its contribution to the Fund. BA-PA shall be permitted to use any negative Price Change Opportunity(ies) from its Alternative Regulatory Plan to support its funding contribution.

F. No Small ILEC may request an end-user surcharge to recover its respective contribution obligation to the Fund.

G. The size of Fund will be recalculated annually and is expected to expand/contract for various reasons, including increases or decreases to non-BA-PA telecommunications service provider end-user revenues on a relative basis.

II. DISTRIBUTION OF THE FUND

A. All incumbent local exchange carriers operating in Pennsylvania, with the exception of Bell Atlantic, Sprint and GTE, shall be recipients of the Fund ("Fund Recipients").

B. All revenues received from the Fund, after the deduction therefrom of any contribution made by a Fund Recipient to the Fund, shall be used to rebalance, on a revenue neutral basis, the rates/revenues derived from access and/or other services according to the rules set forth herein.

C. The fund recipients will implement tariff rate changes as follows:

1. First, each company will lower toll rates to an average level of $.11 per minute level. Local residential rates will be increased to an average of $10.83 per line. Any residual shortage will be recovered from the Fund.

2. Second, companies with R-1 rates above $16.00 at the time the Fund is implemented will effectively reduce R-1 rates to $16.00 with business rates being reduced by a proportionate amount through the issuance of a monthly credit on the customer bills. This reduction is covered by the Fund. If the Fund is permitted to be dissolved with no alternative funding established, residential and business Universal Service Credits will be eliminated, and toll and access rates will immediately return, at the companies' option, to their pre-funded levels pursuant to a compliance filing.

3. Third, each company will develop their current intrastate carrier common line ("CCL") revenue amount. This amount shall include CCL revenue for IXC billed interLATA and intraLATA minutes, terminating ITORP minutes and the imputation of CCL revenues associated with the company's originating toll minutes of use.

4. Fourth, each company will mirror their interstate traffic sensitive ("TS") rates and structure (including local transport restructure) which were effective as of July 1, 1998 for intrastate purposes. If this causes an increase in rates, then the CCL revenue amount from the previous step shall be reduced accordingly.

5. Fifth, each company will reduce the current CCL revenue amount (reduced by the TS increase, if applicable) to the equivalent of approximately $7.00 per month per access line.

6. Sixth, each company will convert recovery of the CCL component to a flat-rate Carrier Charge ("CC") recovered from all toll carriers on a proportional minutes of use basis. The CC will be implemented on a revenue neutral basis in a manner similar, but not identical[89] to that proposed by Sprint in its Main Brief in the Access Charge Investigation, including the imputation into the revenue pool of the CCL revenues associated with the company's toll minutes and the allocation of recovery on the basis of all originating and terminating minutes. Minutes (i.e., market share) shall be recalculated on a monthly basis.

7. Seventh, each company will flow through the benefits derived from the Fund and ITORP expense decreases by lowering intraLATA toll rates. An average price floor of $.09 per minute will be established.

8. Eighth, Plan benefits that remain after lowering toll rates will first be applied to any shortfall in the size of the Fund that may exist. Any remaining benefits, at a company's option, will be used to either reduce the CC or reduce the amount to be received from the Fund.

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[89] Specifically, the companies will not remove any non-traffic sensitive cost recovery from existing TS rates. Secondly, an intrastate SLC is not implemented hereby. See Sprint/United Main Brief at 7-10.

III. IMPLEMENTATION

A. The Fund Recipients agree to the distribution amounts as shown in Exhibit 1, page 1. The amounts to be distributed to the Fund Recipients are fixed at the amount shown plus the adjustment for the actual company-specific percentage access line growth for the term of the agreement.

B. Each Fund Recipient shall file the appropriate tariffs to implement the rate changes described, effective on ten (10) days notice, in the form of a compliance filing pursuant to the Commission Order approving the Fund.

1. Such tariff filings shall include a demonstration of revenue neutrality for the tariff filing consistent with the terms of this Appendix A.

2. Tariffs shall be filed to be effective July 1, 1999, coincident with the effective date of the Fund.

3. The Commission shall approve those tariffs or, should a complaint be filed or investigation instituted, permit the tariffs to go into effect subject to the resolution of such complaint or investigation.

4. Customers will be notified of these rate changes by bill insert/ message.

IV. OTHER

A. All Fund Recipients listed in Exhibit 1 and all other ILECs who are parties to the Settlement Agreement have been designated as eligible telecommunications carriers under the Telecommunications Act of 1996 to receive universal service support under the requirements of both the FCC and this Commission.[90]

B. The Fund shall commence on July 1, 1999 and operate until such time as the FCC finally determines (including resolution of any appeals), and this Commission adopts, a cost method to be employed for Universal Service purposes by the Small ILECs, whichever occurs sooner. Further, the Commission will initiate a proceeding on or about January 2, 2003, to consider how the fund/pool will be reduced or otherwise modified.

[90] All Fund Recipients and BA-PA have filed for designation as eligible telecommunications carriers. These local exchange carriers are each pre-designated as an eligible telecommunications carrier under 52 Pa. Code §63.145 or any successor provision when it may become effective. See, Appendix B hereto.

Summary - Estimated Size Of PA USF Fund

COMPANY NAMES	TS Acc Rate Reduction Recovered Thru USF see p. 6	CCL Support Reduction Recovered Thru USF see pp. 7&8	Toll Rate Reduction Recovered Thru USF see pp. 2&3	Local Rate R1 cap Reduction Recovered Thru USF see p. 4	Annual USF Amount Before adjustments	Adjustment to properly size Fund see App.A, II,C(8)	Annual USF Amount After adjustments
ALLTEL	$5,046,750	$3,661,776	$0	$0	$8,708,526	($738,157)	$7,970,369
Armstrong North	$0	$0	$0	$0	$0	$0	$0
Armstrong PA	$0	$247,414	$0	$0	$247,414	($60,410)	$187,004
Bentleyville	$0	$393,398	$0	$0	$393,398	($56,585)	$336,813
Buffalo Valley	$0	$590,504	$0	$0	$590,504	($19,215)	$571,289
Citizens Communications	$64,671	$11,617	$31,678	$0	$107,965	$0	$107,965
Citizens of Kecksburg	$0	$21,725	$0	$0	$21,725	($19,326)	$2,399
Commonwealth	$0	$480,694	$0	$0	$480,694	$0	$480,694
Conestoga	$0	$1,333,963	$0	$0	$1,333,963	($1,689)	$1,332,275
Denver & Ephrata	$0	$586,274	$0	$0	$586,274	$0	$586,274
Frontier Breezewood	$14,599	$67,730	$25,232	$0	$107,561	$0	$107,561
Frontier Canton	$84,867	$0	$74,414	$0	$159,281	$0	$159,281
Frontier Lakewood	$3,260	$94,415	$13,209	$0	$110,884	($2,569)	$108,314
Frontier Oswayo	$77,069	$5,565	$0	$0	$82,634	($2,777)	$79,857
Frontier PA	$0	$0	$0	$0	$0	$0	$0
Hickory	$0	$59,972	$37,649	$0	$97,621	$0	$97,621
Ironton	$0	$0	$59,757	$0	$59,757	($3,224)	$56,533
Lackawaxen	$0	$100,574	$0	$0	$100,574	($2,907)	$97,667
Laurel Highland	$0	$231,882	$53,277	$0	$285,159	$0	$285,159
Mahanoy & Mahantango	$9,879	$1,114,021	$0	$0	$1,123,900	($185,632)	$938,268
Marianna & Scenery Hill	$0	$204,319	$0	$0	$204,319	($54,713)	$149,606
North-Eastern PA	$0	$297,615	$0	$0	$297,615	($66,471)	$231,144
North Penn	$0	$96,278	$0	$0	$96,278	($16,588)	$79,690
North Pittsburgh	$0	$8,113,646	$0	$0	$8,113,646	($3,188,940)	$4,924,706
Palmerton	$0	$951,696	$30,656	$0	$982,352	($44,355)	$937,997
Pennsylvania Telephone	$0	$1,176	$0	$52,142	$53,318	($900)	$52,418
Pymatuning	$0	$0	$23,323	$36,616	$59,939	$0	$59,939
South Canaan	$0	$28,600	$0	$0	$28,600	($11,616)	$16,984
Sugar Valley	$0	$421,518	$0	$41,705	$463,223	($105,687)	$357,536
Venus	$0	$129,611	$0	$0	$129,611	($5,149)	$124,462
Yukon Waltz	$0	$97,672	$0	$0	$97,672	($20,149)	$77,523
PA USF Fund Amt	**$5,301,095**	**$19,343,657**	**$349,194**	**$130,463**	**$25,124,409**	**($4,607,059)**	**$20,517,350**

Calculate ITC IntraLATA Toll Reduction Required to reach average toll rate of $0.11

Company Names	Quarterly IntraLATA Toll Rev	IntraLATA Toll MOUs	ITC Ave IntraLATA Toll Rev Per MOU	Bell Ave IntraLATA Toll Rev Per MOU	ITC Required IntraLATA Toll Rev Reduction Per MOU	Toll Rate Reduction To Mirror Bell Ave Toll Rates	Qtrly IntraLATA Toll Rev Reduction	Annual IntraLATA Toll Rev Reduction
ALLTEL	$4,143,022	38,412,700	0.1079	0.1100	0.0000	0.00%	$0	$0
Armstrong North	$7,183	60,509	0.1187	0.1100	-0.0087	7.34%	$527	$2,108
Armstrong PA	$90,411	908,351	0.0995	0.1100	0.0000	0.00%	$0	$0
Bentleyville	$189,340	1,696,206	0.1116	0.1100	-0.0016	1.46%	$2,757	$11,029
Buffalo Valley	$381,374	3,442,517	0.1108	0.1100	-0.0008	0.71%	$2,697	$10,789
Citizens Communications	$176,785	1,476,542	0.1197	0.1100	-0.0097	8.13%	$14,365	$57,462
Citizens of Kecksburg	$182,708	1,706,229	0.1071	0.1100	0.0000	0.00%	$0	$0
Commonwealth	$5,285,270	48,047,916	0.1100	0.1100	0.0000	0.00%	$0	$0
Conestoga	$1,095,576	9,505,312	0.1153	0.1100	-0.0053	4.56%	$49,992	$199,967
Denver & Ephrata	$912,520	8,501,904	0.1073	0.1100	0.0000	0.00%	$0	$0
Frontier Breezewood	$27,792	195,310	0.1423	0.1100	-0.0323	22.70%	$6,308	$25,232
Frontier Canton	$48,984	276,187	0.1774	0.1100	-0.0674	37.98%	$18,603	$74,414
Frontier Lakewood	$48,158	407,779	0.1181	0.1100	-0.0081	6.86%	$3,302	$13,209
Frontier Oswayo	$0	0	0.0000	0.1100	0.0000	0.00%	$0	$0
Frontier PA	$373,862	2,354,452	0.1588	0.1100	-0.0488	30.73%	$114,872	$459,489
Hickory	$64,806	503,580	0.1287	0.1100	-0.0187	14.52%	$9,412	$37,649
Ironton	$72,666	524,791	0.1385	0.1100	-0.0285	20.56%	$14,939	$59,757
Lackawaxen	$55,580	548,054	0.1014	0.1100	0.0000	0.00%	$0	$0
Laurel Highland	$194,480	1,599,695	0.1216	0.1100	-0.0116	9.52%	$18,514	$74,054
Mahanoy & Mahantango	$361,689	3,432,846	0.1054	0.1100	0.0000	0.00%	$0	$0
Marianna & Scenery Hill	$112,728	1,127,297	0.1000	0.1100	0.0000	0.00%	$0	$0
North-Eastern PA	$360,559	3,493,653	0.1032	0.1100	0.0000	0.00%	$0	$0
North Penn	$42,136	412,111	0.1022	0.1100	0.0000	0.00%	$0	$0
North Pittsburgh	$3,813,745	41,448,740	0.0920	0.1100	0.0000	0.00%	$0	$0
Palmerton	$232,883	2,047,443	0.1137	0.1100	-0.0037	3.29%	$7,664	$30,656
Pennsylvania Telephone	$25,378	237,174	0.1070	0.1100	0.0000	0.00%	$0	$0
Pymatuning	$44,036	347,319	0.1268	0.1100	-0.0168	13.24%	$5,831	$23,323
South Canaan	$92,343	791,361	0.1167	0.1100	-0.0067	5.73%	$5,293	$21,173
Sugar Valley	$153,764	1,512,381	0.1017	0.1100	0.0000	0.00%	$0	$0
Venus	$15,937	145,615	0.1094	0.1100	0.0000	0.00%	$0	$0
Yukon Waltz	$43,077	416,560	0.1034	0.1100	0.0000	0.00%	$0	$0
Totals	$18,648,791	175,580,534						$1,100,310

Calculate Impacts Due To ITC IntraLATA Toll Rate Changes On Local Residential Rates and/or USF Draw

COMPANY NAMES	Annual IntraLATA Toll Rev Decrease	Res Access Lines	Required Monthly Local Rate Increase	ITC Current Ave 1-Party Res. Rate	BELL Current Ave 1-Party Res. Rate	Maximum Monthly Local Rate Increase	Actual Monthly Local Rate Increase	Monthly Portion Recovered Thru USF	Toll Rate Reduction Recovered Thru Local Rate Incr	Toll Rate Reduction Recovered via USF Draw
ALLTEL	$0	180,522	$0.00	12.74	10.83	$0.00	$0.00	$0.00	$0	$0
Armstrong North	$2,108	472	$0.37	7.58	10.83	$3.25	$0.37	$0.00	$2,108	$0
Armstrong PA	$0	1,450	$0.00	10.81	10.83	$0.02	$0.00	$0.00	$0	$0
Bentleyville	$11,029	2,753	$0.33	7.01	10.83	$3.82	$0.33	$0.00	$11,029	$0
Buffalo Valley	$10,789	15,260	$0.06	7.00	10.83	$3.83	$0.06	$0.00	$10,789	$0
Citizens Communications	$57,462	1,242	$3.86	9.10	10.83	$1.73	$1.73	$2.13	$25,784	$31,678
Citizens of Kecksburg	$0	4,592	$0.00	10.54	10.83	$0.29	$0.00	$0.00	$0	$0
Commonwealth	$0	205,373	$0.00	8.58	10.83	$2.25	$0.00	$0.00	$0	$0
Conestoga	$199,967	40,142	$0.42	7.36	10.83	$3.47	$0.42	$0.00	$199,967	$0
Denver & Ephrata	$0	40,753	$0.00	9.94	10.83	$0.89	$0.00	$0.00	$0	$0
Frontier Breezewood	$25,232	3,407	$0.62	11.14	10.83	$0.00	$0.00	$0.62	$0	$25,232
Frontier Canton	$74,414	3,380	$1.83	12.94	10.83	$0.00	$0.00	$1.83	$0	$74,414
Frontier Lakewood	$13,209	1,272	$0.87	11.00	10.83	$0.00	$0.00	$0.87	$0	$13,209
Frontier Oswayo	$0	1,898	$0.00	15.43	10.83	$0.00	$0.00	$0.00	$0	$0
Frontier PA	$459,489	16,909	$2.26	7.58	10.83	$3.25	$2.26	$0.00	$459,489	$0
Hickory	$37,649	1,062	$2.95	14.80	10.83	$0.00	$0.00	$2.95	$0	$37,649
Ironton	$59,757	3,705	$1.34	10.83	10.83	$0.00	$0.00	$1.34	$0	$59,757
Lackawaxen	$0	3,260	$0.00	10.51	10.83	$0.32	$0.00	$0.00	$0	$0
Laurel Highland	$74,054	4,947	$1.25	10.48	10.83	$0.35	$0.35	$0.90	$20,777	$53,277
Mahanoy & Mahantango	$0	3,488	$0.00	15.83	10.83	$0.00	$0.00	$0.00	$0	$0
Marianna & Scenery Hill	$0	2,419	$0.00	15.58	10.83	$0.00	$0.00	$0.00	$0	$0
North-Eastern PA	$0	10,431	$0.00	11.46	10.83	$0.00	$0.00	$0.00	$0	$0
North Penn	$0	4,580	$0.00	10.16	10.83	$0.67	$0.00	$0.00	$0	$0
North Pittsburgh	$0	48,255	$0.00	8.60	10.83	$2.23	$0.00	$0.00	$0	$0
Palmerton	$30,656	9,562	$0.27	12.60	10.83	$0.00	$0.00	$0.27	$0	$30,656
Pennsylvania Telephone	$0	1,186	$0.00	19.30	10.83	$0.00	$0.00	$0.00	$0	$0
Pymatuning	$23,323	1,723	$1.13	16.66	10.83	$0.00	$0.00	$1.13	$0	$23,323
South Canaan	$21,173	2,377	$0.74	9.23	10.83	$1.60	$0.74	$0.00	$21,173	$0
Sugar Valley	$0	979	$0.00	18.42	10.83	$0.00	$0.00	$0.00	$0	$0
Venus	$0	1,107	$0.00	13.48	10.83	$0.00	$0.00	$0.00	$0	$0
Yukon Waltz	$0	840	$0.00	15.40	10.83	$0.00	$0.00	$0.00	$0	$0
Totals	$1,100,310								$751,116	$349,194

Calculate Impacts Due To $16 max avg R1 and maintain R1-B1 Price Ratios

COMPANY NAMES	Avg R1 Amount above $16	Annual Reduction amount RES (TO USF)	Ratio of B1-R1	Bus Reduction	Annual Reduction amount BUS (TO USF)	Annual Reduction amount RES+BUS (TO USF)
ALLTEL	$0.00	$0	1.78	$0.00	$0	$0
Armstrong North	$0.00	$0	1.91	$0.00	$0	$0
Armstrong PA	$0.00	$0	1.88	$0.00	$0	$0
Bentleyville	$0.00	$0	2.31	$0.00	$0	$0
Buffalo Valley	$0.00	$0	2.13	$0.00	$0	$0
Citizens Communications	$0.00	$0	3.13	$0.00	$0	$0
Citizens of Kecksburg	$0.00	$0	1.76	$0.00	$0	$0
Commonwealth	$0.00	$0	1.71	$0.00	$0	$0
Conestoga	$0.00	$0	2.10	$0.00	$0	$0
Denver & Ephrata	$0.00	$0	1.96	$0.00	$0	$0
Frontier Breezewood	$0.00	$0	1.35	$0.00	$0	$0
Frontier Canton	$0.00	$0	1.95	$0.00	$0	$0
Frontier Lakewood	$0.00	$0	1.72	$0.00	$0	$0
Frontier Oswayo	$0.00	$0	1.94	$0.00	$0	$0
Frontier PA	$0.00	$0	2.02	$0.00	$0	$0
Hickory	$0.00	$0	1.40	$0.00	$0	$0
Ironton	$0.00	$0	1.42	$0.00	$0	$0
Lackawaxen	$0.00	$0	1.55	$0.00	$0	$0
Laurel Highland	$0.00	$0	1.45	$0.00	$0	$0
Mahanoy & Mahantango	$0.00	$0	1.84	$0.00	$0	$0
Marianna & Scenery Hill	$0.00	$0	1.32	$0.00	$0	$0
North-Eastern PA	$0.00	$0	1.63	$0.00	$0	$0
North Penn	$0.00	$0	1.69	$0.00	$0	$0
North Pittsburgh	$0.00	$0	1.94	$0.00	$0	$0
Palmerton	$0.00	$0	2.00	$0.00	$0	$0
Pennsylvania Telephone	$3.30	$46,966	0.78	$3.37	$5,176	$52,142
Pymatuning	$0.66	$13,646	1.71	$2.84	$22,970	$36,616
South Canaan	$0.00	$0	1.17	$0.00	$0	$0
Sugar Valley	$2.42	$28,430	1.81	$6.18	$13,275	$41,705
Venus	$0.00	$0	1.89	$0.00	$0	$0
Yukon Waltz	$0.00	$0	1.57	$0.00	$0	$0
Totals		$89,042			$41,421	$130,463

CALCULATE TOTAL INTRASTATE CCL RELATED REVENUE

Company Names	Annual ITORP Intrastate CCL Access Revenue	Annual IXC Intrastate CCL Access Revenue	Annual Total Intrastate CCL Access Revenue	Annual Total Intrastate Sw Access Revenue	Percent CCL Revenue to CCL + TS Sw Acc Rev	Annual IntraLATA Toll MOUs	Intralata CCL Rate	Support included in Toll Rates	Total Loop support implicit in Toll/Access Rates
ALLTEL	$6,767,444	$9,928,304	$16,695,748	$13,914,676	54.54%	153,650,800	$0.038835	$5,966,996	$22,662,744
Armstrong North	$9,481	$26,156	$35,637	$14,871	70.56%	242,036	$0.047111	$11,403	$47,040
Armstrong PA	$195,372	$147,616	$342,988	$164,420	67.60%	3,633,404	$0.047101	$171,135	$514,123
Bentleyville	$342,786	$140,596	$483,382	$240,670	66.76%	6,784,824	$0.046680	$316,712	$800,094
Buffalo Valley	$558,871	$1,427,248	$1,986,119	$1,020,717	66.05%	13,770,068	$0.044100	$607,259	$2,593,378
Citizens Communications	$630	$39,222	$39,852	$116,776	25.44%	5,906,168	$0.014107	$83,317	$123,169
Citizens of Kecksburg	$289,356	$919	$290,275	$263,632	52.39%	6,824,916	$0.047100	$321,454	$611,729
Commonwealth	$5,206,483	$15,972,880	$21,179,363	$15,427,137	57.86%	192,191,664	$0.043300	$8,321,891	$29,501,255
Conestoga	$1,925,639	$3,069,420	$4,995,059	$3,270,557	60.43%	38,021,248	$0.041100	$1,562,675	$6,557,734
Denver & Ephrata	$1,081,121	$3,007,276	$4,088,397	$2,531,995	61.75%	34,007,616	$0.043350	$1,474,236	$5,562,632
Frontier Breezewood	$37,708	$320,768	$358,476	$200,132	64.17%	781,240	$0.044915	$35,090	$393,566
Frontier Canton	$82,852	$183,452	$266,304	$249,320	51.65%	1,104,748	$0.047102	$52,035	$318,339
Frontier Lakewood	$71,610	$78,108	$149,718	$86,130	63.48%	1,631,116	$0.043600	$71,116	$220,835
Frontier Oswayo	$0	$191,064	$191,064	$163,396	53.90%	0	$0.000000	$0	$191,064
Frontier PA	$340,579	$1,496,796	$1,837,375	$1,322,449	58.15%	9,417,808	$0.029261	$275,573	$2,112,949
Hickory	$95,776	$55,812	$151,588	$75,176	66.85%	2,014,320	$0.040005	$80,582	$232,170
Ironton	$166,597	$291,872	$458,468	$275,798	62.44%	2,099,164	$0.046782	$98,204	$556,672
Lackawaxen	$88,151	$208,573	$296,724	$148,269	66.68%	2,192,216	$0.047100	$103,253	$399,977
Laurel Highland	$364,422	$225,552	$589,974	$269,136	68.67%	6,398,780	$0.047100	$301,383	$891,357
Mahanoy & Mahantango	$594,038	$210,439	$804,477	$568,667	58.59%	13,731,384	$0.047100	$646,748	$1,451,225
Marianna & Scenery Hill	$232,042	$52,324	$284,366	$180,078	61.23%	4,509,188	$0.047100	$212,383	$496,749
North-Eastern PA	$479,686	$350,984	$830,670	$677,614	55.07%	13,974,612	$0.047099	$658,187	$1,488,857
North Penn	$17,950	$456,340	$474,290	$290,178	62.04%	1,648,444	$0.047100	$77,642	$551,932
North Pittsburgh	$3,308,319	$6,454,964	$9,763,283	$6,761,543	59.08%	165,794,960	$0.042032	$6,968,696	$16,731,979
Palmerton	$388,475	$1,284,301	$1,672,776	$786,683	68.01%	8,189,772	$0.047098	$385,725	$2,058,501
Pennsylvania Telephone	$41,555	$50,040	$91,595	$45,549	66.79%	948,696	$0.047104	$44,688	$136,282
Pymatuning	$61,751	$108,761	$170,512	$84,072	66.98%	1,389,276	$0.045507	$63,222	$233,734
South Canaan	$142,125	$148,800	$290,925	$185,947	61.01%	3,165,444	$0.046430	$146,972	$437,897
Sugar Valley	$238,581	$42,712	$281,273	$152,866	64.79%	6,049,524	$0.047100	$284,933	$566,205
Venus	$17,885	$207,914	$225,799	$110,544	67.13%	582,460	$0.046800	$27,259	$253,058
Yukon Waltz	$118,159	$45,102	$163,260	$72,015	69.39%	1,666,240	$0.047100	$78,480	$241,740
Industry Totals	$23,265,425	$46,224,316	$69,489,741			702,322,136	$0.041931	$29,449,246	$98,938,987

Revise Intrastate Traffic Sensitive (TS) Access Rates to equal 7/98 Interstate TS Rates

Company Names	Current composite Intrastate TS rate (excl CCL)	Current composite Interstate TS rate (excl CCL)	(Increase)/ Decrease	Qtrly Intrastate TS MOU	Qtrly Impact to Implement Interstate TS SW rates	Annual Impact to implement Interstate TS SW rates	Annual Impact to increase Interstate TS SW rates	Annual Impact to decrease Interstate TS SW rates
ALLTEL	0.024887	0.015860	0.009026	139,780,929	($1,261,687)	($5,046,750)	$0	($5,046,750)
Armstrong North	0.021832	0.039502	(0.017670)	170,283	$3,009	$12,036	$12,036	$0
Armstrong PA	0.021201	0.037676	(0.016476)	1,938,836	$31,943	$127,773	$127,773	$0
Bentleyville	0.022139	0.033020	(0.010882)	2,717,765	$29,574	$118,297	$118,297	$0
Buffalo Valley	0.022664	0.028557	(0.005893)	11,259,215	$66,355	$265,419	$265,419	$0
Citizens Communications	0.041595	0.018560	0.023035	701,863	($16,168)	($64,671)	$0	($64,671)
Citizens of Kecksburg	0.024689	0.037514	(0.012825)	2,671,499	$34,262	$137,048	$137,048	$0
Commonwealth	0.028808	0.041111	(0.012304)	133,880,024	$1,647,209	$6,588,836	$6,588,836	$0
Conestoga	0.025910	0.032232	(0.006322)	31,556,786	$199,495	$797,979	$797,979	$0
Denver & Ephrata	0.025782	0.029298	(0.003516)	24,552,415	$86,332	$345,326	$345,326	$0
Frontier Breezewood	0.022841	0.021174	0.001666	2,190,525	($3,650)	($14,599)	$0	($14,599)
Frontier Canton	0.036280	0.023931	0.012350	1,718,019	($21,217)	($84,867)	$0	($84,867)
Frontier Lakewood	0.020577	0.019799	0.000779	1,046,414	($815)	($3,260)	$0	($3,260)
Frontier Oswayo	0.038147	0.020154	0.017993	1,070,822	($19,267)	($77,069)	$0	($77,069)
Frontier PA	0.025274	0.027346	(0.002071)	13,080,949	$27,095	$108,381	$108,381	$0
Hickory	0.019838	0.036042	(0.016203)	947,361	$15,350	$61,402	$61,402	$0
Ironton	0.026990	0.076550	(0.049560)	2,554,616	$126,607	$506,428	$506,428	$0
Lackawaxen	0.023535	0.023739	(0.000204)	1,574,973	$322	$1,287	$1,287	$0
Laurel Highland	0.021486	0.036634	(0.015148)	3,131,499	$47,437	$189,747	$189,747	$0
Mahanoy & Mahantango	0.027068	0.026598	0.000470	5,252,181	($2,470)	($9,879)	$0	($9,879)
Marianna & Scenery Hill	0.029301	0.039297	(0.009996)	1,536,424	$15,357	$61,430	$61,430	$0
North-Eastern PA	0.029222	0.037248	(0.008026)	5,797,084	$46,525	$186,098	$186,098	$0
North Penn	0.027471	0.032084	(0.004613)	2,640,797	$12,182	$48,730	$48,730	$0
North Pittsburgh	0.028504	0.040150	(0.011645)	59,302,966	$690,610	$2,762,441	$2,762,441	$0
Palmerton	0.029665	0.034664	(0.004999)	6,629,789	$33,143	$132,572	$132,572	$0
Pennsylvania Telephone	0.023424	0.036142	(0.012718)	486,128	$6,183	$24,731	$24,731	$0
Pymatuning	0.018942	0.036479	(0.017537)	1,109,610	$19,460	$77,839	$77,839	$0
South Canaan	0.029676	0.056053	(0.026377)	1,566,467	$41,319	$165,277	$165,277	$0
Sugar Valley	0.021683	0.028659	(0.006976)	1,762,516	$12,295	$49,179	$49,179	$0
Venus	0.034454	0.039235	(0.004781)	802,115	$3,835	$15,339	$15,339	$0
Yukon Waltz	0.022056	0.035239	(0.013183)	816,269	$10,761	$43,042	$43,042	$0
Industry Totals				464,247,139	1,881,385	$7,525,541	$12,826,635	($5,301,095)

Calculate Intrastate CCL Revenue Reduction due to Implementation of IntraLATA and InterLATA Flat Rated Caps To Be Recovered via USF Draw

Company Names	Revised Intrastate CCL Support	Increase in TS rate change to Interstate	Revised Intrastate CCL Support	Access Lines	Ave Monthly Intrastate CCL Support per A. L.	Decrease to $7.00 CAP Intrastate CCL Support per A. L.
ALLTEL	$22,662,744	$0	$22,662,744	226,202	$8.35	$1.35
Armstrong North	$47,040	($12,036)	$35,004	524	$5.57	$0.00
Armstrong PA	$514,123	($127,773)	$386,350	1,654	$19.47	$12.47
Bentleyville	$800,094	($118,297)	$681,798	3,433	$16.55	$9.55
Buffalo Valley	$2,593,378	($265,419)	$2,327,960	20,684	$9.38	$2.38
Citizens Communications	$123,169	$0	$123,169	1,328	$7.73	$0.73
Citizens of Kecksburg	$611,729	($137,048)	$474,681	5,392	$7.34	$0.34
Commonwealth	$29,501,255	($6,588,836)	$22,912,418	267,044	$7.15	$0.15
Conestoga	$6,557,734	($797,979)	$5,759,755	52,688	$9.11	$2.11
Denver & Ephrata	$5,562,632	($345,326)	$5,217,306	55,131	$7.89	$0.89
Frontier Breezewood	$393,566	$0	$393,566	3,879	$8.46	$1.46
Frontier Canton	$318,339	$0	$318,339	3,858	$6.88	$0.00
Frontier Lakewood	$220,835	$0	$220,835	1,505	$12.23	$5.23
Frontier Oswayo	$191,064	$0	$191,064	2,208	$7.21	$0.21
Frontier PA	$2,112,949	($108,381)	$2,004,567	28,296	$5.90	$0.00
Hickory	$232,170	($61,402)	$170,768	1,319	$10.79	$3.79
Ironton	$556,672	($506,428)	$50,244	4,712	$0.89	$0.00
Lackawaxen	$399,977	($1,287)	$398,690	3,549	$9.36	$2.36
Laurel Highland	$891,357	($189,747)	$701,610	5,592	$10.46	$3.46
Mahanoy & Mahantango	$1,451,225	$0	$1,451,225	4,014	$30.13	$23.13
Marianna & Scenery Hill	$496,749	($61,430)	$435,319	2,750	$13.19	$6.19
North-Eastern PA	$1,488,857	($186,098)	$1,302,759	11,966	$9.07	$2.07
North Penn	$551,932	($48,730)	$503,202	4,844	$8.66	$1.66
North Pittsburgh	$16,731,979	($2,762,441)	$13,969,538	69,713	$16.70	$9.70
Palmerton	$2,058,501	($132,572)	$1,925,928	11,598	$13.84	$6.84
Pennsylvania Telephone	$136,282	($24,731)	$111,552	1,314	$7.07	$0.07
Pymatuning	$233,734	($77,839)	$155,895	2,413	$5.38	$0.00
South Canaan	$437,897	($165,277)	$272,620	2,905	$7.82	$0.82
Sugar Valley	$566,205	($49,179)	$517,026	1,137	$37.89	$30.89
Venus	$253,058	($15,339)	$237,719	1,287	$15.39	$8.39
Yukon Waltz	$241,740	($43,042)	$198,698	1,203	$13.77	$6.77
TOTALS	$98,938,987	($12,826,635)	$86,112,352	804,144	$8.92	

Calculate Intrastate CCL Revenue Reduction due to Implementation of IntraLATA and InterLATA Flat Rated Caps To Be Recovered via USF Draw (Continued)

Company Names	Annual Intrastate CCL Support Decrease	CCL Support Recovered via USF Draw	Current Support in Toll rates less USF	Total Adj Support	Toll percent	Toll portion per mou %	Toll savings
ALLTEL	$3,661,776	$3,661,776	$5,177,637	$19,000,968	21.56%	$4,095,985	$1,081,652
Armstrong North	$0	$0	$11,403	$35,004	26.22%	$9,177	$2,225
Armstrong PA	$247,414	$247,414	$92,202	$138,936	31.90%	$44,325	$47,876
Bentleyville	$393,398	$393,398	$165,537	$288,400	38.43%	$110,827	$54,710
Buffalo Valley	$590,504	$590,504	$468,988	$1,737,456	23.42%	$406,838	$62,150
Citizens Communications	$11,617	$11,617	$43,765	$111,552	67.78%	$75,611	$0
Citizens of Kecksburg	$21,725	$21,725	$312,986	$452,956	38.98%	$176,541	$136,446
Commonwealth	$480,694	$480,694	$8,194,938	$22,431,724	26.41%	$5,924,310	$2,270,627
Conestoga	$1,333,963	$1,333,963	$1,253,881	$4,425,792	23.15%	$1,024,510	$229,371
Denver & Ephrata	$586,274	$586,274	$1,323,440	$4,631,032	25.72%	$1,191,148	$132,292
Frontier Breezewood	$67,730	$67,730	$4,314	$325,836	8.19%	$26,674	$0
Frontier Canton	$0	$0	$0	$318,339	13.85%	$44,088	$0
Frontier Lakewood	$94,415	$94,415	$31,432	$126,420	28.04%	$35,450	$0
Frontier Oswayo	$5,565	$5,565	$0	$185,499	0.00%	$0	$0
Frontier PA	$0	$0	$275,573	$2,004,567	15.25%	$305,768	$0
Hickory	$59,972	$59,972	$22,119	$110,796	34.71%	$38,454	$0
Ironton	$0	$0	$38,446	$50,244	17.04%	$8,563	$29,884
Lackawaxen	$100,574	$100,574	$77,290	$298,116	25.81%	$76,958	$332
Laurel Highland	$231,882	$231,882	$169,703	$469,728	33.81%	$158,823	$10,880
Mahanoy & Mahantango	$1,114,021	$1,114,021	$206,420	$337,204	39.53%	$133,283	$73,137
Marianna & Scenery Hill	$204,319	$204,319	$125,914	$231,000	42.32%	$97,760	$28,154
North-Eastern PA	$297,615	$297,615	$546,273	$1,005,144	37.60%	$377,970	$168,302
North Penn	$96,278	$96,278	$64,645	$406,924	13.50%	$54,931	$9,715
North Pittsburgh	$8,113,646	$8,113,646	$3,630,783	$5,855,892	41.14%	$2,409,084	$1,221,699
Palmerton	$951,696	$951,696	$130,511	$974,232	23.60%	$229,876	$0
Pennsylvania Telephone	$1,176	$1,176	$44,302	$110,376	32.79%	$36,193	$8,109
Pymatuning	$0	$0	$39,899	$155,895	23.84%	$37,164	$2,735
South Canaan	$28,600	$28,600	$137,372	$244,020	33.56%	$81,901	$55,472
Sugar Valley	$421,518	$421,518	$90,271	$95,508	46.18%	$44,107	$46,164
Venus	$129,611	$129,611	$7,345	$108,108	15.36%	$16,610	$0
Yukon Waltz	$97,672	$97,672	$45,477	$101,025	33.79%	$34,135	$11,342
TOTALS	$19,343,657	$19,343,657	$22,732,865	$66,768,694	27.44%	$17,307,065	$5,683,274

Summary - Estimated Size Of PA USF Fund - Year 2

COMPANY NAMES	Year 1 USF Amount	Initial Carrier Charge	BOY1 Access Lines	Est. Annual Access Line Growth	EOY1 Access Lines	USF Amount Year 2
ALLTEL	$7,970,369	$6.73	226,202	3.21%	233,463	$8,226,218
Armstrong North	$0	$5.57	524	3.21%	541	$0
Armstrong PA	$187,004	$3.96	1,654	3.75%	1,716	$194,017
Bentleyville	$336,813	$5.63	3,433	2.80%	3,529	$346,243
Buffalo Valley	$571,289	$6.92	20,684	5.15%	21,749	$600,710
Citizens Communications	$107,965	$7.00	1,328	4.21%	1,384	$112,511
Citizens of Kecksburg	$2,399	$6.70	5,392	3.00%	5,554	$2,471
Commonwealth	$480,694	$7.00	267,044	8.02%	288,461	$519,246
Conestoga	$1,332,275	$7.00	52,688	5.82%	55,754	$1,409,813
Denver & Ephrata	$586,274	$7.00	55,131	4.61%	57,673	$613,301
Frontier Breezewood	$107,561	$7.00	3,879	-3.05%	3,761	$104,280
Frontier Canton	$159,281	$6.88	3,858	0.47%	3,876	$160,029
Frontier Lakewood	$108,314	$6.86	1,505	0.91%	1,519	$109,300
Frontier Oswayo	$79,857	$7.00	2,208	0.46%	2,218	$80,224
Frontier PA	$0	$5.90	28,296	4.40%	29,541	$0
Hickory	$97,621	$7.00	1,319	2.93%	1,358	$100,481
Ironton	$56,533	$0.83	4,712	12.30%	5,292	$63,487
Lackawaxen	$97,667	$6.93	3,549	4.42%	3,706	$101,984
Laurel Highland	$285,159	$7.00	5,592	-0.09%	5,587	$284,903
Mahanoy & Mahantango	$938,268	$3.15	4,014	1.85%	4,089	$955,626
Marianna & Scenery Hill	$149,606	$5.34	2,750	3.58%	2,848	$154,962
North-Eastern PA	$231,144	$6.54	11,966	4.99%	12,563	$242,679
North Penn	$79,690	$6.71	4,844	2.43%	4,962	$81,627
North Pittsburgh	$4,924,706	$3.19	69,713	7.54%	74,969	$5,296,029
Palmerton	$937,997	$6.68	11,598	1.75%	11,801	$954,412
Pennsylvania Telephone	$52,418	$6.94	1,314	3.41%	1,359	$54,206
Pymatuning	$59,939	$5.38	2,413	6.02%	2,558	$63,548
South Canaan	$16,984	$6.67	2,905	6.18%	3,085	$18,034
Sugar Valley	$357,536	$0.00	1,137	3.01%	1,171	$368,298
Venus	$124,462	$6.67	1,287	2.64%	1,321	$127,748
Yukon Waltz	$77,523	$5.60	1,203	10.18%	1,325	$85,415
PA USF Fund Amt	**$20,517,350**		**$804,144**			**$21,431,800**

Summary - Estimated Size Of PA USF Fund - Year 3

COMPANY NAMES	Year 2 USF Amount	Year 2 Carrier Charge	BOY2 Access Lines	Est. Annual Access Line Growth	EOY2 Access Lines	USF Amount Year 3
ALLTEL	$8,226,218	$6.73	233,463	3.21%	240,957	$8,490,279
Armstrong North	$0	$5.57	541	3.21%	558	$0
Armstrong PA	$194,017	$3.96	1,716	3.75%	1,780	$201,292
Bentleyville	$346,243	$5.63	3,529	2.80%	3,628	$355,938
Buffalo Valley	$600,710	$6.92	21,749	5.15%	22,869	$631,647
Citizens Communications	$112,511	$7.00	1,384	4.21%	1,442	$117,247
Citizens of Kecksburg	$2,471	$6.70	5,554	3.00%	5,721	$2,545
Commonwealth	$519,246	$7.00	288,461	8.02%	311,596	$560,890
Conestoga	$1,409,813	$7.00	55,754	5.82%	58,999	$1,491,864
Denver & Ephrata	$613,301	$7.00	57,673	4.61%	60,332	$641,574
Frontier Breezewood	$104,280	$7.00	3,761	-3.05%	3,646	$101,100
Frontier Canton	$160,029	$6.88	3,876	0.47%	3,894	$160,781
Frontier Lakewood	$109,300	$6.86	1,519	0.91%	1,533	$110,295
Frontier Oswayo	$80,224	$7.00	2,218	0.46%	2,228	$80,593
Frontier PA	$0	$5.90	29,541	4.40%	30,841	$0
Hickory	$100,481	$7.00	1,358	2.93%	1,398	$103,425
Ironton	$63,487	$0.83	5,292	12.30%	5,943	$71,296
Lackawaxen	$101,984	$6.93	3,706	4.42%	3,870	$106,492
Laurel Highland	$284,903	$7.00	5,587	-0.09%	5,582	$284,646
Mahanoy & Mahantango	$955,626	$3.15	4,089	1.85%	4,165	$973,305
Marianna & Scenery Hill	$154,962	$5.34	2,848	3.58%	2,950	$160,510
North-Eastern PA	$242,679	$6.54	12,563	4.99%	13,190	$254,788
North Penn	$81,627	$6.71	4,962	2.43%	5,083	$83,611
North Pittsburgh	$5,296,029	$3.19	74,969	7.54%	80,622	$5,695,349
Palmerton	$954,412	$6.68	11,801	1.75%	12,008	$971,114
Pennsylvania Telephone	$54,206	$6.94	1,359	3.41%	1,405	$56,054
Pymatuning	$63,548	$5.38	2,558	6.02%	2,712	$67,373
South Canaan	$18,034	$6.67	3,085	6.18%	3,276	$19,148
Sugar Valley	$368,298	$0.00	1,171	3.01%	1,206	$379,384
Venus	$127,748	$6.67	1,321	2.64%	1,356	$131,121
Yukon Waltz	$85,415	$5.60	1,325	10.18%	1,460	$94,111
PA USF Fund Amt	**$21,431,800**		**848,733**			**$22,397,772**

Summary - Estimated Size Of PA USF Fund - Year 4

COMPANY NAMES	Year 3 USF Amount	Year 3 Carrier Charge	BOY3 Access Lines	Est. Annual Access Line Growth	EOY3 Access Lines	USF Amount Year 4
ALLTEL	$8,490,279	$6.73	240,957	3.21%	248,692	$8,762,817
Armstrong North	$0	$5.57	558	3.21%	576	$0
Armstrong PA	$201,292	$3.96	1,780	3.75%	1,847	$208,841
Bentleyville	$355,938	$5.63	3,628	2.80%	3,730	$365,904
Buffalo Valley	$631,647	$6.92	22,869	5.15%	24,047	$664,177
Citizens Communications	$117,247	$7.00	1,442	4.21%	1,503	$122,183
Citizens of Kecksburg	$2,545	$6.70	5,721	3.00%	5,893	$2,621
Commonwealth	$560,890	$7.00	311,596	8.02%	336,586	$605,873
Conestoga	$1,491,864	$7.00	58,999	5.82%	62,433	$1,578,691
Denver & Ephrata	$641,574	$7.00	60,332	4.61%	63,113	$671,151
Frontier Breezewood	$101,100	$7.00	3,646	-3.05%	3,535	$98,016
Frontier Canton	$160,781	$6.88	3,894	0.47%	3,912	$161,537
Frontier Lakewood	$110,295	$6.86	1,533	0.91%	1,547	$111,298
Frontier Oswayo	$80,593	$7.00	2,228	0.46%	2,238	$80,964
Frontier PA	$0	$5.90	30,841	4.40%	32,198	$0
Hickory	$103,425	$7.00	1,398	2.93%	1,439	$106,455
Ironton	$71,296	$0.83	5,943	12.30%	6,674	$80,065
Lackawaxen	$106,492	$6.93	3,870	4.42%	4,041	$111,199
Laurel Highland	$284,646	$7.00	5,582	-0.09%	5,577	$284,390
Mahanoy & Mahantango	$973,305	$3.15	4,165	1.85%	4,242	$991,311
Marianna & Scenery Hill	$160,510	$5.34	2,950	3.58%	3,056	$166,256
North-Eastern PA	$254,788	$6.54	13,190	4.99%	13,848	$267,502
North Penn	$83,611	$6.71	5,083	2.43%	5,207	$85,642
North Pittsburgh	$5,695,349	$3.19	80,622	7.54%	86,701	$6,124,778
Palmerton	$971,114	$6.68	12,008	1.75%	12,218	$988,109
Pennsylvania Telephone	$56,054	$6.94	1,405	3.41%	1,453	$57,965
Pymatuning	$67,373	$5.38	2,712	6.02%	2,875	$71,429
South Canaan	$19,148	$6.67	3,276	6.18%	3,478	$20,332
Sugar Valley	$379,384	$0.00	1,206	3.01%	1,242	$390,803
Venus	$131,121	$6.67	1,356	2.64%	1,392	$134,582
Yukon Waltz	$94,111	$5.60	1,460	10.18%	1,609	$103,691
PA USF Fund Amt	**$22,397,772**		**896,250**			**$23,418,584**

VZ St. 1.0, Price Direct
Docket I-00040105

Exhibit 3

July 15, 2003 USF Settlement

ATTACHMENT A
RTCC/SPRINT/OCA/OTS/OSBA
JOINT ACCESS PROPOSAL
IN RESPONSE TO THE COMMISSION'S
ACCESS CHARGE INVESTIGATION - PHASE II

Defined Terms

As employed herein, the following terms shall have these specified meanings:

- **"ILEC" means an RTCC member or The United Telephone Company of Pennsylvania d/b/a Sprint ("Sprint").**

- **"RTCC" means Rural Telephone Company Coalition. The RTCC members are ALLTEL Pennsylvania, Inc. ("ALLTEL"), Armstrong Telephone Company - PA, Armstrong Telephone Company - North, Bentleyville Communications Corporation, d/b/a The Bentleyville Telephone Company, Buffalo Valley Telephone Company ("Buffalo Valley"), Citizens Telephone Company of Kecksburg, Citizens Telecommunications Company of New York,[11] Commonwealth Telephone Company ("Commonwealth"), Conestoga Telephone and Telegraph Company ("Conestoga"), Denver and Ephrata Telephone and Telegraph Company ("D&E"), Deposit Telephone Company, Frontier Communications of Breezewood, Inc., Frontier Communications of Canton, Inc., Frontier Communications of Lakewood, Inc., Frontier Communications of Oswayo River, Inc., Frontier Communications of Pennsylvania, Inc. ("Frontier PA"), The Hancock Telephone Company, Hickory Telephone Company, Ironton Telephone Company, Lackawaxen Telecommunications Services, Inc., Laurel Highland Telephone Company, Mahanoy & Mahantango Telephone Co., Marianna & Scenery Hill Telephone Company, The North-Eastern PA Telephone Company, North Penn Telephone Company, North Pittsburgh Telephone Company ("NPTC"), Palmerton Telephone Company, Pennsylvania Telephone Company, Pymatuning Independent Telephone Company, South Canaan Telephone Company, Sugar Valley Telephone Company, Venus Telephone Corporation, and Yukon-Waltz Telephone Company.**

- **"Larger ILEC," for purposes of this Proposal only,[12] means ALLTEL, Buffalo Valley, Commonwealth, Conestoga, D&E, Frontier PA, NPTC, and Sprint.**

- **"Smaller ILEC," for purposes of this Proposal only, means any RTCC member that is not a Larger ILEC.**

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[11] Because Citizens Telecommunications Company of New York has and continues to operate under New York access tariffs, it is not to be deemed a party to this proposal. Likewise, West Side Telephone Company was not included in the Global proceeding and is excluded here.

[12] The designation of larger and smaller ILEC was based upon the factor of 20,000 access lines and was for purposes of this Proposal only, for the purpose of redirecting monies out of the existing USF that were previously allocated to Sprint.

Elements of Proposal

1) **If an ILEC's intrastate traffic sensitive (TS) rates exceed its interstate TS rates, the ILEC may, at its sole discretion, lower its intrastate TS rates to match or move closer to its interstate TS rates, and simultaneously increase its Carrier Charge (CC) by a corresponding revenue neutral amount using the 12 months ended August 31, 2002, or the most current 12 month period, thereby creating a revised CC. An ILEC may, at its sole discretion, lower its intrastate TS rates to match or move closer to its interstate TS rates, and simultaneously increase its Carrier Charge (CC) by a corresponding revenue-neutral amount, again in 2004, using a recent 12 month period, thereby creating a further revised CC. All references to CC herein shall be to the then current revised CC if the ILEC has chosen to implement this element of the proposal.**

2) **Pursuant to an Order entered adopting this access proposal without modification, and after notice through bill insert, bill message or separately mailed notice to all customers at least 30 days prior to the date of any rate change, each ILEC will increase local rates, based upon one-day tariff compliance filing, to be effective on a date between January 1, 2003 and December 31, 2003 (as to be determined at the sole discretion of the individual ILEC) as follows:**

   (a) **Each ILEC with a weighted average R-1 rate below $10.83 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of $11. If the increase results in R- 1 rates greater than 150% of the current rate, then the increase shall be implemented in two steps, the second of which shall become effective no later than December 31, 2003. This increase shall be subject to the Company's Chapter 30 Plan rate rebalancing limitation with respect to the limitation on calendar year per line increases, i.e. not more than $3.50 per line per month in rate increases in any one year, but shall not be subject to any other Chapter 30 process or requirements. To the extent that any ILEC shall not be able to complete the required rate increase within any year, such rate increase may be deferred to the following year subject to the Company's Chapter 30 Plan rate rebalancing limitations. Any rate rebalancing in excess of that specifically referenced in Paragraph 2 shall be subject to the Chapter 30 Plan rate rebalancing process and requirements.**

   (b) **Each ILEC with a weighted average R-1 rate between $10.83 - $12 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of $13.50.**

   (c) **Each ILEC with a weighted average R-l rate between $12.01 - $14 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of $15.**

   (d) **Each ILEC with a weighted average R-l rate between $14.0l-$16 as of December 31, 2002, will increase its R-l rates in a manner to achieve a weighted average R-l rate of $16.**

(e) **Each ILEC may, at its sole option, increase its weighted average Business line rate by up to the same amount that its weighted average R-1 rate is increased, but in no event may the B-1 rate be less than the R-1 rate.**

3) **Pursuant to an Order entered adopting this access proposal without modification, and after notice through bill insert, bill message or separately mailed notice to all customers at least 30 days prior to the date of any rate change, each ILEC may increase local rates, based upon a one-day tariff compliance filing, to be effective on a date between January 1, 2004 and December 31, 2004 (as to be determined at the sole discretion of the individual ILEC) as follows:**

(a) **Each ILEC with a weighted average R-1 rate of $11 (or less) as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a weighted average R-l rate of $13.50.**

(b) **Each ILEC with a weighted average R-l rate of $13.50 as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-l rates in a manner to achieve a weighted average R 1 rate of $15.**

(c) **Each ILEC with a weighted average R-l rate of $15 as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a weighted average R-l rate of $17.**

(d) **Each ILEC with a weighted average R-1 rate of $16 as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a maximum weighted average R- 1 rate of $18.**

(e) **Each ILEC may, at its sole option, increase its weighted average Business line rate by up to the same amount that its weighted average R-1 rate is increased, but in no event may the B-1 rate be less than the R-1 rate.**

Any rate rebalancing in excess of that specifically referenced in Paragraphs 2 and 3 shall be subject to the Chapter 30 Plan rate rebalancing process and requirements.

4) **The monthly $16.00 cap on R-1 average rates established in the Global Order and any ILEC-specific weighted average rate cap which may have been established in any individual ILEC's Chapter 30 Plan will be increased for all ILECs to the weighted average $18.00 cap for a minimum three (3) year period January 1, 2004 through December 31, 2006. As to any ILEC which as of July 1, 2002 has hit the $16.00 cap and takes a credit from the USF, the ILEC shall continue to receive and apply the credit but would be limited to recovering from its customers future R-1 increases of $2.00 under the foregoing $18.00 cap reflecting the USF credit in effect as of July 1, 2002. Any approved future increases in rates above the $18.00 rate cap for any ILEC shall also be recoverable from the USF under the exact same terms and conditions as approved in the Global Order. For example, if ILEC A's R-1 rates are currently $17.25, then their customer is billed $17.25 but receives a credit of $1.25 from USF, receiving a net bill of $16.00. ILEC A could, as of December 31, 2004, implement the provisions of Paragraph 3 hereof, increase its rates, if justified, by $2.00 to $19.25, charge its customers $19.25, reflect a credit of $1.25 to its customers, receive $1.25 from the USF, and then send a net bill to its customers of $18.00. If ILEC A justified an R-1 rate of $20.25, then it would be entitled to $2.25 from the USF and will send a net bill to its customers of $18.00.**

5) **Pursuant to an Order entered adopting this access proposal without modification, each ILEC shall have the right, in whole or in part, in lieu of raising local service rates as provided in Paragraphs 2 and 3 hereof to raise rates on other services by an equivalent amount, based on a one-day tariff compliance filing.**

6) **To offset the increase to local rates described above in Paragraphs 2 and 3, each ILEC (except Sprint) will file a compliance tariff(s) to reduce its CC or TS rates, or any combination thereof, by a revenue-neutral amount (depending upon changes undertaken in Paragraph 1, above), effective on dates consistent with the increases in Paragraphs 2 and 3.**

7) **In addition to any rate modifications undertaken pursuant to Paragraphs 2 and 3, each Smaller ILEC that increases its rates consistent with Paragraph 2, above, or is at the $16.00 capped rates on December 31, 2003, will additionally reduce its CC or TS rates, or any combination thereof, by the equivalent of $2 per line per month effective January 1, 2004 and shall receive an equal (a revenue-neutral) amount of support from the PA USF (annual total for all Smaller ILECs ranging from an estimated $1.8 million to $2.2 million), as provided in Paragraph 8.b. For ease of administration, the amount of additional USF received by the Smaller ILECs under this proposal will be determined as of December 31, 2003, and will be applied effective January 1, 2004 and each year thereafter for the duration of the Pa. USF (as addressed in Paragraph 1 of the Conditions of Proposal.) Beginning in 2005, any growth in access lines shall be accounted for in accordance with the annual USF calculation in 52 Pa. Code §63.165 and the Smaller ILECs'**

total receipt from the Pa. USF, including the amount provided for herein, shall be included in the Smaller ILECs' prior year funding.

8) **(a) To offset the increase to Sprint's local rates described above in Paragraph 2, above, Sprint will file compliance tariff(s) to reduce its CC or TS rates, or any combination thereof, by a revenue-neutral amount (depending upon changes undertaken in Paragraph 1, above) effective on dates consistent with the increases in Paragraph 2.**

(b) Beginning on or after January 1, 2004, Sprint will reduce its receipt from the current PA USF equal to the $2 per line per month reduction to the CC or TS, from Smaller ILECs as expressed in Paragraph 7. These dollars (annual total ranging from an estimated $1.8 million to $2.2 million) will be directly paid to the Smaller ILECs, as described in Paragraph 7, from the PA USF to offset the Smaller ILECs' reduction in access charges on a revenue neutral basis.

9) **On/or after January 1 of each year beginning in 2005 each ILEC may request such rate changes or rate rebalancing as are permitted by any Chapter 30 Plans and/or applicable statutory and regulatory provisions.**

Conditions of Proposal

1) **The only change to the existing universal service fund in PA is that Sprint will be shifting a portion (estimated to be $1.8 m - $2.2m) of its current fund receipt ($9 million) to Smaller ILECs as noted in Paragraphs 7 and 8 above. This Proposal is dependent upon all other aspects of the PA universal service program and the USF regulations remaining intact, including the recovery of rates above the rate cap into the future, specifically beyond December 31, 2003. The existing universal service fund, including the recovery of monies under Paragraph 4 of Elements of Proposal above, and regulations promulgated thereunder shall, as provided in the regulations, continue in place until modified by further Commission rulemaking.**

2) **Each ILEC reserves the right, subject to Chapter 30 Plan requirements, to change its access rates to ensure that each access rate element at least recovers its cost and the ILEC's service price index continues to be equal to or less than the ILEC's price stability index, in the event the ILEC's access rates are determined to be below cost based upon the development of a cost study.**

3) **This proposal is made in its entirety and no part hereof is valid or binding unless all components are accepted by all parties. Should any part be specifically modified or otherwise adversely impacted at any later date as to any ILEC or party, the ILEC or party shall have full unilateral rights to withdraw from the plan or revisit the plan in its sole discretion. This potential agreement is proposed by the parties to settle the instant**

controversy and is made without any admission against or use that is intended to prejudice any positions which any party might adopt during subsequent litigation, including further litigation in related proceedings. This agreement is conditioned upon the Commission's approval of all terms and conditions contained herein, except for the terms of this paragraph. If the Commission should fail to grant such approval or should modify the terms and conditions herein, this agreement may be withdrawn upon written notice to the Commission and all parties within five business days by any of the parties and, in such event, shall be of no force and effect. In the event that the Commission does not approve the Settlement or any party elects to withdraw as provided above and any proceeding continues, the parties reserve their respective rights to submit testimony or other pleadings and briefs in this or a related proceeding.

4) **Elements of this Proposal shall constitute rate rebalancings or rate filings as defined and allowed under each ILEC's Chapter 30 Plan only to the extent of determining the maximum amount of an increase allowed per year, but shall not preclude the filing of one additional rate restructuring/rebalancing filing in the calendar year so long as the total rate rebalancing rate increases do not exceed the maximum annual increase allowed and comply with other Chapter 30 Plan limitations and requirements. That is, implementation of proposed Paragraphs 2, 3 and 5 under Elements of Proposal are not considered rate rebalancings under the Chapter 30 Plans except in determining the maximum limitation on per year line rate increases to monthly dial tone rates. All parties retain all other rights under the approved Chapter 30 Plan to implement or oppose all rate rebalancings and other rate filings permitted under its Chapter 30 Plan. All parties reserve all rights in any proceedings relative to Chapter 30.**

5) **Increases to weighted average business rates on a dollar basis will be less than or equal to the increases to weighted average residential rates on a dollar basis.**

6) **This access proposal will be revenue neutral relative to each ILEC implementing a rate change. Absolutely no changes shall be required which are not revenue-neutral. Other access reductions that are not revenue neutral are permissible at the ILEC's sole option, but not required.**

7) **When notice is sent to each company's customers as provided in Paragraphs 2 and 3 under elements of Proposal, it will also be served upon all parties to this Proposal.**

VZ St. 1.0, Price Direct
Docket I-00040105

Exhibit 3

July 15, 2003 USF Settlement

ATTACHMENT A
RTCC/SPRINT/OCA/OTS/OSBA
JOINT ACCESS PROPOSAL
IN RESPONSE TO THE COMMISSION'S
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- **"RTCC" means Rural Telephone Company Coalition. The RTCC members are ALLTEL Pennsylvania, Inc. ("ALLTEL"), Armstrong Telephone Company - PA, Armstrong Telephone Company- North, Bentleyville Communications Corporation, d/b/a The Bentleyville Telephone Company, Buffalo Valley Telephone Company ("Buffalo Valley"), Citizens Telephone Company of Kecksburg, Citizens Telecommunications Company of New York,[11] Commonwealth Telephone Company ("Commonwealth"), Conestoga Telephone and Telegraph Company ("Conestoga"), Denver and Ephrata Telephone and Telegraph Company ("D&E"), Deposit Telephone Company, Frontier Communications of Breezewood, Inc., Frontier Communications of Canton, Inc., Frontier Communications of Lakewood, Inc., Frontier Communications of Oswayo River, Inc., Frontier Communications of Pennsylvania, Inc. ("Frontier PA"), The Hancock Telephone Company, Hickory Telephone Company, Ironton Telephone Company, Lackawaxen Telecommunications Services, Inc., Laurel Highland Telephone Company, Mahanoy & Mahantango Telephone Co., Marianna & Scenery Hill Telephone Company, The North-Eastern PA Telephone Company, North Penn Telephone Company, North Pittsburgh Telephone Company ("NPTC"), Palmerton Telephone Company, Pennsylvania Telephone Company, Pymatuning Independent Telephone Company, South Canaan Telephone Company, Sugar Valley Telephone Company, Venus Telephone Corporation, and Yukon-Waltz Telephone Company.**

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Elements of Proposal

1) **If an ILEC's intrastate traffic sensitive (TS) rates exceed its interstate TS rates, the ILEC may, at its sole discretion, lower its intrastate TS rates to match or move closer to its interstate TS rates, and simultaneously increase its Carrier Charge (CC) by a corresponding revenue neutral amount using the 12 months ended August 31, 2002, or the most current 12 month period, thereby creating a revised CC. An ILEC may, at its sole discretion, lower its intrastate TS rates to match or move closer to its interstate TS rates, and simultaneously increase its Carrier Charge (CC) by a corresponding revenue-neutral amount, again in 2004, using a recent 12 month period, thereby creating a further revised CC. All references to CC herein shall be to the then current revised CC if the ILEC has chosen to implement this element of the proposal.**

2) **Pursuant to an Order entered adopting this access proposal without modification, and after notice through bill insert, bill message or separately mailed notice to all customers at least 30 days prior to the date of any rate change, each ILEC will increase local rates, based upon one-day tariff compliance filing, to be effective on a date between January 1, 2003 and December 31, 2003 (as to be determined at the sole discretion of the individual ILEC) as follows:**

   (a) **Each ILEC with a weighted average R-1 rate below $10.83 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of $11. If the increase results in R- 1 rates greater than 150% of the current rate, then the increase shall be implemented in two steps, the second of which shall become effective no later than December 31, 2003. This increase shall be subject to the Company's Chapter 30 Plan rate rebalancing limitation with respect to the limitation on calendar year per line increases, i.e. not more than $3.50 per line per month in rate increases in any one year, but shall not be subject to any other Chapter 30 process or requirements. To the extent that any ILEC shall not be able to complete the required rate increase within any year, such rate increase may be deferred to the following year subject to the Company's Chapter 30 Plan rate rebalancing limitations. Any rate rebalancing in excess of that specifically referenced in Paragraph 2 shall be subject to the Chapter 30 Plan rate rebalancing process and requirements.**

   (b) **Each ILEC with a weighted average R-1 rate between $10.83 - $12 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of $13.50.**

   (c) **Each ILEC with a weighted average R-l rate between $12.01 - $14 as of December 31, 2002, will increase its R-1 rates in a manner to achieve a weighted average R-1 rate of $15.**

   (d) **Each ILEC with a weighted average R-l rate between $14.0l-$16 as of December 31, 2002, will increase its R-l rates in a manner to achieve a weighted average R-l rate of $16.**

(e) **Each ILEC may, at its sole option, increase its weighted average Business line rate by up to the same amount that its weighted average R-1 rate is increased, but in no event may the B-1 rate be less than the R-1 rate.**

3) **Pursuant to an Order entered adopting this access proposal without modification, and after notice through bill insert, bill message or separately mailed notice to all customers at least 30 days prior to the date of any rate change, each ILEC may increase local rates, based upon a one-day tariff compliance filing, to be effective on a date between January 1, 2004 and December 31, 2004 (as to be determined at the sole discretion of the individual ILEC) as follows:**

(a) **Each ILEC with a weighted average R-1 rate of $11 (or less) as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a weighted average R-l rate of $13.50.**

(b) **Each ILEC with a weighted average R-l rate of $13.50 as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-l rates in a manner to achieve a weighted average R 1 rate of $15.**

(c) **Each ILEC with a weighted average R-l rate of $15 as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a weighted average R-l rate of $17.**

(d) **Each ILEC with a weighted average R-1 rate of $16 as of December 31, 2003 (as described and calculated in Step 2 above) may increase its R-1 rates in a manner to achieve a maximum weighted average R- 1 rate of $18.**

(e) **Each ILEC may, at its sole option, increase its weighted average Business line rate by up to the same amount that its weighted average R-1 rate is increased, but in no event may the B-1 rate be less than the R-1 rate.**

Any rate rebalancing in excess of that specifically referenced in Paragraphs 2 and 3 shall be subject to the Chapter 30 Plan rate rebalancing process and requirements.

4) **The monthly $16.00 cap on R-1 average rates established in the Global Order and any ILEC-specific weighted average rate cap which may have been established in any individual ILEC's Chapter 30 Plan will be increased for all ILECs to the weighted average $18.00 cap for a minimum three (3) year period January 1, 2004 through December 31, 2006. As to any ILEC which as of July 1, 2002 has hit the $16.00 cap and takes a credit from the USF, the ILEC shall continue to receive and apply the credit but would be limited to recovering from its customers future R-1 increases of $2.00 under the foregoing $18.00 cap reflecting the USF credit in effect as of July 1, 2002. Any approved future increases in rates above the $18.00 rate cap for any ILEC shall also be recoverable from the USF under the exact same terms and conditions as approved in the Global Order. For example, if ILEC A's R-1 rates are currently $17.25, then their customer is billed $17.25 but receives a credit of $1.25 from USF, receiving a net bill of $16.00. ILEC A could, as of December 31, 2004, implement the provisions of Paragraph 3 hereof, increase its rates, if justified, by $2.00 to $19.25, charge its customers $19.25, reflect a credit of $1.25 to its customers, receive $1.25 from the USF, and then send a net bill to its customers of $18.00. If ILEC A justified an R-1 rate of $20.25, then it would be entitled to $2.25 from the USF and will send a net bill to its customers of $18.00.**

5) **Pursuant to an Order entered adopting this access proposal without modification, each ILEC shall have the right, in whole or in part, in lieu of raising local service rates as provided in Paragraphs 2 and 3 hereof to raise rates on other services by an equivalent amount, based on a one-day tariff compliance filing.**

6) **To offset the increase to local rates described above in Paragraphs 2 and 3, each ILEC (except Sprint) will file a compliance tariff(s) to reduce its CC or TS rates, or any combination thereof, by a revenue-neutral amount (depending upon changes undertaken in Paragraph 1, above), effective on dates consistent with the increases in Paragraphs 2 and 3.**

7) **In addition to any rate modifications undertaken pursuant to Paragraphs 2 and 3, each Smaller ILEC that increases its rates consistent with Paragraph 2, above, or is at the $16.00 capped rates on December 31, 2003, will additionally reduce its CC or TS rates, or any combination thereof, by the equivalent of $2 per line per month effective January 1, 2004 and shall receive an equal (a revenue-neutral) amount of support from the PA USF (annual total for all Smaller ILECs ranging from an estimated $1.8 million to $2.2 million), as provided in Paragraph 8.b. For ease of administration, the amount of additional USF received by the Smaller ILECs under this proposal will be determined as of December 31, 2003, and will be applied effective January 1, 2004 and each year thereafter for the duration of the Pa. USF (as addressed in Paragraph 1 of the Conditions of Proposal.) Beginning in 2005, any growth in access lines shall be accounted for in accordance with the annual USF calculation in 52 Pa. Code §63.165 and the Smaller ILECs'**

total receipt from the Pa. USF, including the amount provided for herein, shall be included in the Smaller ILECs' prior year funding.

8) **(a) To offset the increase to Sprint's local rates described above in Paragraph 2, above, Sprint will file compliance tariff(s) to reduce its CC or TS rates, or any combination thereof, by a revenue-neutral amount (depending upon changes undertaken in Paragraph 1, above) effective on dates consistent with the increases in Paragraph 2.**

(b) Beginning on or after January 1, 2004, Sprint will reduce its receipt from the current PA USF equal to the $2 per line per month reduction to the CC or TS, from Smaller ILECs as expressed in Paragraph 7. These dollars (annual total ranging from an estimated $1.8 million to $2.2 million) will be directly paid to the Smaller ILECs, as described in Paragraph 7, from the PA USF to offset the Smaller ILECs' reduction in access charges on a revenue neutral basis.

9) **On/or after January 1 of each year beginning in 2005 each ILEC may request such rate changes or rate rebalancing as are permitted by any Chapter 30 Plans and/or applicable statutory and regulatory provisions.**

Conditions of Proposal

1) **The only change to the existing universal service fund in PA is that Sprint will be shifting a portion (estimated to be $1.8 m - $2.2m) of its current fund receipt ($9 million) to Smaller ILECs as noted in Paragraphs 7 and 8 above. This Proposal is dependent upon all other aspects of the PA universal service program and the USF regulations remaining intact, including the recovery of rates above the rate cap into the future, specifically beyond December 31, 2003. The existing universal service fund, including the recovery of monies under Paragraph 4 of Elements of Proposal above, and regulations promulgated thereunder shall, as provided in the regulations, continue in place until modified by further Commission rulemaking.**

2) **Each ILEC reserves the right, subject to Chapter 30 Plan requirements, to change its access rates to ensure that each access rate element at least recovers its cost and the ILEC's service price index continues to be equal to or less than the ILEC's price stability index, in the event the ILEC's access rates are determined to be below cost based upon the development of a cost study.**

3) **This proposal is made in its entirety and no part hereof is valid or binding unless all components are accepted by all parties. Should any part be specifically modified or otherwise adversely impacted at any later date as to any ILEC or party, the ILEC or party shall have full unilateral rights to withdraw from the plan or revisit the plan in its sole discretion. This potential agreement is proposed by the parties to settle the instant**

controversy and is made without any admission against or use that is intended to prejudice any positions which any party might adopt during subsequent litigation, including further litigation in related proceedings. This agreement is conditioned upon the Commission's approval of all terms and conditions contained herein, except for the terms of this paragraph. If the Commission should fail to grant such approval or should modify the terms and conditions herein, this agreement may be withdrawn upon written notice to the Commission and all parties within five business days by any of the parties and, in such event, shall be of no force and effect. In the event that the Commission does not approve the Settlement or any party elects to withdraw as provided above and any proceeding continues, the parties reserve their respective rights to submit testimony or other pleadings and briefs in this or a related proceeding.

4) **Elements of this Proposal shall constitute rate rebalancings or rate filings as defined and allowed under each ILEC's Chapter 30 Plan only to the extent of determining the maximum amount of an increase allowed per year, but shall not preclude the filing of one additional rate restructuring/rebalancing filing in the calendar year so long as the total rate rebalancing rate increases do not exceed the maximum annual increase allowed and comply with other Chapter 30 Plan limitations and requirements. That is, implementation of proposed Paragraphs 2, 3 and 5 under Elements of Proposal are not considered rate rebalancings under the Chapter 30 Plans except in determining the maximum limitation on per year line rate increases to monthly dial tone rates. All parties retain all other rights under the approved Chapter 30 Plan to implement or oppose all rate rebalancings and other rate filings permitted under its Chapter 30 Plan. All parties reserve all rights in any proceedings relative to Chapter 30.**

5) **Increases to weighted average business rates on a dollar basis will be less than or equal to the increases to weighted average residential rates on a dollar basis.**

6) **This access proposal will be revenue neutral relative to each ILEC implementing a rate change. Absolutely no changes shall be required which are not revenue-neutral. Other access reductions that are not revenue neutral are permissible at the ILEC's sole option, but not required.**

7) **When notice is sent to each company's customers as provided in Paragraphs 2 and 3 under elements of Proposal, it will also be served upon all parties to this Proposal.**

VZ St. 1.0, Price Direct
Docket I-00040105

Exhibit 4

R-1 Rates
PTA Response to OCA I-5
Embarq Response to Verizon I-3

Person Answering: Gary Zingaretti

OCA-I-5: Please identify the current R1 rate for each company.

Answer: Attached please find Attachment OCA Set I-5 which sets forth the current R1 rate for each of the PTA companies.

Company	Band	Res Rate
Armstrong Telephone Company - North		$13.50
Armstrong Telephone Company - PA		$13.50
Bentleyville		$13.50
Buffalo Valley		$15.80
Citizens of Kecksburg		$11.00
Citizens- New York	Little Meadows	$17.73
	Quaker Lake	$7.52
Citizens - Frontier Commonwealth	RB1	$14.43
	RB2	$14.68
	RB3	$14.93
	RB4	$15.18
	RB5	$15.68
	RB6	$16.18
Conestoga	RB1	$12.14
	RB2	$12.81
	RB3	$13.62
	RB4	$14.52
	RB5	$15.53
	RB6	$16.67
D&E	RB1	$13.20
	RB2	$14.13
	RB3	$15.11
	RB4	$16.14
	RB5	$17.22
	RB6	$18.30
	RB7	$19.38
Frontier of Breezewood		$17.96
Frontier of Canton	Canton	$17.70
	Leroy	$18.00
Frontier of Lakewood		$16.99
Frontier of Oswayo River		$18.00
Frontier of PA		$16.49
Hickory		$17.27
Ironton		$13.50

Lackawaxen		$13.50
Laurel Highland	Stahlstown	$12.45
	Indian Head	$14.40
Marianna and Scenery Hill		$16.00
North-Eastern	RG1	$13.68
	RG2	$14.72
	RG3	$15.75
North Penn	Millerton	$12.84
	Bentley Creek	$13.27
	Roseville	$14.81
Consolidated- North Pittsburgh	A	$12.84
	B	$14.44
	C	$15.99
	D	$17.54
	E	$19.09
Palmerton	RB1	$10.11
	RB2	$11.16
	RB3	$12.52
	RB4	$13.66
	RB5	$15.57
	RB6	$16.21
	RB7	$19.61
Pennsylvania Telephone		$16.00
Pymatuning		$15.65
South Canaan	South Canaan	$16.40
	Waymart	$13.95
TDS Mahanoy & Mahantango		$18.50
TDS Sugar Valley		$18.50
Venus	RB1	$15.00
	RB2	$18.18
Windstream	Bands 1-6	$16.00
Yukon Waltz		$16.00

Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers, and the Pennsylvania Universal Service Fund

Docket No. I-00040105

Response of The United Telephone Company of Pennsylvania LLC *d/b/a* Embarq Pennsylvania To Set I Interrogatories Propounded by Verizon Pennsylvania, Inc., Verizon North, Inc. and MCImetro Access Transmission Services, LLC *d/b/a* Verizon Access Transmission Services, LLC.

Sponsor: Gerald Flurer

Verizon Set I-3

State:

a. Responding Company's current R-1 (residential) rate, and, if that rate has not been in effect for the past five years, the other rate(s) which were in effect during the past five years and the effective dates for the rate(s); and

b. Responding Company's current B-1 (business) rate, and, if that rate has not been in effect for the past five years, the other rate(s) which were in effect during the past five years and the effective dates for the rate(s)..

Response:

See table below showing Embarq Pennsylvania residential and business rates for past five years.

Effective Date	Residential Rate	Business Rate
12/16/05	$18.00	$26.53
1/11/05	$16.95 $17.95 $18.95	$23.53 $26.53 $29.53
5/1/04	$16.02 $17.02 $18.02	No changes
12/2/02	$14.95 $15.95 $16.95	$22.60 $25.60 $28.60

Exhibit 5

EXHIBIT 5 IS PROPRIETARY AND THEREFORE IS NOT INCLUDED IN THIS EXPURGATED VERSION

EXHIBIT 6 IS PROPRIETARY AND THEREFORE IS NOT INCLUDED IN THIS EXPURGATED VERSION

EXHIBIT 7 IS PROPRIETARY AND THEREFORE IS NOT INCLUDED IN THIS EXPURGATED VERSION

EXHIBIT 8 IS PROPRIETARY AND THEREFORE IS NOT INCLUDED IN THIS EXPURGATED VERSION

VERIZON
STATEMENT NO. 1.1

INVESTIGATION REGARDING INTRASTATE ACCESS CHARGES AND INTRALATA TOLL RATES OF RURAL CARRIERS, AND THE PENNSYLVANIA UNIVERSAL SERVICE FUND

DOCKET NO.
I-00040105

VERIZON

STATEMENT NO. 1.1

(REBUTTAL TESTIMONY)

WITNESS: Don Price

DATED: January 15, 2009

TABLE OF CONTENTS

I. INTRODUCTION AND BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. ARE YOU THE SAME DON PRICE WHO SUBMITTED DIRECT TESTIMONY ON BEHALF OF VERIZON PENNSYLVANIA INC. ("VERIZON PA"), VERIZON NORTH INC. ("VERIZON NORTH") AND MCIMETRO ACCESS TRANSMISSION SERVICES LLC D/B/A VERIZON ACCESS TRANSMISSION SERVICES (COLLECTIVELY "VERIZON") ON DECEMBER 10, 2008?

A. Yes.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. The purpose of this testimony is to rebut certain statements made in the direct testimony of the other parties submitted on December 10, 2008 relating to the issues set for investigation in the Pennsylvania Public Utility Commission's ("PUC") April 24, 2008 Order in this matter. In particular, I rebut the testimony submitted by Robert Loube and Roger D. Colton on behalf of the Office of Consumer Advocate ("OCA"), Joseph J. Laffey on behalf of the Pennsylvania Telephone Association ("PTA") and Russell R. Gutshall on behalf of the United Telephone Company of Pennsylvania LLC d/b/a Embarq Pennsylvania ("Embarq").[1]

[1] Embarq and the PTA companies are referred to collectively herein as the rural incumbent local exchange carriers, or "RLECs."

Q. COULD YOU SUMMARIZE YOUR RESPONSE TO THE TESTIMONY SUBMITTED BY OCA, PTA AND EMBARQ?

A. Yes. Nothing in the other parties' testimony alters my position, as stated in my direct testimony, that the PUC should not require other telephone carriers to fund the RLECs' annual alternative regulation revenue increases through increased state universal service fund ("USF") subsidies. Instead the PUC should be working to ***decrease*** the enormous flow of revenues from other PUC-regulated carriers to the RLECs. In particular the PUC should halt USF payments to the mid-tier RLECs, a group of carriers that are not "mom and pop" telephone companies but are subsidiaries of large and sophisticated telecommunications conglomerates, and yet still receive almost $25 million of the approximately $30 million supplied by the USF each year – a full 83% of the fund.

In their direct testimony, OCA and the RLECs state for the first time their positions on the issues set for investigation. They ask the PUC to create a ***new*** USF – fundamentally different in size, scope, operation and purpose from the temporary and interim USF adopted in the 1999 *Global Order*. Their conception of this new USF could not be more one-sided in favor of the RLECs, by guaranteeing them an ever-increasing stream of revenue that could quickly snowball to tens or hundreds of millions of dollars per year, to be funded by other carriers but ultimately paid for by ordinary Pennsylvanians. Their proposed USF would impermissibly convert Chapter 30's framework – under which the Legislature provided an ***opportunity*** for carriers under alternative regulation to make inflation-based rate increases subject to all of the risks and incentives inherent in the competitive marketplace – into

something entirely different. The RLECs ask the PUC for a ***guarantee*** of an ever-increasing, risk-free stream of revenue in perpetuity, not because of any purported need for it, but as a matter of alleged "right." The PUC should reject this unwarranted and anti-consumer USF proposal.

As part of the RLEC/OCA's one-sided USF proposal, they assert that RLEC basic residential rates should be "capped" at $18 and that business rates should be capped at some unspecified level. The RLECs and OCA conceive of the rate caps as the point at which their new USF starts. Once RLEC rates are at the cap level, any additional revenue opportunities can be taken from the USF. Of course, there is no legal, policy, or factual linkage between these issues; the PUC could establish "cap" levels but not permit the RLECs to claim from the USF revenues beyond the cap. However, the better outcome would be for the PUC to refrain from establishing a cap at all because the record does not demonstrate the necessity of such a cap – particularly for business rates where the RLECs' current rates are well below national averages. If the PUC wishes to set a residential rate benchmark for the RLECs, however, it should be higher than the $18 level set five years ago and should operate only as a "safe harbor," so that rate increases below the benchmark would take effect automatically while those above the safe harbor would require further PUC scrutiny and a "just and reasonable" analysis based on the particular facts of that case. Under no circumstance, however, should an RLEC be permitted to claim revenue from the USF in lieu of raising end-user rates or banking under the Chapter 30 mechanism.

Q. DOES THE TESTIMONY SUBMITTED BY THE PTA, EMBARQ AND OCA SHARE A COMMON THEME?

A. Yes. Each of these parties' arguments is aimed at supporting the ultimate contentions that: 1) the other telephone carriers that contribute to the state USF, such as Verizon, should be required to provide the RLECs with the inflation-based increase to noncompetitive services revenue permitted under their alternative regulation plans, and 2) that the RLECs should not be required to secure that revenue from their retail end users. Therefore, my testimony first addresses their fundamentally flawed premise – showing that they have not established any basis to require other carriers to fund the RLECs' annual revenue increases. I then address the flaws in their supporting arguments, showing that they have not established that RLEC basic residential rates should be capped at $18, have not established that there should be any cap on RLEC business rates and have not explained why the mid-sized RLECs should be receiving any USF support at all, much less an increase in that support.

III. THE OTHER PARTIES HAVE NOT DEMONSTRATED THAT OTHER CARRIERS SHOULD BE SUBSIDIZING THE RLECS' ANNUAL REVENUE INCREASES

Q. DO YOU AGREE WITH THE OCA, PTA AND EMBARQ THAT THE USF SHOULD BE USED TO SUPPLY THE RLECS WITH REVENUE INCREASES UNDER THEIR ALTERNATIVE REGULATION PLANS, RATHER THAN REQUIRING THE RLECS TO SECURE THAT NEW REVENUE FROM THEIR RETAIL END USERS?

A. No, I do not agree. As I discussed in my direct testimony, the PUC did not establish or intend the USF as a means to generate additional revenues for the RLECs. It was simply a temporary mechanism that the PUC adopted nearly 10 years ago to replace the revenue from a discrete set of access and toll rate reductions to help the RLECs transition to a competitive market. (See Price Direct at 8-9). To now increase the already substantial flow of revenue from other carriers to the RLECs (a flow provided both by the current USF payments and by many RLECs' excessive access charges) would be anti-competitive and harmful to consumers. Not only should the PUC reject the RLECs' arguments to expand and fundamentally alter the USF as a means to fund the RLECs' annual alternative regulation revenue increases, but it should plan to reduce and ultimately eliminate the current USF. At the very least the PUC should seriously examine why it is still necessary for other carriers to provide millions of dollars in annual subsidies to the mid-tier RLECs such as Windstream, Embarq, Consolidated, Frontier and D&E, even if it does not immediately terminate the USF for the smaller RLECs.

Q. YOU MENTIONED EARLIER THAT THE RLECS AND THE OCA ARE ARGUING FOR A PERMANENT AND EVER-INCREASING FLOW OF SUBSIDIES. COULD YOU EXPLAIN IN MORE DETAIL WHAT YOU MEAN?

A. Yes. The OCA and the RLECs are asking for something very different from the USF that was adopted by the 1999 *Global Order* and maintained through the Commission's USF regulations. The current USF provides the RLECs with approximately $30 million in revenue each year, tied to specific access and toll

reductions from the 1999/2000 timeframe. By contrast, under the plan proposed by the OCA and the RLECs, the USF would increase every year based on the RLECs' calculated revenue increase opportunities under their alternative regulation plans.

It is not possible to calculate the exact amount by which the fund could or would grow each year under the OCA and RLEC USF plan because it is not known which RLECs will seek to increase their rates beyond $18 and make claims against the USF, nor do we know what the future rate of inflation or the noncompetitive services revenue base of the RLECs will be. However, a simple example shows the dangerous snowball effect of the subsidization that the RLECs and OCA wish to set in motion. Assume that hypothetical "RLEC A" has increased its revenue to the "cap" levels and its next year's price change opportunity allows it to increase its noncompetitive services revenue by $2 million. Under the OCA/RLEC USF plan, it would obtain $2 million from the USF, increasing the current USF to $32 million. Meanwhile, other RLECs may be making similar claims, further expanding the size of the USF. Assuming inflation has increased again in the next year, RLEC A's plan allows it to increase revenue by another $2 million, causing it to increase its total USF draw to $4 million. Ten years down the road, assuming a constant $2 million revenue opportunity each year, RLEC A would be receiving $20 million from the state USF, turning the $30 million fund into a $50 million fund – without even accounting for the impact of other carriers' claims. If most or all of the RLECs begin exercising the opportunity to fund their revenue increases through the USF, there is likely to be much more than $2 million in annual increases to the fund and the size of the USF will increase exponentially. Indeed, with the prospect of no-risk

money available through this RLEC/OCA USF, it can be expected that all of the RLECs will have the incentive to raise their rates to the cap levels in order to begin claiming this free money.

The potential magnitude of this snowball effect can be seen by reviewing Embarq's testimony on this issue. Embarq goes so far as to contend that not only should the RLECs be able to fund future revenue increase opportunities through the USF, but the RLECs should also be permitted to "recover" their "unexpired banked revenues" from the state USF. (Gutshall Direct at 22; *see also* Loube Direct at 28-29). According to Mr. Gutshall, Embarq has nearly $9 million of unused revenue increase opportunities in its bank. (Gutshall Direct at 18). If Embarq were to make a $9 million claim against the USF now, that claim alone would increase the size of the current fund by almost a third in the first year. If Embarq were to continue to generate new revenue opportunities each year at the same rate, its USF claim would double to $18 million, then triple to $27 million, and so on, soon dwarfing the present size of the fund in payments to Embarq alone, without considering other carriers' potential claims.[2]

Q. BUT IF EMBARQ AND THE OTHER ILECS WERE TO CONTINUE TO INCREASE END USER RATES EACH YEAR TO OBTAIN THEIR REVENUE OPPORTUNITIES BASED ON THEIR INFLATION-DRIVEN FORMULAS, WOULDN'T THEIR REVENUE FROM END USERS ALSO INCREASE TO THE SAME EXTENT YOU DESCRIBE ABOVE?

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[2] For example, Windstream has nearly $7.5 million in its "bank," (Laffey Direct, Exhibit JJL-7), although it has not yet reached the $18 rate level. Mr. Laffey's Exhibit JJL-7 shows that the PTA RLECs have collectively banked at least $13.5 million, beyond Embarq's $9 million.

A. Not necessarily. With their USF proposal the RLECs and OCA would divorce the RLECs' annual exercise of their revenue increase opportunities from the disciplining effects of the market. When the RLECs are faced with the prospect of securing revenue through increasing end user rates, the market disciplines their actions in at least two ways. First, the RLECs may choose not to increase their rates, even though they have the "right" under their plans to increase noncompetitive services revenue. As an example, some of the RLECs presently have banked revenue even though they could still increase their basic residential rates. (Compare Price Direct Table 1 to Laffey Direct Exhibit JJL-7). The RLECs may view passing up on the rate increases as a better choice in the long run, increasing the chances of keeping those customers on their own networks where the RLEC has the opportunity also to sell them other services. Second, even if the RLECs do choose to increase basic service rates, there is no guarantee that they will secure the same revenue each year from the initial rate increase because Chapter 30 provides only a noncompetitive services revenue increase opportunity, not a guarantee. Taking RLEC A, discussed above, as an example, if RLEC A implemented basic service rate increases in year 1 to secure $2 million in new revenue, depending on its line count assumptions, it may secure something close to that amount. But if we assume that RLEC A is experiencing line losses consistent with the overall trend described by Mr. Laffey (Laffey Direct at 7), then the number of lines paying the increased rates would decrease over time by approximately 5% each year. RLEC A would thus lose not only approximately 5% per year of its original $2 million per year revenue increase, but it would also lose all of the noncompetitive services revenue that had been paid

by the lost lines. Looking ten years out at the impact of that initial year's increase, assuming 5% line loss each year, the original $2 million projected to be secured through those retail rate increases would be cut nearly in half. By contrast, with the RLEC/OCA USF proposal RLEC A would still be recovering $2 million per year ten years out because the RLECs are guaranteed a revenue stream that stays constant each year regardless of line loss – revenue supplied by unwilling payers that do not have a choice to terminate their service and stop paying. Thus, the RLEC/OCA proposal would have the effect of insulating RLEC A from the operations of the competitive market and diminishing RLEC A's incentives to take actions to keep its retail customers.

Q. ARE THERE OTHER SIGNIFICANT DIFFERENCES BETWEEN SECURING THIS REVENUE FROM END USERS VERSUS THE RLEC/OCA USF?

A. Yes. Another significant difference is that when end user rates are increased based upon the rate of inflation, these customers are simply experiencing a cost of living increase to the price of services they have voluntarily chosen to purchase and for which they are receiving a value. Moreover, if one credits Dr. Loube's theory that the new revenue is being used to fund broadband deployment (Loube Direct at 30-31), then the customers may be receiving additional value associated with higher RLEC rates by gaining access to a better network and enhanced services. The carriers forced to contribute to the USF (and their own end-users, who ultimately foot the bill, one way or another), are by contrast simply paying more without making a voluntary choice and without receiving any additional value.

Q. WHAT WOULD BE THE EFFECT OF REQUIRING OTHER CARRIERS TO FUND THIS PERMANENT, RISK-FREE AND EVER-INCREASING FLOW OF SUBSIDIES TO THE RLECS?

A. For the RLECs, it would be a very good deal, providing them a guarantee of an ever-increasing revenue stream without the risks of competition or line loss. For Pennsylvania telecommunications consumers, however, it would not be a good deal. Consumers would lose all around. Because companies like Verizon, Comcast, AT&T and the others that pay into the USF would be diverting more and more revenue each year to subsidize the RLECs' operations, their customers would be denied the benefits of revenue that otherwise could have been used to improve the companies' products, services, or networks, or even to reduce rates. Those companies might even be required to increase some rates in order to carry on their every-day operations and meet their ever-increasing USF burden – particularly if the USF snowballs to tens or hundreds of millions of dollars. Because the USF contributions are calculated based on the carriers' intrastate revenue, moreover, telecommunications companies that might otherwise have chosen to invest in Pennsylvania could choose to take their business elsewhere, particularly as the USF burden becomes higher and higher as a percentage of revenue, leaving Pennsylvanians with fewer competitive options.

Customers in the RLEC territory will also suffer. Although they will have access to $18 basic service rates, their opportunities for competitive alternatives will be diminished because any carriers that wish to come in and compete with the RLEC will have to compete with heavily subsidized operations and either may choose not

to do so or may not compete as effectively.[3] These RLEC customers might also be deprived of service, product and network innovation by the RLEC itself, because an RLEC that is guaranteed a constant, ever-increasing and risk-free stream of revenue from a source other than its customers, and also faces a diminished competitive threat, will naturally have less incentive or need to deploy innovative products and services to retain and attract customers.

Q. HAVE THE RLECS AND OCA EVEN ATTEMPTED TO JUSTIFY CREATING THIS NEW FLOW OF REVENUE FROM OTHER CARRIERS TO THE RLECS?

A. No. Not only would it be legally unsupported and bad policy to create the new fund they recommend, for the reasons I discuss above and that will be addressed in briefing, but also the RLECs do not even try to demonstrate any need for a large cash infusion from other telephone carriers (which would not be appropriate under any circumstances, in any event) or that they cannot meet their operating needs and adequately serve their customers under their current rates and revenue opportunities. I can only presume that the reason the RLECs did not attempt to demonstrate a need for additional cash from the USF is because they could not do so.

Instead, they argue that the RLECs' financial condition is irrelevant to the claim for increased funding. Mr. Gutshall contends that looking to whether Embarq actually "needs" subsidies from the USF is "contrary" to Embarq's alternative regulation plan. (Gutshall Direct at 5). Similarly, Mr. Laffey contends that the

[3] This anti-competitive effect is exactly the opposite of the goal the PUC wished to achieve when it set out to reform RLEC access rates and created the original USF. *See, e.g.,* 52 Pa. Code § 63.161(3) (purpose of the PUC's USF regulations is to "encourage[e] greater competition.")

RLECs' alternative regulation plans provide an absolute "right" to greater subsidies without regard to need. (Laffey Direct at 15). Mr. Gutshall is so confident in Embarq's absolute entitlement to increased USF subsidies that he argues that even "[c]onsidering the overall financial health of a rural local exchange carrier" in the context or evaluating whether other carriers should be required to subsidize its operations would "punish" the RLEC. (Gutshall Direct at 21). In other words, even if an RLEC is financially healthy and profitable and owned and operated by a diversified Fortune 500 company, in Mr. Gutshall's estimation the PUC still has no choice but to require other carriers to increase their subsidization of its operations under the USF.

Q. DO YOU HAVE ANY FURTHER RESPONSE TO THE RLECS' CLAIM THAT THEY ALREADY HAVE A "RIGHT" TO THIS NEW USF REVENUE?

A. I do not agree with them, of course. The PUC surely never intended or anticipated that it had already set in stone a process whereby some telephone carriers have no alternative but to pay tens and even hundreds of millions of dollars to RLECs in order to turn their price change "opportunities" into absolute guarantees funded by other carriers. While Verizon will respond in briefing to the RLECs' legal arguments in this regard and will demonstrate that the RLECs do not have a "right" to create this new USF, I know that the PUC has recently submitted a brief to the Commonwealth Court on this exact issue, denying that it has already established a "right" to the type of USF subsidies the RLECs demand. A copy of the PUC's Commonwealth Court brief is attached hereto as Price Rebuttal Exhibit 1.

Q. HAVE THE RLECS EVER MADE A DEMONSTRATION THAT THEY NEED USF REVENUE TO OPERATE?

A. No. Mr. Gutshall in his testimony attempts to turn the tables by contending that "no one has factually demonstrated that the need for the replacement support has diminished." (Gutshall Direct at 23). Mr. Gutshall apparently has lost sight of the fact that no one ever "factually" demonstrated that there was a "need" for the replacement revenue in the first place. The creation of the present "temporary" and "interim" USF was the product of a settlement adopted without any evidence or factual demonstration of need. The RLECs have never demonstrated a "need" for the $30 million they are obtaining each year under the current fund and they certainly have not demonstrated a need to increase that flow of revenue.

Q. EVEN IF THE RLECS HAD PRODUCED SPECIFIC EVIDENCE REGARDING THEIR OWN FINANCIAL CONDITIONS AND PURPORTED NEED FOR MORE SUBSIDIES, WOULD THAT PROVIDE A BASIS FOR THE PUC TO REQUIRE OTHER CARRIERS TO SUBSIDIZE THEIR ANNUAL REVENUE INCREASES THROUGH THE USF?

A. No. I only note the RLECs' lack of an attempt to claim need to underscore to the PUC the absurdity of the RLECs' position that the PUC should force other carriers to divert substantial and ever-increasing streams of revenue to their able competitors, the RLECs. Given that the RLECs have not even attempted to offer a meaningful justification for their request to dramatically expand their USF fund, the only conclusion that can be reached is that these carriers are able to meet their current

operating needs and serve their customers without additional revenue provided by other carriers.

But even if a particular RLEC were to come forward and demonstrate that its current operating revenues are not sufficient to meet its operating requirements, that cannot be the end of the PUC's inquiry. It makes no sense from a policy perspective to create a new "passthrough mechanism" that forces "an exchange of revenue between telephone companies"[4] to prop up a failing RLEC business plan. While there have been vague references to the purportedly higher costs of providing service in some RLEC territory, as Mr. Buckalew correctly noted the FCC already provides national USF support for high cost areas that accounts for such costs and so this is not a reasonable basis to demand additional state USF money. If an RLEC claims that it cannot meet its obligation to provide adequate service under alternative regulation, then the remedy should not be to force other telephone carriers to subsidize that RLEC, with all of the attendant consumer and competitive harms I discuss above. The only alternative in such an instance should be a return to rate-base, rate-of-return regulation and a comprehensive rate case to establish reasonable end-user rates for that company – in which case the need to fund annual inflation-based revenue increases would no longer be an issue for that company. But since none of the RLECs have even reached this second line of argument because they have alleged no need for increased subsidies, the PUC need not reach this issue and should simply reject their new USF proposal.

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[4] *Global Order*, slip op. at 135.

Q. CAN YOU ADDRESS THE SPECIFIC ARGUMENTS THAT THE RLECS AND THE OCA PUT FORWARD IN FAVOR OF REQUIRING OTHER CARRIERS TO FUND THEIR ANNUAL REVENUE INCREASES?

A. Yes. I will address each of these arguments separately below.

Q. DR. LOUBE FOR THE OCA CONTENDS THAT OTHER CARRIERS SHOULD BE REQUIRED THROUGH THE USF TO SUBSIDIZE THE RLECS BY PROVIDING THEM WITH NEW REVENUE BECAUSE IT IS "NECESSARY" TO DO SO "TO ENABLE RURAL COMPANIES TO MEET THEIR CHAPTER 30 BROADBAND REQUIREMENTS." (LOUBE DIRECT AT 29). HAVE ANY FACTS BEEN PRODUCED TO SUBSTANTIATE THIS CLAIM?

A. No. While it may be true that the Legislature provided the annual inflation-based noncompetitive services revenue increase opportunity as a way for ILECs to obtain revenue to pay for their Chapter 30 broadband deployment, that is not the same as demonstrating that a particular RLEC "needs" additional revenue from other carriers through the USF in order to meet its deployment commitments. The record contains several examples of carriers that have chosen to bank their opportunities (and therefore forego revenue increases) even with rates well below the $18 level. (See Price Direct at 24). I can only assume that these carriers are not in danger of defaulting on their broadband commitments for lack of that revenue, even though they have the statutory and plan right to obtain it from their end users. In fact, Dr. Loube concedes that most of the RLECs have ***already*** finished building their enhanced network by December 31, 2008, (Loube Direct at 30-31), and thus these

RLECs cannot actually "need" additional USF revenue to pay for broadband deployment. Dr. Loube contends that other carriers should still subsidize these RLECs through the USF "because it is necessary to pay for the return on equity and debt and the depreciation associated with the build-out, even though the build-out is complete." (Loube Direct at 31). In the first instance, RLECs receive revenues from the broadband services they sell on the network they have built. Also, I am not contending that the RLECs should be prohibited from securing new revenue for this purpose by increasing end user rates as Chapter 30 contemplated; indeed they should have that opportunity and should not be constrained by an arbitrary $18 rate cap. I am simply saying that whether or not the RLECs increase end user rates, Dr. Loube's testimony does not demonstrate that the RLECs "need" subsidies from other carriers through the USF to meet their Chapter 30 broadband obligations or to service any debt or provide a "return on equity" from that build-out. Further, the RLECs themselves have produced no evidence that they need USF or any additional revenue to complete broadband deployment.

Q. MR. LAFFEY ASSERTS THAT THE PTA COMPANIES AS A GROUP HAVE EXPERIENCED LINE LOSS OF OVER 20% FROM THE TIME OF THE GLOBAL PROCEEDING THROUGH THE END OF 2007. (LAFFEY DIRECT AT 7). DOES THIS CLAIM ESTABLISH A REASON THAT THE RLECS NEED USF SUBIDIES FROM OTHER CARRIERS?

A. No. Mr. Laffey's definition of "line loss" does not necessarily translate into a loss of revenue to the RLEC from serving that customer. Mr. Laffey himself admits that one of the principal reasons for RLEC line loss is "customers migrating from

Internet dial-up service to broadband service," which may still "us[e] the RLECs' connections." (Laffey Direct at 8). Further, Mr. Laffey does not demonstrate that this line loss translates into an inability of any particular RLEC to cover its operating costs and adequately serve its existing customers without additional USF revenue from other carriers.

Q. DOES MR. LAFFEY'S EVIDENCE OF LINE LOSS HAVE ANY SIGNIFICANCE WITH RESPECT TO THE CURRENT USF?

A. Yes. Mr. Laffey's data demonstrates the fundamental unfairness of continuing to allow the RLECs to collect the USF subsidy amounts established by the *Global Order* to replace the revenue lost through access and toll reductions made nearly 10 years ago. Mr. Laffey contends that on average the RLECs have experienced a 20% line loss since the *Global Order*. (Laffey Direct at 7). In absolute terms, then, the RLECs are actually profiting from the current USF because, if they had rebalanced the revenue to local service rates or left it in access and toll rates back in 1999-2000, they would not have been guaranteed a constant annual stream of revenue of $30 million a year for nearly 10 years, as they have been with the USF. If the RLECs had rebalanced their access and toll reductions with basic local service rate increases in 1999-2000, the $30 million in annual revenue from 1999-2000 would have decreased by approximately 20% to $24 million due to the line loss Mr. Laffey describes. Even if the RLECs had not rebalanced the revenue at all and left the toll and access rates the same, given industry trends the RLECs' access and toll minutes-of-use over this time have decreased, which would have reduced the resulting revenue. Using information recently released by the FCC, the volume of intrastate

access minutes dropped by at least 22% on an industry-wide basis from 1999 through 2006.[5] Extrapolating the annual average decline through the end of 2008, the decline would be 29.5%. Yet because they are receiving the replacement revenue from other carriers who cannot choose to stop paying, the RLECs are still receiving $30 million a year nearly ten years later, when they would not be receiving that level of revenue in the absence of the USF. Indeed, if anything, Mr. Laffey's line loss evidence suggests that the PUC would be well-justified in reducing each RLEC's USF draw by nearly 30% (or alternatively by that RLECs' individual percentage of line loss since 1999), even if it does nothing else.[6]

Mr. Laffey also notes that some of the companies have experienced even greater line loss than the average. One of those companies is North Pittsburgh, one of the mid-tier RLECs, which receives a large chunk of the annual USF subsidies. (*See* Exhibit JJL-2; Price Direct Table 1). This evidence alone is grounds to reduce North Pittsburgh's share of the USF.

Q. MR. LAFFEY (AT 17), MR. GUTSHALL (AT 24) AND DR. LOUBE (AT 31) DENY THAT REQUIRING OTHER CARRIERS TO SUBSIDIZE ANNUAL RLEC REVENUE INCREASES WOULD HAVE AN ANTI-COMPETITIVE EFFECT BECAUSE THEY CLAIM THE RLECS HAVE A "CARRIER OF LAST RESORT OBLIGATION." DO YOU AGREE WITH THEIR ANALYSIS?

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5 *See* Trends in Telephone Service, August 2008, issued by the FCC's Industry Analysis and Technology Division, Wireline Competition Bureau, Table 10.2 (Price Rebuttal Exhibit 2).

6 Compounding the inequity of the situation, the contributing base has declined as well over this period. (Loube Direct at 32).

A. No. I do not agree that the existence of any "carrier of last resort" obligation alleviates the anti-competitive effects of requiring other carriers that compete with or wish to compete with the RLECs to fund annual USF payments to the RLECs. Again, these vague and conclusory assertions are not backed up with any facts. The RLECs have not established that competitors are serving only select portions of their territory. Further, they have not shown that they face greater net costs because of the "carrier of last resort" obligation than the costs faced by those of their competitors that also contribute to the USF.

Q. MR. LAFFEY CONTENDS THAT THE USF "CANNOT SIMPLY BE WAIVED AWAY WITHOUT AN IMPACT ON ACCESS RATES." (LAFFEY DIRECT AT 22). DO YOU AGREE?

A. No. It is completely unreasonable for the RLECs to threaten to increase their access rates if the USF subsidies are eliminated. First, as I discussed above, given the reality of declining access minutes, the RLECs would not be entitled to recover today the same level of revenue that they continue to recover from the USF if their access rates had not been reduced in the first place. Further, they could not increase their access rates without PUC approval, and the PUC would have to find the increase to be just and reasonable and permissible under their alternative regulation plans.

Q. DR. LOUBE CONTENDS THAT IF AN RLEC CANNOT INCREASE ITS ACCESS RATES AND CANNOT INCREASE ITS BASIC SERVICE RATES, THEN IT "WOULD HAVE ONLY LIMITED SOURCES OF ADDITIONAL REVENUE" BECAUSE IT HAS NO OTHER NONCOMPETITVE RATES

TO INCREASE. (LOUBE DIRECT AT 29). HAVE ANY FACTS BEEN PRODUCED TO SUBSTANTIATE THIS CLAIM?

A. No. First of all, even if this claim were true, it does not establish that other carriers and their customers should be providing revenue to the RLECs. Second, Dr. Loube has not established as a matter of fact that the RLECs lack opportunities to increase other noncompetitive services rates to secure increased revenue. For example, Dr. Loube posits a situation where "the only two non-competitive services are basic exchange and access service," (Loube Direct at 30), but he has not established that this is the case for any of the RLECs in this investigation. Neither Dr. Loube nor the RLEC witnesses specify exactly what services are designated as noncompetitive and are eligible to be increased and they have not demonstrated why those rates could not be increased to secure the additional revenue instead of claiming subsidies from other carriers. Further, as I discuss below, there is ample reason to conclude that the RLECs can and should increase their noncompetitive basic business rates before they argue for other carriers' revenue through the USF.

Q. BOTH MR. LAFFEY (AT 23) AND DR. LOUBE (AT 33) ASSERT THAT THE COMMISSION CAN INCREASE THE SIZE OF THE USF TO SUBSIDIZE RLEC ANNUAL RATE INCREASES BY REQUIRING ADDITIONAL CARRIERS SUCH AS WIRELESS AND VOICE OVER INTERNET PROTOCOL ("VOIP") PROVIDERS TO CONTRIBUTE. IS THIS A REALISTIC OPTION?

A. I am not a lawyer and I believe Verizon will supply its legal arguments on these issues in briefing. However, as a policy matter, this proposal would greatly

discourage investment in new technologies in Pennsylvania – the very opposite outcome that the Commission should be seeking.

IV. THE OTHER PARTIES HAVE NOT DEMONSTRATED THAT THE PUC SHOULD RESTRICT THE RLECS FROM INCREASING RESIDENTIAL RATES OVER A "CAP" LEVEL TO IMPLEMENT THEIR CHAPTER 30 REVENUE INCREASES

Q. DO YOU AGREE WITH THE PARTIES WHO CONTEND THAT THE PUC SHOULD RESTRICT THE RLECS FROM INCREASING THEIR BASIC RESIDENTIAL RATES ABOVE $18 TO IMPLEMENT THEIR CHAPTER 30 REVENUE INCREASES?

A. No, I do not. First, when evaluating the RLECs' and OCA's rate cap arguments the PUC should not lose sight of the fact that their argument for an $18 rate cap is simply part and parcel of their argument for a faulty and one-sided USF subsidy scheme that I discuss above, because the "rate cap" marks the point at which claims against the USF could begin. Thus, the USF scheme could not exist without noncompetitive services rate caps because the USF argument is premised on the assumption that the RLECs have no other alternative to obtain the revenue increases permitted by their alternative regulation plans. To maximize their claims against the revenue of other carriers through the USF, it is to the RLECs' advantage to argue for rate caps as low as possible – not for the benefit of consumers, but for their own benefit by increasing the amount of guaranteed subsidies that are insulated from competition and line loss, as I explain in more detail above. Therefore, their testimony must be evaluated with that bias in mind. Further, the USF argument requires not only a residential rate cap but also a business rate cap, which the record

does not support, as I discuss in more detail in the next section of my testimony. This section discusses the flaws in the other parties' residential rate cap arguments.

Second, regardless of whether the residential rate cap is used as part of the USF scheme or not, as a simple matter of ratemaking and consumer protection the other parties have failed to demonstrate that it is necessary or appropriate to pronounce a generic and absolute limit on RLEC residential rates in this proceeding. While it might have made sense for the PUC to adopt the original $16 and $18 residential rate caps ten and five years ago, respectively, in the context of controlling the pace of access rate rebalancing, it does not follow that the PUC should attempt to limit the RLECs' rights to increase noncompetitive services rates to implement their annual inflation-based revenue increases under Chapter 30 today. As I discussed in my direct testimony, the proposed $18 residential rate cap in the context of these Chapter 30 annual revenue increases is a solution in search of a problem. Table 1 to my direct testimony shows that not all RLECs are approaching the $18 level for their residential rates. Further, even those that do have residential rates at or near that level may choose to implement their increases in a different way or to bank them, rather than increase residential rates over $18. As Embarq's witness Mr. Gutshall concedes, "there is no current widespread request by rural ILECs to pierce the $18 cap for basic residential service." (Gutshall Direct at 6). In fact, establishing an $18 rate cap, together with the prospect of USF subsidies for carriers that increase their residential rates to that level, may have the unintentional effect of encouraging RLECs to increase their rates when they might not otherwise have done so. Moreover, Chapter 30 itself controls the pace of any rate increases by limiting them

to the rate of inflation and the RLECs' previous year's revenue, and no additional rate cap is necessary as a control on RLEC annual alternative regulation rate increases.

The PUC should reject the entire USF and rate cap scheme advanced by the RLECs and the OCA. Instead, if the PUC wishes to establish any residential rate benchmark, as discussed in my direct testimony, it should be set at a higher level than the five-year-old $18 benchmark and should function as a safe harbor rather than an absolute cap. So long as an RLEC's rates remain below the safe harbor level, any increases are automatically deemed just and reasonable and do not require further scrutiny, but if the RLEC proposes to increase residential rates above the safe harbor level the PUC may conduct a more detailed analysis of whether the resulting rates will be just and reasonable considering the particular facts and circumstances relating to that RLEC and its customers.

Q. HAVE THE OTHER PARTIES PUT FORTH ANY VALID REASONS FOR THIS COMMISSION ABSOLUTELY TO FORBID RLECS FROM INCREASING THEIR BASIC RESIDENTIAL RATES ABOVE $18 TO IMPLEMENT THEIR ANNUAL REVENUE INCREASES?

A. No. They raise many arguments, but none of them survive closer scrutiny, as I discuss below.

A. The Other Parties Have Not Demonstrated That Allowing RLECs To Charge More Than $18 For Basic Residential Service Would Drive Customers Off The Network Or Make Service Unaffordable

Q. OCA CONTENDS THAT THE RLECS' RESIDENTIAL RATES WOULD NOT BE "AFFORDABLE" IF THEY WERE INCREASED OVER $18, AND PRESENTS THE TESTIMONY OF MR. COLTON IN SUPPORT OF THIS CLAIM. DOES MR. COLTON'S TESTIMONY SUPPORT THE $18 CAP?

A. No. Even under Mr. Colton's conservative analysis of "affordability," the RLECs' rates would remain affordable even if they were increased by several dollars over present levels. Mr. Colton's Schedule RDC-4 shows that, accounting for the subscriber line charge (SLC) and various other fees and taxes, the RLECs' present basic local exchange rates range from a low of $16.72 per month to a high of $27.10 per month.[7] His Schedule RDC-5 shows that, in his estimation, an "affordable" local telephone service bill in 2008 containing the equivalent services and fees would run from a low of $32 per month under his scenario 1 to a high of $38 under his scenario 2. Thus, even under Mr. Colton's most conservative view, the highest RLEC rates could still increase by nearly $5 per month and remain "affordable," and under his scenario 2 those rates could increase by $11 per month and still remain affordable. The lowest existing RLEC rates are approximately half of Mr. Colton's most conservative affordability level. Under this data, there would appear to be no danger of RLEC rates becoming unaffordable in the near future if the RLECs are permitted to let their alternative regulation revenue increase opportunities take their

[7] It should be noted that the $18 benchmark does not include the SLC or fees and taxes. Thus, as Mr. Laffey points out, the equivalent rate to the $18 benchmark if one included those additional fees would be approximately $26.57. (Laffey Direct at 5). Mr. Colton's Schedule RDC-4 makes this calculation separately for each RLEC based on its current R-1 rates and specific taxes and fees.

natural course with small, inflation-based rate increases each year at the carrier's option.

Mr. Colton's Schedule RDC-5 is also instructive as to what it shows about the change in affordability levels over time, based on changes in median incomes and in inflation rates. From 2004 to 2008 Mr. Colton's calculations show his affordability level increasing by $2 (under scenarios 1 and 2) to as much as $4 (under scenario 3). If one assumed that $18 was an "affordable" level for RLEC basic local rates in 2003 (although Mr. Colton's data suggests that it was low even at that time), Mr. Colton's data indicates that this level could increase to $20 to $22 dollars in 2008 based on the increase in the median income and other indicators of "affordability" relied upon by Mr. Colton.

Q. YOU STATE THAT MR. COLTON'S AFFORDABILITY ANALYSIS IS "CONSERVATIVE." WHY DO YOU SAY THAT?

A. Mr. Colton assumes that customers can "afford" to spend just .75% of a family's income on basic local telephone service, which yields an affordability level of $32 in 2008 under his analysis. (Colton Direct at 27 and Schedule RDC-5). However, this assumption is at odds with the actual facts. According to the FCC Wireline Competition Bureau's 2008 "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Services," households in the lowest quintile of household income ($20,410) in 2006 spent on average 3.11% of their total household expenditures, or $53 per month, on telephone services, and that the average household expenditure for telephone services for rural households was 2.62% of total household expenditures, or $86.5 per month. This FCC report is

attached hereto as Price Rebuttal Exhibit 3. I recognize that some of the expenditures accounted for by the FCC may be for wireless services and long distance or other non-basic services. However, Mr. Colton is looking to what customers can "afford" to spend on telephone service, and the customers make the decision on how to allocate their expenditures among the different services available. If only half of the average rural household expenditure were for basic local service it would still be 1.3% of total expenditures, or $43.25 per month. This data suggests that Mr. Colton's affordability estimate is conservative and too low.

Q. DR. LOUBE AND MR. LAFFEY (AT 6, 8) CONTEND THAT CUSTOMERS WILL BE DRIVEN OFF OF THE PUBLIC SWITCHED TELEPHONE NETWORK IF RLECS INCREASE THEIR RATES OVER $18. DO THE FACTS SUPPORT THIS ASSERTION?

A. No. The statistics reported in the same 2008 "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Services" that I discuss above also show that small increases in the monthly rate for basic local telephone service would not make a material difference in total household expenditures.

Price Rebuttal Table 1

Impact of Various Monthly Rate Increases on Average Annual Household Expenditures on Telephone Services[8]

		Increase
Avg Annual Household Telecom Expenditures – Rural ('06)	$1,038	
Pct Telecom Expenditures of Total Hhold Expenditures ('06)	2.67%	
Pct Assuming $1/month increase in basic service rates	2.70%	0.03%
Pct Assuming $2/month increase in basic service rates	2.73%	0.06%
Pct Assuming $5/month increase in basic service rates	2.82%	0.15%

The above table shows that, based on this FCC data for rural households, the impact of a $1/month increase would – on average – change the percentage of household expenditures on telecom services by 3/100ths of 1 percent. A $2/month increase would bump that all the way up to 6/100ths of 1 percent, and a $5/month increase would increase average household expenditures on telecom services by a little more than 15/100ths of 1 percent (and the impact would be even smaller or even non-existent if the customer made a corresponding decrease in expenditures for non-basic or wireless service).

Q. MR. COLTON DISCUSSSES DATA REGARDING TELEPHONE PENETRATION RATES IN PENNSYLVANIA AND SUGGESTS THAT

[8] Source: 2008 Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service, FCC Industry Analysis & Technology Division, Table 2.1. (Price Rebuttal Exhibit 3)

ANY INCREASE IN RLEC BASIC SERVICE RATES WILL DECREASE TELEPHONE PENETRATION. (COLTON DIRECT AT 8-10). DOES HIS DATA SUPPORT THAT CONCLUSION?

A. No. First, Mr. Colton admits that on a statewide basis the annual average telephone penetration rates for Pennsylvania under FCC published statistics has actually increased from 95.6% in 2004 to 97% in 2007. (Colton Direct at 8). In fact, the FCC Subscribership report he cites at page 7, note 3, actually shows a continued increase to 97.7% as of March 2008. Mr. Colton also concedes that the FCC's data is state-wide and cannot be used to draw conclusions about telephone penetration in RLEC territories. He then attempts to use US Census Bureau data from 2000 through 2006, but much of this data relates to areas that are not even served by the RLECs. For example, Mr. Colton cites to decreases in penetration levels in certain counties in southeastern, central and western Pennsylvania (Colton Direct at 9), but the service territory map attached as Price Direct Exhibit 1 shows that most of that area is served by Verizon. Further, this data may reflect customer migration to wireless service or VoIP providers in lieu of traditional wireline telephones. In short, Mr. Colton's telephone penetration data does not support any assumptions about what would happen if certain RLECs increased their residential basic service rates over $18.

Q. MR. LAFFEY CONTENDS THAT "IT IS LIKELY THAT INCREASES ABOVE THE $18.00 BENCHMARK WOULD RESULT IN DECLINING PENETRATION RATES IN PENNSYLVANIA." (LAFFEY AT 8). DOES THE DATA CITED BY MR. LAFFEY SUPPORT HIS PREDICTION?

A. No. Mr. Laffey cites FCC data from a 2007 Universal Service Monitoring report, which he contends shows a decline in telephone penetration rates following the increase in the SLC that resulted from FCC interstate access rate reform efforts. (Laffey Direct 8). He contends that since this report "included wireless service and other voice services in the penetration rate," it is reasonable to conclude that the increase in the SLC "did not drive LEC customers to new service providers, but rather drove them off of the PSTN." (Id.) Contrary to Mr. Laffey's presumption, however, the FCC itself in 2007 acknowledged that it was not collecting good or complete information on interconnected VoIP services. In a Notice of Proposed Rulemaking issued in 2007 the FCC stated:

> At present, only some LECs include interconnected VoIP subscribers in the local telephone service information they report on Form 477. Interconnected VoIP service providers who are not LECs are not required to file Form 477.[9]

The FCC's new reporting requirements attempting to correct for this undercount of VoIP customers will not commence until March of 2009, so it will take some time to know the extent of underreporting of interconnected VoIP. However, in light of the FCC's statements it cannot be presumed that all types of "voice services" were captured by the Monitoring Report figures Mr. Laffey references, and it is entirely possible that what appears as a decline in telephone penetration may simply reflect the greater importance of interconnected VoIP providers in the marketplace and the migration of customers to those services.

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[9] *In the Matter of Development of Nationwide Broadband Data to Evaluate Reasonable and Timely Deployment of Advanced Services to All Americans, Improvement of Wireless Broadband Subscribership Data, and Development of Data on Interconnected Voice over Internet Protocol (VoIP) Subscribership,* WC Docket No. 07-38, 22 FCC Rcd 7760; 2007 FCC LEXIS 2951 (FCC Rel. April 16, 2007) ¶ 22.

Q. MR. LAFFEY CONTENDS THAT "RAISING RESIDENTIAL LOCAL RATES ABOVE THE CURRENT $18 CAP" WOULD ACCELERATE LINE LOSS TO COMPETITORS IN "VERY COMPETITIVE" MARKETS. (LAFFEY DIRECT AT 6). IS THIS A VALID REASON TO FORBID RLECS FROM INCREASING THEIR RATES OR TO FORCE OTHER CARRIERS TO SUBSIDIZE RLECS IN LIEU OF SUCH RATE INCREASES?

A. No. This would amount to protecting the RLECs from competition, which is precisely what the Commission should ***not*** do. While the annual revenue increase opportunities provide the RLECs with the option to increase rates, they do not ***require*** the RLECs to increase rates. Each RLEC must decide if it is a sensible business decision to raise basic service rates under its own individual circumstances. But it would be anti-competitive to permit the RLEC to receive a subsidy in lieu of raising its rates while its competitors must operate without such subsidies – particularly where the subsidies may be provided by some of the competitors themselves. Further, the RLECs again present no facts to demonstrate that this alleged migration is likely to occur.

Q. EVEN IF RATE INCREASES CAUSE CUSTOMERS TO REVIEW OPTIONS OTHER THAN BASIC LOCAL SERVICE FROM THE RLECS, IS IT CORRECT FOR MR. LAFFEY TO PRESUME THAT GOING TO A COMPETITOR OR LEAVING THE PUBLIC SWITCHED TELEPHONE NETWORK WOULD BE THEIR ONLY OPTIONS?

A. No. The customers could choose to switch to competitive or unregulated services offered by the RLEC itself. For example, Embarq offers bundled packages of local and unlimited long distance calling for a flat rate as competitive services under its informational tariff for competitive services.[10] Also, the customer could simply abandon a second line in favor of purchasing a broadband connection from the RLEC, so that the RLEC would retain the customer's business in the form of an unregulated service. In today's market stand-alone basic local service is not the customer's only choice even if the customer wishes to stay with the RLEC.

Q. MR. COLTON ARGUES THAT RLEC BASIC LOCAL SERVICE RATES MUST BE KEPT LOW BECAUSE THERE IS RELATIVELY LOW ENROLLMENT IN PENNSYLVANIA'S LIFELINE PROGRAMS. (COLTON DIRECT AT 37-38). IS THIS REASONING SENSIBLE?

A. No. It does not make sense from a policy perspective to keep basic local service rates for all consumers artificially low – and to require other carriers to subsidize the RLECs for revenue they are not permitted to recover from their end users – as a substitute for Lifeline service. The Lifeline program exists for the specific purpose of providing financial assistance to customers at or near the poverty level to help them obtain basic local service if they cannot otherwise afford it. If Lifeline-eligible customers are not taking advantage of the availability of Lifeline, this is not a reason to keep RLEC rates artificially low as a substitute for Lifeline service and to require

[10] The United Telephone Company of Pennsylvania LLC, d/b/a/ Embarq Pennsylvania, Tariff Pa. PUC No. 500, Informational Tariff for Competitive Services, Section 2(C) (Solutions – Residence).

other telephone carriers to subsidize those rates with revenue that they otherwise could use to serve their own end-users.

B. The Other Parties Have Not Demonstrated That It Is Reasonable To Restrict RLEC Chapter 30 Rate Increases Based On Verizon's Residential Rates

Q. BOTH MR. LAFFEY AND DR. LOUBE LOOK TO VERIZON'S BASIC LOCAL SERVICE RATES AS A BENCHMARK TO DETERMINE THE APPROPRIATE RATE CAP FOR THE RLECS' RATES. DO YOU AGREE THAT VERIZON'S BASIC RESIDENTIAL RATES SHOULD SERVE AS A LIMIT TO THE RLECS' RATES?

A. No. The Commission should not look to Verizon's basic rates as the standard upon which to limit the RLECs from increasing their own residential rates. There has not been a determination that Verizon's current basic residential local service rates define the level of "affordability" today or that customers could not afford rates higher than Verizon's residential rates. In fact, due to alternative regulation, Verizon's basic residential local service rates have remained relatively unchanged for many years, and were not increased in step with the rate of inflation until very recently. With the enactment of the original Chapter 30 in 1993 until the modification of Verizon's alternative regulation plans to comply with the new Chapter 30 in 2004, Verizon PA operated with a large "inflation offset" in its price change formula that had the effect of precluding annual noncompetitive services rate increases. As discussed in the *Global Order*, Verizon PA's rates also were capped

for a time.[11] Verizon's ability to increase these rates is still limited by the inflation-based terms of its alternative regulation plan and the provisions of Chapter 30. The PUC should not use Verizon's residential rates as a substitute for an analysis of what would be a just and reasonable rate for a particular RLEC.

Q. MR. LAFFEY AND DR. LOUBE CITE VARIOUS RATES AS BEING VERIZON'S "COMPARABLE" BASIC RESIDENTIAL LOCAL RATE. DO YOU AGREE WITH THEIR ANALYSIS?

A. No. I should first note that Mr. Laffey and Dr. Loube do not even agree on what the "comparable" Verizon rates are.[12] Mr. Laffey asserts that Verizon PA's comparable rates range from $12.97 to $16.57. (Laffey Direct at 9-10). Dr. Loube asserts that the "weighted" Verizon PA residential rate is $13.03. (Loube Direct at 6). Neither of them is exactly correct. Verizon PA does not charge one flat "basic residential rate." To calculate a tariffed basic residential rate for Verizon PA it is necessary to look at the charge for Dial Tone Line (which differs by Verizon Density Cell), and then to make an assumption about the usage service that the customer chooses. While there are measured options available, to calculate a flat basic rate Verizon PA generally assumes that the rate includes the Local Area Unlimited Usage Package, the price for which also differs by Density Cell and by rate groups within Density Cells 3 and 4. Price Rebuttal Exhibit 4 depicts the calculation of Verizon PA's basic residential rates in this manner for Verizon PA's four Density Cells. This Exhibit

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[11] *Global Order*, slip op. at 185 (Verizon PA rates for "protected" services capped through December 31, 2003).

[12] Both Mr. Laffey and Dr. Loube refer to the rates of Verizon Pennsylvania Inc., and so my response to these questions relate to the rates of Verizon Pennsylvania Inc.

also depicts what the rates will be following Verizon PA's 2009 Price Change Opportunity rate increases, scheduled to take effect March 1, 2009. Verizon PA's highest residential rate (in Density Cell 1, the cities of Philadelphia and Pittsburgh) is $15.57, going up to $16.06 as of March 1, 2009.

For the reasons discussed above it is not appropriate to use Verizon's rates to limit the RLECs' ability to increase their own rates, but if the PUC is to look to Verizon's rate at all, it should look to the urban basic residential rates. In fact, the excuse Mr. Laffey provides for looking to Verizon's rates at all is because "rates paid in rural Pennsylvania must be comparable to those assessed in urban markets," (Laffey Direct at 9; see also Loube at 4), so the Verizon rate should not be weighted downward by rural rates that have not been permitted to catch up with their urban counterparts under the constraints of alternative regulation. Dr. Loube argues that the benchmark should not increase over $18 until Verizon's rates increase such that 120% of Verizon's rate is greater than $18. (Loube Direct at 7). If Dr. Loube's reasoning were correct – which I do not concede – an increase in the $18 rate cap is in fact justified because 120% of $16.06 – the Verizon PA rate in Density Cell 1 on March 1, 2009 – is $19.27.

Q. YOU STATED THAT YOU DO NOT AGREE WITH DR. LOUBE'S ASSERTION THAT THE RLECS' RATES SHOULD BE LIMITED TO 120% OF VERIZON'S RATES. WHY DO YOU DISAGREE?

A. First, I do not agree that Verizon's rates should set the standard, as discussed above. But even if it were reasonable to look to Verizon's rates, Dr. Loube's definition of "comparable" as 120% of Verizon's rates is completely arbitrary. He states no

reason why he chose 120% instead of some other percentage. Even he admits that other states that tie rates to other carrier rates in the state look to higher percentages, such as 130% in Wyoming and 150% in California. (Loube Direct at 11-12). Also, Dr. Loube's use of 120% is inconsistent with his testimony citing the FCC's use of a comparability standard of "within two standard deviations of the national average." (Loube Direct at 8). Using that approach, and examining 2007 data collected by the FCC, the factor would be 143% rather than the 120% figure recommended by Dr. Loube.[13]

Q. MR. LAFFEY CONTENDS THAT THE MOST RECENT NATIONAL AVERAGE LOCAL SERVICE RATE IS $15.03 UNDER FCC STATISTICS. (LAFFEY DIRECT AT 9). SHOULD THIS FIGURE SERVE AS A LIMIT TO THE RLECS' RESIDENTIAL RATES?

A. No. First, it should be noted that this is not the most recent figure available. Mr. Laffey cites a 2006 figure, but the FCC's 2008 "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Services" cites a representative monthly charge in 2007 of $15.62, which translates to $25.62 with SLC and fees.[14] However, the FCC itself has acknowledged that relying on a national average is not perfect. It uses additional price points to conclude, as depicted in Table 1.13 of the report, that there is a very wide range of rates that can be considered "comparable" to urban rates nationwide. The upper end of that range is as high as $36.52 per

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[13] See Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service, at Table 1.13 (Price Rebuttal Exhibit 3).

[14] Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service, at Tables 1.1 and 1.2 (Price Rebuttal Exhibit 3).

month. (Price Rebuttal Exhibit 3). Moreover, the FCC average is merely an average of existing rates whose levels may themselves have been kept artificially low by regulatory policies that pre-date today's competitive market, leaving Mr. Laffey with a circular argument that Pennsylvania's rates should not be increased in the future because other states' rates have been kept artificially low in the past.

C. The OCA's Costs Arguments Do Not Provide A Reasonable Basis To Restrict RLEC Residential Rates To $18

Q. WHAT POINT IS DR. LOUBE ATTEMPTING TO MAKE WITH HIS "COST" ANALYSIS?

A. As I understand his argument, Dr. Loube is attempting to calculate an "incremental cost" for providing basic local service that does not include the cost of the local loop, but only the other network costs associated with providing service. He then argues that an $18 "cap" on RLEC basic local service rates is reasonable because the "cap" is not below the purported "incremental" non-loop related cost of providing service.

Q, PUTTING ASIDE FOR THE MOMENT ANY ISSUES WITH THE VALIDITY OF THE COST DATA, IS DR. LOUBE'S COST ARGUMENT REASONABLE?

A. No. Even if one assumed that Dr. Loube has correctly stated the non-loop and loop-related costs of providing local service, it is not reasonable to argue that RLEC basic local service rates should be capped at a level that is at or near the "incremental" costs of service without regard to the loop costs. When Dr. Loube states that "[o]ne test of a residential rate benchmark is that the benchmark is set at a subsidy-free level," he has the issue completely backwards. The type of benchmark that would

be set at a subsidy-free level is a benchmark that states that rates can be no ***lower*** than incremental cost, for example to control against predatory pricing. But it makes no sense to set a benchmark that forbids local service rates from being ***higher*** than incremental cost. If the rates for every service were limited to its incremental cost, and no service was permitted to recover common costs, the common costs would go unrecovered, which makes no sense – particularly here when the cost that would go unrecovered is the cost of the local loop that Dr. Loube himself asserts is 84% to 91% of a carrier's costs. If this were a traditional rate case, the relevant question as a matter of rate making policy would be how much of the loop costs should be recovered through the local rates. But this is not a rate case and for the most part the RLECs' rates are no longer set by the PUC in relation to costs. The only relevant question is whether it is just and reasonable under the circumstances to permit any particular RLEC to charge more than $18 for residential service, and whether the PUC should make this decision in a generic one-size-fits-all manner by setting an $18 limit on all RLEC residential rates. If Dr. Loube's cost data demonstrates anything in relation to the reasonableness of the $18 benchmark it shows that this benchmark could easily be increased and RLEC rates still would not come close to recovering the total cost of service for the RLECs when loop costs are included because RLEC basic service rates are still far below the total cost.

Q. YOU MENTIONED THAT THERE MAY BE ISSUES WITH THE RELIABILITY OF DR. LOUBE'S COST DATA. TO WHAT WERE YOU REFERRING?

A. I was referring to the fact that Dr. Loube's data is derived from the FCC's Synthesis Model, which is a series of algorithms developed by the FCC for the purpose of distributing federal universal service support among the states for non-rural carriers. But this model was not designed for the purpose for which Dr. Loube attempts to use it. The Synthesis Model was designed solely to support the federal universal service program and determine relative cost differences among states for the purpose of distributing national high-cost funds. The FCC did not develop, nor intend for, the Synthesis Model to be used to estimate state-specific or company-specific forward-looking costs. The FCC has repeatedly stressed that the Synthesis Model should only be used "for the limited purpose of comparing relative cost differences between states," and should not be used as an absolute estimate of any particular company's costs.[15] Therefore, given the FCC's caution that its output from this model should not be used to set rates, as well as the fact that the results themselves are nearly a decade old and that the FCC has only used the model for non-rural carriers, the PUC should not accept Dr. Loube's Synthesis Model runs depicted in his exhibits RL-6, RL-7 and RL-8 as a meaningful measure of the RLECs' cost of providing service. If the RLECs wished to establish their own cost of providing service in order to argue – as Dr. Loube does – that their costs are less than $18, then they were in sole possession of the necessary data to do so. However, the RLECs

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[15] *In the Matter of Application by Verizon Virginia Inc., Verizon Long Distance Virginia, Inc., Verizon Enterprise Solutions Virginia Inc., Verizon Global Networks Inc., and Verizon Select Services of Virginia Inc., for Authorization to Provide In-Region, InterLATA Services in Virginia,* WC Docket No. 02-214, FCC 02-297, 17 FCC Rcd 21880; 2002 FCC LEXIS 5687; (FCC Rel. October 30, 2002) ¶ 103 ("the Commission has cautioned against using the Synthesis Model to set rates" and has only used it "for the limited purpose of comparing relative cost differences between states.")

chose not to submit any cost studies, and Dr. Loube's data is not reliable for the purpose of determining the RLECs' actual cost of providing basic local service.

V. THE OTHER PARTIES HAVE NOT DEMONSTRATED THAT THERE SHOULD BE A CAP ON RLEC BUSINESS RATES

Q. DO THE RLECS AND THE OCA ALSO ARGUE THAT THERE SHOULD BE A CAP FOR BASIC BUSINESS RATES?

A. The RLECs do. Mr. Laffey states that the "corresponding business rate cap limitation[] should not be increased." (Laffey Direct at 2). Mr. Gutshall also refers to an "associated . . . monthly business rate" as a "retail end user pricing cap[]." (Gutshall Direct at 3). OCA's witnesses limit themselves to discussing residential rates.

Q. WHAT IS THE BUSINESS RATE CAP LEVEL SOUGHT BY THE RLECS?

A. The RLECs do not seem to agree on the applicable business rate cap – which is not surprising since there is no such cap. Embarq, for example, asserts that it "finally" moved its average basic local exchange rate for business service to $26.23 in 2005, implying that this is the cap level. (Gutshall Direct at 4). Denver & Ephrata, by contrast, asserts in its Commonwealth Court appeal that the applicable business rate cap is $23.58.[16] If this is intended to be a cap "corresponding" to or "associated" with the $18 residential rate level, one would not expect the answer to differ by almost three dollars as between these two RLECs. Moreover, Table 1 to my direct testimony demonstrates that, where B-1 information was available, several RLECs charge business rates higher than the alleged cap levels asserted by Embarq and

[16] D&E Commonwealth Court Brief at Docket 847 CD 2008 dated September 26, 2008 at 39.

D&E, showing that they do not believe their rates to be capped at those levels and that the PUC allowed those rate increases to take effect (thus belying any such cap). Mr. Buckalew for the Office of Small Business Advocate ("OSBA") also refers to the existence of a basic single line business rate cap, but does not state what that rate level is. No party has articulated in its testimony how this alleged business rate cap should be calculated or exactly what the cap level is.

Q. HAVE THE PARTIES PUT FORTH FACTUAL TESTIMONY IN SUPPORT OF A $23.58, $26.23 OR ANY OTHER LEVEL OF BUSINESS RATE CAP?

A. No. OCA for example, puts forward detailed testimony about the alleged affordability levels for residential customers, about the purported need for "comparability" to the rates charged by other carriers for basic residential service and the like, but no one has presented equivalent evidence even to attempt to support a business rate cap. Similarly, Mr. Laffey discusses the rates charged nationally and by Verizon in Pennsylvania for basic residential service, but does not include a similar discussion for business service.

Q. DO YOU HAVE ANY INFORMATION REGARDING HOW AN ALLEGED BASIC BUSINESS SERVICE CAP OF $23.58 OR $26.23 WOULD FARE AS COMPARED TO THE NATIONAL AVERAGE, AS DISCUSSED BY MR. LAFFEY AND DR. LOUBE WITH REGARD TO RESIDENTIAL RATES?

A. Yes, I do. The FCC Wireline Competition Bureau's June 2008 Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Services reports that the average monthly charge for flat-rate service for businesses with a single line in urban areas as of October 15, 2007 (excluding federal and state subscriber line

charges, taxes, 911 and other charges) is $35.17. (Price Rebuttal Exhibit 3, Table 1.8 from FCC Reference Book). This figure is nearly $10 higher than Embarq's alleged cap and nearly $12 higher than D&E's alleged cap.

Q. ARE THE RLECS' BASIC BUSINESS RATES COMPARABLE TO THE NATIONAL AVERAGE REPORTED ABOVE?

A. I do not have basic business rate information for all of the RLECs, but the rates that I did locate in the RLECs' discovery responses are depicted in Price Direct Table 1. Those rates are for the most part substantially lower than the national average depicted in the FCC report.

Q. IS THERE ANY RECORD EVIDENCE IN THIS PROCEEDING TO SUPPORT A BASIC BUSINESS SERVICE CAP OF $23.58 OR $26.23, OR ANY CAP ON RLEC BUSINESS RATES?

A. No. No party has submitted any evidence to support those rate levels, and a cap at those particular rate levels cannot be justified given that they are so far below the FCC's reported national average. In particular, there has been no evidence submitted as to what would be an "affordable" business rate for RLEC customers, and I do not believe the concept of affordability is even relevant for business customers. Given that the RLEC business rates are so far below those of other carriers, there is no need for a "cap" on business rates at all, and the RLECs should be permitted to make their annual inflation-based rate increases to business rates in due course as contemplated by Chapter 30 and their alternative regulation plans.

Q. HOW DOES THE LACK OF EVIDENCE IN SUPPORT OF A BUSINESS RATE CAP AFFECT THE RLECS' AND OCA'S USF ARGUMENT?

A. It completely undercuts their argument. Even if it were appropriate to cap the RLECs' residential rates at $18 – which it is not for the reasons discussed above – the RLECs with rates at that $18 level would still be able to increase their business rates to implement their revenue increase opportunities. Further, as I pointed out in my direct testimony, many of the RLECs still have room to increase their residential rates before they reach $18, and they would have even more room if that benchmark were increased. While I am not suggesting that the PUC should require the RLECs to increase only business rates without permitting them the option also to increase residential rates, the lack of justification for a business rate cap simply confirms that the PUC must look to maximizing the RLECs' ability to raise revenue from their own end users through noncompetitive services rate increases rather than looking to revenue subsidies from other carriers. There is no justification for requiring other carriers, some of whom compete directly with the RLECs for business customers, to pay the RLECs to help them avoid raising basic business rates.

VI. THE MID-TIER RLECS HAVE NOT DEMONSTRATED WHY THEY SHOULD CONTINUE TO BE PART OF THE USF

Q. IN ARGUING FOR INCREASED USF SUBSIDIES AND RATE CAPS, DO THE RLECS OR THE OCA MAKE ANY DISTINCTION BETWEEN THE MID-TIER RLECS AND THE SMALLER COMPANIES?

A. No. These parties continue to treat the RLECs as one fungible group whose facts and interests are identical. As I demonstrated in my direct testimony, however, that assumption is not reasonable. The need to further scrutinize the mid-tier RLECs is not just a theoretical consideration. As Dr. Pelcovits points out, three of the RLECs

receive a full 70% of the USF's annual distributions – Windstream, Embarq and North Pittsburgh. (Pelcovits Direct at 4-5). Taken together, all of the companies categorized as mid-tier RLECs in my direct testimony receive almost $25 million of the approximately $30 million supplied by the USF each year – a full 83% of the fund.

Q. ONE OF THE MID-TIER RLECS, EMBARQ, SUBMITTED ITS OWN SEPARATE TESTIMONY. DID EMBARQ EVEN ATTEMPT TO JUSTIFY WHY IT SHOULD CONTINUE TO BE TREATED THE SAME AS SMALL COMPANIES SUCH AS YUKON-WALTZ OR VENUS TELEPHONE COMPANY?

A. No. Mr. Gutshall did not address that issue. He simply argued that Embarq has an absolute right to USF subsidies and its financial need for this money is irrelevant. This Commission itself has recognized that Embarq is "the nation's largest independent (non-RBOC) local exchange company, with 2004 annual revenues of over $6 billion." (4/7/08 Order at Docket A-313200F0007, at 3). It simply is not reasonable for Embarq to maintain that it should be treated like a small, "mom and pop" telephone company serving only a couple of thousand lines.

Q. DID ANY OF THE OTHER MID-TIER RLECS SUBMIT THEIR OWN TESTIMONY?

A. No. They all rely on Mr. Laffey's testimony on behalf of the PTA.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

VZ St. 1.1, Price Rebuttal
Docket I-00040105

Exhibit 1

PUC Commonwealth Court Brief
Docket 847 C.D. 2008

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

Buffalo Valley Telephone Company	:	
Conestoga Telephone and Telegraph	:	
Company, and Denver and Ephrata	:	
Telephone and Telegraph Company,	:	
	:	
Petitioners	:	
v.	:	**No. 847 C.D. 2008**
	:	
Pennsylvania Public Utility	:	
Commission,	:	
Respondent	:	
	:	
Irwin A. Popowsky, Consumer Advocate,	:	
	:	
Petitioner	:	
	:	
v.	:	**No. 940 C.D. 2008**
Pennsylvania Public Utility Commission,	:	
	:	
Respondent	:	

ADVANCE FORM BRIEF OF RESPONDENT PENNSYLVANIA PUBLIC UTILITY COMMISSION

In support of the Orders of the Pennsylvania Public Utility Commission Entered July 11, 2007, December 7, 2007, and April 9, 2008 in consolidated Docket Nos. I-00040105, P-00981428F1000, R-00061375, *et al.*

Elizabeth H. Barnes
Assistant Counsel

Frank B. Wilmarth
Deputy Chief Counsel

Bohdan R. Pankiw
Chief Counsel

P.O. Box 3265
Harrisburg, PA 17105-3265
(717) 787-5000

Counsel for Pennsylvania Public Utility Commission

Dated: December 31, 2008

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COUNTER-STATEMENT OF THE QUESTIONS INVOLVED

1. Does the Commission have authority under the Public Utility Code and applicable alternative regulation plans to disallow an increase to switched access rates that would perpetuate unreasonable and anticompetitive rate levels and to allow, instead, increases to other non-competitive services offered by the D&E Companies?

   Suggested answer: Yes

2. Was the Commission's conclusion that the D&E Companies' increase to switched access rates was unjust and unreasonable under 66 Pa.C.S. § 1301 supported by substantial evidence?

   Suggested answer: Yes

3. Does the Commission have authority under the Public Utility Code and applicable alternative regulation plans to permit a rural telecommunications carrier the option to increase its average basic residential rates above $18 per month and to increase its average basic business rates above certain corresponding levels in implementing the annual increase to noncompetitive revenue allowed under the company's alternative regulation plan?

   Suggested answer: Yes

4. Did the Commission modify previous orders without complying with 66 Pa.C.S. § 703(g) when it permitted one of the D&E Companies the option to increase average basic residential rates over $18 and to increase average basic business rates above certain levels?

   Suggested answer: No

5. Does the Public Utility Code or a company's alternative regulation plan require the Commission to fund a rural telecommunications carrier's annual increase to noncompetitive revenue under the company's alternative regulation plan with subsidies from the Pennsylvania Universal Service Fund?

   Suggested answer: No

COUNTER STATEMENT OF SCOPE AND STANDARD OF REVIEW

Scope of review refers to "the confines within which an appellate court must conduct its examination. In other words, it refers to the *matters* (or "what") the appellate court is permitted to examine." *Morrison v. Commonwealth of Pa. Dep't of Public Welfare*, 646 A.2d 565 (Pa. 1994). The scope of review on appeal from an adjudication by the Pennsylvania Public Utility Commission (Commission or PUC) is limited to "(1) determining whether a constitutional violation or error has occurred; (2) the decision is in accordance with the law; and (3) the necessary findings of fact are support by substantial evidence." *PECO Energy Co. v. Pa. Public Utility Commission*, 791 A.2d 1155 (Pa. 2002); 2 Pa.C.S. § 704. As with all questions of law, the Court's scope of review is plenary. *Ramich v. Worker's Compensation Appeal Bd. (Schatz Electric)*, 770 A.2d 318, 321 (Pa. 2001). Moreover, this Court will only consider a question on appeal that was previously raised before the Commission. *Wheeling & Lake Erie Railway Co. v. Pa. Public Utility Commission*, 778 A.2d 785 (Pa. Cmwlth. 2001); 2 Pa.C.S. § 703(a).

Standard of review "refers to the *manner* (or "how") that examination is conducted or the "degree of scrutiny" that is to be applied." *Morrison v. Commonwealth of Pa. Dep't of Public Welfare*, 646 A.2d 565 (Pa. 1994). The Court will not substitute its discretion for that properly exercised by the Commission. *Rohrbaugh v. Pa. Public Utility Commission*, 727 A.2d 1080 (Pa. 1999). The Commission's expert interpretation of an aspect of utility law is entitled to great deference and will not be reversed unless clearly erroneous. Judicial deference to the views of the agency when implementing a statutory scheme is necessary, especially when that scheme is complex. *Popowsky v. Pa.*

Public Utility Commission, 706 A.2d 1197 (Pa. 1997). The Commission's administrative expertise includes the interpretation of its regulations and governing statutes. *Aronson v. Pa. Public Utility Commission*, 740 A.2d 1208 (Pa. Cmwlth. 1999), *appeal denied*, 751 A.2d 193 (Pa. 2000).

COUNTER STATEMENT OF THE CASE

I. History of Rural ILEC Intrastate Access Charge Reform

A. Chapter 30

The Commission submits that the legislature has not eliminated the Commission's jurisdictional authority to ensure that all rates charged by telecommunications carriers be "just and reasonable." Therefore, the Commission remains empowered to disallow rate changes that are unreasonably high and anticompetitive. However, to properly understand and resolve the issues that have been presented by the Buffalo Valley Telephone Company, Conestoga Telephone and Telegraph Company, and Denver and Ephrata Telephone and Telegraph Company (collectively "the D&E Companies") and the Office of Consumer Advocate ("OCA" and collectively with the D&E Companies "Petitioners" or "Appellants"), it is important to appreciate the statutory background of Chapter 30 of the Public Utility Code, Alternative Form of Regulation of Telecommunications Services, 66 Pa.C.S. §§ 3001 - 3019.

On July 8, 1993, the General Assembly first enacted Chapter 30, setting forth an alternative form of regulation for telecommunications services. Chapter 30 replaced "rate base/rate-of-return" regulation, a form of regulation where utility rates are based on the utility's reasonable cost of service, with "price cap" regulation where rates are divorced from cost of service and, instead, are permitted to increase (or decrease) based on the rate of inflation less a productivity offset. 66 Pa.C.S. § 3004(d). In exchange for this reduced degree of rate regulation under Chapter 30 alternative regulation, incumbent local exchange carriers (ILECs) like the D&E Companies and other companies that provide

basic dial tone services were obligated, *inter alia*, to build an advanced telecommunications network throughout their respective service territories in the Commonwealth of Pennsylvania by December 31, 2015. 66 Pa.C.S. § 3003(b), repealed.

By providing for an alternative form of rate regulation for ILECs under the provisions of the original Chapter 30, the legislature intended to maintain universal telecommunications service at affordable rates, by allowing price changes that follow general inflation trends, while encouraging the accelerated deployment of universally available high-speed broadband services. 66 Pa.C.S. § 3001, repealed.

On November 30, 2004, the legislature passed Act 183, making modifications to the alternative form of regulation permitted by Chapter 30 and expressly repealing Sections 3001 - 3009 of Chapter 30 and creating new Sections 3010 - 3019 ("the new Chapter 30"). Like its predecessor, Act 183 provides for an alternative form of regulation of telephone rates and services. Act 183 altered the inflation-based formula established under the old Chapter 30 by either reducing or eliminating the productivity offset, thus increasing the likelihood for annual revenue increases, a change that the General Assembly intended to generate revenue to support the cost of a phone company's broadband deployment obligations required by Act 183. 66 Pa.C.S. § 3015(a)(1), 3011(12).

B. Commission Regulation of Rural ILEC Rates

The term "access charge" refers to the compensation paid to ILECs for the use of their network by interexchange carriers (IXCs) also known as long-distance carriers.[1] Access charges were established long ago during the monopoly regime of telecommunications regulation. Access charges had provided for a significant source of ILEC earnings and contain implicit and explicit subsidies for local rates. This combination of earnings and subsidy was approved pursuant to a public policy of encouraging universally available and relatively affordable telecommunications throughout the Commonwealth while providing earnings sufficient to attract stable investment in a national communications infrastructure. Consequently, public policy over time resulted in a situation wherein higher cost areas, such as rural areas with lower populations and longer loop distances over rougher terrain, obtained rate support from lower cost areas, such as urban areas with higher population and shorter loop distances. Access charges provided a source of earnings while keeping basic local service rates lower than might otherwise have been the case in high cost areas. *Re Nextlink Pennsylvania, Inc.*, Docket No. P-00991648; P-00991649, (September 30, 1999) *(Global Order)*; 93 Pa. PUC 172; 196 P.U.R. 4th 172, *off's sub nom. Bell Atlantic-Pennsylvania, Inc. v. Pennsylvania Public Utility Commission,* 763 A.2d 440 (Pa. Cmwlth. 2000), *alloc. granted.*

[1] *Competitive Telecommunications Ass'n. v. FCC*, 87 F.3d 522 (D.C. Cir. 1996).

Access charges are broken down into two distinct types: special and switched access. The access charges referred to in the instant proceeding are charges for switched access, which refers to the connection at both the originating and terminating ends of a call using the ILECs' switches in their end central offices.

Switched access charges are rates charged by a local exchange carrier to other telephone carriers (*i.e.*, IXCs) to carry non-local or toll calls destined to or originating from the local exchange company's local service customers. For example, the D&E Companies would charge Verizon (an IXC)[2] for switched access for call termination if a Verizon customer placed a toll call to a D&E Company customer. Verizon does not have its own local switching facilities in the D&E Companies' territories, so it must pay terminating access fees to the D&E Company that completes the toll call to the called party.

Switched access is a "protected service" and a "non-competitive service" as those terms are used in the statute. 66 Pa.C.S. § 3012. Historically, intrastate access charges have been priced significantly above cost because they are designed to subsidize a rural carrier for its costs of providing telephone service in rural territories with presumably higher costs.

In the *Global Order* of September 30, 1999, the Commission ordered intrastate access charge reductions among all LECs in order to foster competition in the toll and local service markets in Pennsylvania by reducing the inherent local subsidies provided

[2] For purposes of this example, we refer to Verizon here as an IXC even though it also provides service as an incumbent local exchange carrier.

by access charges and establishing a Pennsylvania Universal Service Fund (PaUSF) as a "pass-through mechanism to facilitate the transition from a monopoly environment to a competitive environment – an exchange of revenue between telephone companies which attempts to equalize the revenue deficits occasioned by mandated decreases in their toll and access charges." *Global Order* p. 142. The PaUSF consists of that "amount of money that equals the net revenue deficit resulting from revenue neutral rate structure and rebalancing changes" of the rural ILECs only. *Global Order* p. 142. In other words, the Fund allowed the rural ILECs to remain revenue neutral while reducing their Commission-imposed intrastate access charge reductions during a transitory period, and the PaUSF allowed carriers to keep residential monthly service rates at or below a $16 rate cap and business rates under an accompanying rate cap. This residential rate cap was later raised to $18 per month per the Commission's *July 15, 2003 Order.*[3]

II. The D&E Companies' 2006 Price Stability Filing

In this case, the D&E Companies calculated the Price Stability Index (PSI) and Service Price Index (SPI) under its Commission-approved Price Stability Mechanism (PSM). The PSI determines the allowable change (increase or decrease) in rates for noncompetitive services based upon the annual change in the Gross Domestic Product Price Index (GDP-PI) as calculated by the United States Department of Commerce less the inflation offset factor plus any allowable exogenous events that may have occurred in a particular year in accordance with the following methodology:

[3] The D&E Companies 6-23-06 Order; Conestoga 6-23-06 Order; Buffalo Valley 6-23-06 Order.

$$PSI_t = PSI_{t-1}(1 + \%\Delta \text{ GDP-PI} - X \pm Z)$$

This comprises the "PSM formula" where:

PSI_t = new index that determines the maximum prices for the noncompetitive service category based on the cumulative changes in the price cap index for the current twelve-month period.

PSI_{t-1} = the current index that determines the current maximum prices for the noncompetitive service category based on the cumulative changes in the price cap index for the previous twelve month period.

%Δ GDP-PI = the percentage change in the Chain Weighted Gross Domestic Product – Price Index based on a quarter ending not more than eight months prior to the advance notice date of the new annual tariff and the corresponding quarter of the previous year.

X = Inflation Offset Factor.

Z = the effect of any exogenous events. Exogenous events are positive pr negative changes in the Company's revenues or expenses as defined in the Plan.

Changes based upon this formula are then cumulatively tracked using the Service Price Index ("SPI"), which represents the current level of prices including price changes from the current and prior years associated with the PSI and tracks the price changes for noncompetitive services related to the PSI. No proposed SPI may exceed, on a total intrastate basis, the PSI accumulated after the effective date of the plan, except when exogenous events may apply.

This appeal arises from the annual price change filings of the D&E Companies[4] under their alternative regulation plans approved by the Pennsylvania Public Utility Commission pursuant to Chapter 30 of the Public Utility Code. 66 Pa.C.S. § 3015. Each of these companies has opted to be regulated under the alternative form of regulation permitted by Chapter 30, with alternative regulation plans that permit them to increase revenue from noncompetitive services annually based on the change in the rate of inflation over the prior year. Annually, each of the D&E Companies make a filing calculating their allowable change to noncompetitive revenue and the rate changes they propose to make in order to obtain the additional revenue to which they are entitled.

On May 3, 2006, each of the D&E Companies made their 2006 PSI/SPI filing, indicating their allowed noncompetitive revenue increase and their proposed rate changes. The D&E Companies proposed to collect the vast majority of the additional revenue by increasing their intrastate switched access rates charged to other telephone companies instead of increasing their retail rates charged to end users or "banking" any of the allowed revenue for future rate increases.

The D&E Companies' proposal to increase their switched access rates marked an unprecedented departure from the Commission's ratemaking policy, developed pursuant to federal requirements over the past ten years, through which the Commission has

[4] The D&E Companies provide telephone service in portions of southeastern Pennsylvania and serve approximately 135,000 access lines. These filings were the first made by these companies after their Chapter 30 plans had been amended in conformance with the new statutory requirements that went into effect at the end of 2004. Due to the elimination of the companies' former 2% inflation offset, the 2006 filings marked the first time that the D&E Companies' formulas allowed a substantial increase to noncompetitive revenue. (Tr. at 63; R. ____). Previously, the substantial inflation offset was likely to preclude any revenue increases.

consistently worked to decrease intrastate access rates that have been a subsidy to the operations of rural incumbent local exchange carriers (rural ILECs) including the D&E Companies. The D&E Companies sought to increase their access rates while they were subject to a Commission-initiated investigation regarding the further reduction of intrastate access rates among rural ILECs at Docket No. I-0004015. The rural ILECs, including the D&E Companies, have requested that this investigation be stayed pending the outcome of a federal proceeding involving access charges before the FCC.[5] The Commission granted the rural ILECs' request to hold the access charge investigation in abeyance but subsequently reopened it for the limited purpose of determining whether rate caps should be increased above $18 per month for residential local exchange service, and whether business rate caps should also be increased. This investigation is currently proceeding before the Office of Administrative Law Judge, with Administrative Law Judge Susan Colwell presiding.

By order adopted on July 11, 2007, at Docket No. I-00040105 *et al,* the Commission denied the D&E Companies' request to increase their access rates, finding that these increases were not just and reasonable under the circumstances. Subsequently, in resolving two petitions for reconsideration, the Commission also denied Denver & Ephrata's request[6] to be subsidized instead by the PaUSF for a portion of its allowed revenue increase (a fund that is paid for by other telephone carriers). The Commission instructed Denver & Ephrata that if it wishes to collect the additional revenue it must

[5] *See Developing A Unified Intercarrier Compensation Regime*, CC Docket No. 01-92.
[6] The other two D&E Companies – Buffalo Valley and Conestoga did not request this relief.

collect it through rates charged to its own end user customers, and not from other telephone carriers either through increased access rates or additional subsidies from the PaUSF.

The D&E Companies in this appeal argue that the Commission had no authority to prohibit the D&E Companies from increasing their access charges or, alternatively, that the Commission was required to make other carriers fund a portion of the D&E Companies' annual revenue increase under its alternative regulation plan by increasing the D&E Companies' PaUSF subsidy.

In order to evaluate the issues raised in this appeal, the Court must first understand the interrelated history of the Commission's ratemaking policy with regard to rural ILECs' access and retail rates and the creation of the PaUSF.

The Commission reviewed the D&E Companies' filings in three separate orders entered June 23, 2006. The Commission noted that the proposal to substantially raise access rates "appears to contradict long-standing access service reform in Pennsylvania" and to "contradict Pennsylvania's long-standing attempt to reduce local carriers' dependence on switched access service revenues."[7] The Commission also observed that these proposals unfairly target access services by subjecting them to an overwhelming

[7] The D&E Companies 6-23-06 Order. *See also Buffalo Valley Telephone Company Supplement No. 54 to Tariff Pa. PUC No. 7 And Supplement No. 8 to Tariff Pa. PUC No. 8, Docket No. R-00061375; 2006 Annual Price Stability Index/Service Price Index Filing of Buffalo Valley Telephone Company,* Docket No. P-00981428F1000 (Opinion and Order entered June 23, 2006)*; Conestoga Telephone and Telegraph Company Supplement No. 206 to Tariff PA PUC No. 10, Supplement No. 7 to Tariff PA PUC No. 11, Docket No. R-00061376; 2006 Annual Price Stability Index / Service Price Index Filing of Conestoga Telephone and Telegraph Company,* Docket No. P-00981429F1000 (Opinion and Order entered June 23, 2006).

majority of the rate increases, that increasing access rates at this time "may also contravene the Commission's grant of a recent request of the ILECs, including the D&E Companies, to suspend the investigation of further reductions in access services rates" in the Rural Access Reform Proceeding, and that raising access rates at this point may "contravene [the companies'] earlier agreement to reduce switched access services" through a stipulation accepted by the Commission on July 15, 2003.[8]

Rather than flatly disallowing the access rate increases, however, the Commission gave each company the choice of reallocating these increases to basic service rates or banking the increases. *Id.* If the companies refused to accept either of those choices, then the orders allowed their access rate increases to go into effect, but only on the express condition that the substance of these increased rates would be subject to immediate further investigation in the pending Rural Access Reform Investigation at Docket No. I-00040105. In those June 23 Orders, the Commission, therefore, determined to expand the investigation at Docket No. I-0004015 to examine, among other issues, whether the D&E Companies' access rate increases are "consistent with the regulations and policies governing the PaUSF, the Company's previously granted request for suspension of further intrastate access reform in Docket No. I-00040105, the Company's previously approved Amended Chapter 30 Plan set forth in Docket P-00981430F1000, and the continuing statutory obligations set forth in Sections 3011(1)-(13), 3019(h) and

[8] The D&E Companies 6-23-06 Order; Conestoga June 23, 2006 Order; Buffalo Valley June 23, 2006 Order.

Chapter 13 of the Public Utility Code."[9] At that time, the stay of the rural ILEC access investigation was set to expire on August 30, 2006.

The D&E Companies did not choose the other alternatives provided by the Commission, but rather, despite the Commission's disapproval, proceeded to increase their switched access rates, effective July 1, 2006, according to their original proposal. The amounts of the increases were revised slightly as a result of other holdings in the June 23 Orders.

Denver & Ephrata increased its noncompetitive revenue and elected to allocate 96% of that increase to increasing intrastate switched access rates. The bulk of its projected revenue increase, was to come from a $1.13 increase in its carrier charge, from $4.04 to $5.17. Denver and Ephrata also increased its Tandem Switching and its Local Switching rates. As of December 31, 2005, Denver & Ephrata served approximately 57,581 access lines, and accordingly instead of raising access rates it could have allocated the PSI increase evenly to basic rates. (Vz St. 1.0 pgs. 4-5; R. ____).

- Conestoga increased its noncompetitive revenue and elected to allocate 99% of that increase to increasing intrastate switched access rates. Conestoga decreased its carrier charge by $0.39, from $4.83 to $4.44, but more than offset the revenue impact of that decrease by substantially increasing its Local Switching rate. Conestoga also increased its Tandem Switching rate. As of December 31, 2005, Conestoga served approximately 56,278 access lines and accordingly instead of raising access rates it could have allocated the PSI increase evenly to basic rates.

(Vz St. 1.0 pgs. 5-6; R. ____).

[9] *See, e.g.*, The D&E Companies June 23, 2006 Order, Ordering Paragraph No. 7.

- Buffalo Valley increased its noncompetitive revenue and elected to allocate 76% of that increase to increasing intrastate switched access rates. Buffalo Valley increased its carrier charge by $0.91, from $4.20 to $5.11. The bulk of the projected revenue was to come from an increase to the carrier charge. Buffalo Valley also increased its Local Switching rate in additional revenue. As of December 31, 2005, Buffalo Valley served approximately 20,839 access lines and accordingly instead of raising access rates it could have allocated the PSI increase evenly to basic rates.

(Vz St. 1.0 pgs. 7-8; R. ____).

After the Commission entered these June 23 orders, and after the access rate increases took effect on August 29, 2006, a group of rural ILECs, including the D&E Companies, moved to extend the expiring stay of the investigation at Docket No. I-00040105. Various IXCs, including Qwest, AT&T and Verizon, that were parties to the investigation at that time opposed the motion to extend the stay, in part because the D&E Companies' actions to increase their access rates during the previous stay period were inconsistent with the request for an extension of the stay, and that an extension would delay resolution of the important issues relating to the D&E Companies' access rates that the Commission had deferred to the investigation proceeding. Verizon argued that, if the stay were extended, the Commission should bifurcate the question of whether the D&E Companies' increased access rates are just and reasonable and whether those companies should continue to receive subsidies from the USF, and investigate those issues immediately.

By Order entered November 15, 2006, the Commission granted the request of the D&E Companies and others to extend the stay of the small carriers' access charge investigation for an additional 12 months, or until the FCC issues a ruling in its

intercarrier compensation proceeding, whichever occurs earlier.[10] The Commission also convened the present expedited proceeding to reconsider its June 23 orders pursuant to 66 Pa.C.S. § 703(g):

> to determine, based on the record, whether any rescission or amendment would be warranted by the evidence, consistent with our access charge reform and universal service policies, and lawful under the companies' Chapter 30 plans. Moreover, revenues from increases in access charges collected from the date of this order may be subject to refund depending upon the outcome of these further hearings.

Id. at 15.

On February 22, 2007, Administrative Law Judge Susan D. Colwell issued a Recommended Decision concluding that the D&E Companies should be permitted to increase their switched access rates. Notwithstanding the Commission's long line of precedent establishing a policy to reduce dependence on subsidies from other carriers through excessive access rates, a policy that the Recommended Decision recognized "might be enough to encourage some regulated utilities to pull out the calculators and reconfigure their rates in a way more palatable to the regulatory agency," and "[w]hile [the D&E Companies'] stubborn intransigence may fly in the face of the direction that the Commission wishes to see access rates go," the increases should be permitted because they do not "violat[e]. . . a Commission regulation or order." (RD at 29; R. ____). Verizon filed exceptions on March 14, 2007, and the D&E Companies, the Office of

[10] *Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers, and the Pennsylvania Universal Service Fund*, Docket No. I-00040105; *Denver and Ephrata Telephone and Telegraph Company Supplement No. 251 to Tariff PA PUC No. 15 and Supplement No. 10 to Tariff PA PUC No. 16*, Docket No. R-00061377; *2006 Annual Price Stability Index / Service Price Index Filing of Denver and Ephrata Telephone and Telegraph Company*, Docket No. P-00981430F1000, etc. (Opinion and Order entered November 15, 2006).

Consumer Advocate (OCA) and the Office of Small Business Advocate (OSBA) filed reply exceptions.

By Order entered July 11, 2007 the Commission granted Verizon's exceptions, rejected the Recommended Decision and rescinded its June 23, 2006 approval of the D&E Companies' proposal to allocate a portion of the revenue increase permitted by their 2006 price stability index revenue increase to other carriers through roughly a $2 million increase in switched access rates, rather than increasing rates on their own retail end users. The Commission found that it was not just and reasonable to increase these already high access rates in light of the Commission's established policy to reduce dependence on access revenue from other carriers and because the D&E Companies had obtained a stay of the substantive investigation of their access rates. Instead, the Commission directed the D&E Companies to rescind the access charge increases and to provide refunds to their carrier access customers for these additional charges retroactive to November 15, 2006, and allowed them to recover this revenue instead in any other "manner consistent with their Chapter 30 plans." (Ordering Paragraph No. 4). The D&E Companies were permitted to keep the additional revenue they collected from carrier access customers from the July 1, 2006 effective date of the access increases through November 15, 2006 – which totaled approximately $1 million.

On July 26, 2007, the D&E Companies filed a Petition for Reconsideration, which did not challenge the ultimate result of the Commission's July 11, 2007 Order. The D&E Companies did not seek to reinstate the disallowed access rate increases or to overturn the required refunds to access customers in its Petition for Reconsideration. Rather, the

Petition was the D&E Companies attempt to make a new proposal to extract additional funds to gain their revenue increase from the PaUSF while keeping their residential monthly service rates at the price cap of $18.00 per month. The D&E Companies claimed that if they could implement an annual price stability index filing by increasing their basic residential (R-1) rates to a level over $18 or by increasing its basic business (B-1) rates to a level over $23.58, then they should be able to keep their local rates at the current caps, and receive additional revenue entitlements from the PaUSF on an as-needed basis. In other words, the D&E Companies would collect from other carriers through the USF the same revenue that the Commission said it could not collect from other carriers through access charges. The D&E Companies informed the Commission through their Petition for Review that Conestoga and Buffalo Valley would bank the portion of the increase, which they had originally allocated to access rates, rather than reallocate the revenue to other rates, but that Denver & Ephrata intended to raise rates and wished to do so retroactively to recover the amount required to be refunded to its access customers from November 15, 2006. The primary issue raised in the Petition For Reconsideration was Denver and Ephrata's request to be "reimbursed" by other carriers through an expansion of the carrier-funded PaUSF to cover Denver & Ephrata for both the refund and the forward-looking rate increases.

The Commission's December 7, 2007 Order denied the D&E Companies' Petition For Reconsideration in a decision that left the more comprehensive decisions including possible expansion of the PaUSF to be made in the rural carriers' access investigation at Docket No. I-00040105. In its December 7, 2007 Order on reconsideration the

Commission rejected Denver & Ephrata's claim for reimbursement from other carriers through an expanded PaUSF, but based on Denver & Ephrata's argument that it would have to raise Denver & Ephrata's residential rates above the $18 benchmark to recover the revenue through end-user rate increases, the Commission determined that it would be just and reasonable under these facts to provide Denver & Ephrata a realistic option other than banking to comply with the Commission's July 11, 2007 Order and specifically authorized a waiver from the $18 residential rate cap for purposes of recovering the 2006 PSI/SPI revenue originally allocated to access rates. The Commission considered the history of the $18 benchmark and recognized that there are serious issues about its continued validity and effectiveness – issues the Commission intends to address in the generic rural carriers' access investigation, which, as noted, has been stayed at the request of the rural carriers. In light of the fact that the residential $18 benchmark "was set several years ago by agreement without a comprehensive study of affordability," that it is "not included in our PaUSF regulations" and that it is now almost four years old, the Commission determined that it would be just and reasonable under the facts of this case to provide a limited waiver of the benchmark, to the extent the benchmark even survives. *December 7, 2007 Order* at 35. The Commission noted that it specifically intended to address "whether the maximum weighted average R-1 rate of $18 . . . remain[s] in effect" in the context of its broader investigation of rural carrier access rates at Docket No. I-00040105. (*Id.* at 36). The limited investigation remains pending before the Commission with hearings scheduled for February, 2009.

On December 17, 2007, the OCA filed a Petition For Reconsideration of the December 7, 2007 Order. OCA sought reconsideration, asking the Commission to make a sweeping declaration, without any evidence of "affordability" or any participation in this litigation by the affected members of the industry or the public that the $18 price cap is unwaivable even though it was established more than five years ago, and cannot be waived even under the compelling circumstances presented here. The Commission denied the OCA's Petition for Reconsideration. The instant appeals followed.

SUMMARY OF THE ARGUMENT

The D&E Companies neither have an absolute right to raise intrastate access charges nor to receive additional fund monies from the PaUSF for revenues entitled under the D&E Companies' Chapter 30 PSI filings while keeping residential rates at or below $18.00 per month. The D&E Companies' claim that 66 Pa.C.S. § 3015(g) removes Commission authority to prohibit switched access rates increases is contrary to the plain meaning of language in 66 Pa.C.S. § 1301, which gives the Commission continued authority to ensure rates resulting from annual revenue increases are just and reasonable. Further, for over a decade, the Commission has been working to foster competition in the local phone market in order to bring better and advanced telecommunications services to the residents and businesses of Pennsylvania at affordable rates. In 1999, through the *Global Order*, the Commission reduced intrastate access charges among rural ILECs in a revenue-neutral manner in order to encourage local and toll telephone competition. Ten years later, the Commission does not desire to undo what it has accomplished. The Commission did hold that D&E Companies' access charges are above-cost and it would be anti-competitive to allow the companies to increase their intrastate access charge levels. Finally, the D&E Companies' argument that the rate caps were codified by Section 3015(g) and that the Commission has no choice but to reimburse the D&E Companies from the PaUSF is absurd. The current language of the regulation at 52 Pa. Code § 63.161 states that the purpose of the Fund is to fund access and toll reductions. There is no express provision in the PaUSF regulations providing for revenue increases to recipient carriers due to annual PSI filings.

ARGUMENT

I. Statement of Jurisdiction

This Court has jurisdiction over this matter by reason of Section 763(a)(1) of the Judicial Code, 42 Pa.C.S. § 763(a)(1) and Section 702 of the Administrative Agency Law, 2 Pa.C.S. § 702. Further, the Commonwealth Court has previously reviewed the Commission's decisions approving local exchange telecommunications company petitions and plans for alternative form of regulation, holding that such decisions were within the Commission's area of expertise of weighing and interpreting statistical and economic evidence. *Popowsky v. Pa. Public Utility Commission*, 706 A.2d 1197 (Pa. 1997).

II. The Commission Correctly Adjudicated The D&E Companies' 2006 Price Stability Index Filings By Denying Proposed Increases To Intrastate Access Charges

A. The Commission Correctly Rejected The D&E Companies' Proposed Switched Access Rate Increases As Being Unjust And Unreasonable Under 66 Pa.C.S. § 1301

1. The Commission Has Authority Under Chapter 30 To Reject A Rate Increase That Is Not Just And Reasonable Under 66 Pa.C.S. § 1301

The D&E Companies' first argument is that the Commission lacked the statutory authority to disallow access rate increases as unjust and unreasonable under 66 Pa.C.S. § 1301. According to the D&E Companies, the Commission's authority with respect to a telephone company subject to alternative regulation is limited to reviewing whether the company correctly calculated the additional revenue permitted by its price

change formula and whether the proposed rate change violates an explicit term of the plan or any preexisting Commission orders or regulations. Beyond that, the D&E Companies contend that the Commission's hands are tied by law and the D&E Companies have the right to increase any rate for any noncompetitive service in order to secure the additional revenue permitted by their plans. According to the D&E Companies, since their plans neither limit nor prohibit switched access rate increases and there was no preexisting Commission order or regulation explicitly prohibiting such increases, the Commission was powerless to reject the access charge increases or to determine the resulting access rates to be unjust or unreasonable under Section 1301. (*The D&E Companies' Brief* at 26-27).

The D&E Companies' statutory interpretation is incorrect. The Legislature clearly preserved the Commission's authority to protect ratepayers of noncompetitive and protected services by disallowing any rate increase found to be unjust and unreasonable under 66 Pa.C.S. § 1301, even if that increase is proposed as part of an annual price change filing. That protection extends in this instance to other telephone carriers, which are the ratepayers for the D&E Companies' switched access service, a service that Chapter 30 recognizes is not only a "noncompetitive" service that is not subject to the pricing disciplines of the competitive market but is also deserving of special designation as a "protected service." 66 Pa.C.S. § 3012.

The D&E Companies' contention that it has the unfettered right to increase rates for protected and noncompetitive services such as switched access without Commission oversight is contrary to the plain language of the statute. Under 66 Pa.C.S. § 3019(h), an

alternative regulation plan supersedes all conflicting laws relating to rates and ratemaking *except,* among others, "section 1301 (relating to rates to be just and reasonable)." Similarly, under 66 Pa.C.S. § 1315(g), "[n]othing in this chapter 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." Under 66 Pa.C.S. § 1301, "[e]very rate demanded, or received by any public utility . . . shall be just and reasonable and in conformity with regulations or orders of the Commission." Section 1301 has been interpreted to confer upon the Commission broad "discretion to determine the proper balance between the interests of ratepayers and utilities,"[11] and to "protect" ratepayers from "unreasonable rates" while at the same time "ensuring that utility companies "are permitted to charge rates sufficient to cover their costs and provide a reasonable rate of return."[12] Thus, the Commission has recognized that in reviewing annual price change filings under alternative regulation, "the Commission still has the statutory mandate, authority and responsibility under 66 Pa.C.S. § 3019(h) to adjudicate whether the proposed rate changes are just and reasonable and non-discriminatory respectively under sections 1301 and 1304 of the Public Utility Code, 66 Pa.C.S. § 1301 and 1304."[13] The burden of proof is upon the utility to show that the rate involved is just and reasonable in accordance with Section 315(a) of the Public Utility Code, 66 Pa.C.S. § 315(a). In the proceedings below, ALJ Colwell concluded that no evidence was presented in the form of a cost study to

[11] *Popowsky v. Pa. Public Utility Commission*, 665 A.2d 808, 812 (Pa. 1995).

[12] *Pa. Public Utility Commission v. Philadelphia Electric Co.*, 561 A.2d 1224, 1226 (Pa. 1989).

[13] *Commonwealth Telephone Company PSI/SPI Filing for Year 2005*, No. R-00050551 (Opinion and Order entered August 31, 2005) at 7 (Attachment 2 to VZ Main Brief).

support a finding that the distribution of rates was either reasonable or not reasonable. Recommended Decision at 17. Therefore, the D&E Companies failed to carry their burden of proof to warrant the increase in access charges.

The D&E Companies contend that – notwithstanding statutory language that seems to preserve the Commission's authority to ensure that rates for services that remain with the Commission's regulatory jurisdiction continue to be "just and reasonable" even as the companies implement their annual revenue increases – the Legislature actually intended to eliminate this authority and require the Commission to "rubber-stamp" any rate change intended to increase noncompetitive revenue under an alternative regulation plan. The D&E Companies rely on the second sentence of 66 Pa.C.S. § 3015(g), which states:

> The annual rate change limitations set forth in a local exchange telecommunications company's effective commission-approved alternative form of regulation plan or any other commission-approved annual rate change limitation shall remain applicable and shall be deemed just and reasonable under section 1301.

The D&E Companies aver that unless an access rate increase is explicitly prohibited by their plans or is contrary to a Commission "rate change limitation" established before Section 3015(g) took effect, any access rate increase is automatically "deemed just and reasonable" under Section 1301, and the Commission cannot independently review whether the new rate would be just and reasonable. The D&E Companies assert that any "rate changes made within the limitations of an alternative regulation plan are *per se* just and reasonable under Section 1301." (The D&E Companies Brief at 22).

The D&E Companies' statutory interpretation is not supported by the plain language of the statute and is contrary to the requirements of statutory construction. First, Section 3015(h) does not specify that the Commission's authority over rate changes is limited to determining whether the changes comply with the plan. Had the Legislature intended to limit the Commission's authority in this manner, it could have and would have said so. Indeed, Section 3015(g) does not speak in terms of limiting the Commission's authority at all; it simply makes clear that preexisting "rate limitations" from plans or orders that pre-dated the 2004 enactment of this provision would survive this change in law and would not automatically be eliminated. The effect of the entire provision at Section 3015(g) is to preserve Commission authority, not limit it. Second, the D&E Companies would read out of the statute those portions of Section 3019(h) and 3015(g) that expressly preserve the Commission's authority over all noncompetitive rates under Section 1301. If the Legislature had intended to confine the Commission's authority only to determining if a rate change complies with the terms of the alternative regulation plan and pre-existing "rate limitations," there would have been no need for the statute to preserve the Commission's authority under Section 1301 to determine if these rates are just and reasonable, and instead it would have clearly eliminated that authority. The D&E Companies' counterintuitive reading has the Legislature preserve Section 1301 with one breath, only to take it away with the next. This reading controverts the statutory construction act, which requires that "[e]very statute shall be construed, if possible, to give effect to all its provisions." 1 Pa.C.S. § 1921.

Clearly the Commission retains authority under Chapter 30 of the Public Utility Code to evaluate whether an increase to a rate for a noncompetitive service is "just and reasonable" under Section 1301, even if that rate increase is proposed as part of an annual filing under an alternative regulation plan to increase overall noncompetitive revenue. The D&E Companies are, therefore, incorrect in contending that "this is not a case in which the Court must give deference to the Commission's expertise." (The D&E Companies Br. at 24). To the contrary, the Commission's "power to fix 'just and reasonable' rates imports a flexibility in the exercise of a complicated regulatory function by a specialized decision-making body. . . to make and apply policy concerning the appropriate balance between prices charged to utility customers and returns on capital to utility investors" and "to consider broad public interests in the rate-making process." *Popowsky v. Pa. Public Utility Commission*, 665 A.2d 808 (Pa. 1995). "Rate-making questions require the exercise of the Commission's expertise, and reviewing courts tend to defer to the Commission's exercise of discretion in that area." *Popowsky v. Pa. Public Utility Commission*, 869 A.2d 1144 (Pa. Cmwlth. 2005) *appeal denied*, 895 A.2d 552 (Pa. 2006). Accordingly, the Commission continues to have the authority and obligation to ensure that rates filed pursuant to a Chapter 30 price stability plan are just and reasonable and, in particular, to reject proposals that would perpetuate unreasonable and anti-competitive levels of access charge rates.

2. The D&E Companies' Proposal Violated A "Rate Change Limitation" Under 66 Pa.C.S. § 3015(g)

The D&E Companies are incorrect in asserting that there was no "Commission-approved rate change limitation" applicable to the D&E Companies' access rates in effect when Section 3015(g) was enacted. In fact, in 2003 the Commission had prohibited the D&E Companies from increasing their access rates, except under very limited circumstances if the D&E Companies demonstrated that their current rates were below cost. Under the D&E Companies' own reading of Section 3015(g), this "rate change limitation" was preserved. The Joint Procedural Stipulation that the Commission approved on July 15, 2003, as a means for the small ILECs to further reduce their access rates without submitting cost studies contained a provision that precluded the small rural carriers, including the D&E Companies, from raising access rates unless they demonstrate that a particular rate element is below cost. (The D&E Companies December 8, 2006 Order, R. ____) The D&E Companies, however, did not provide any study of their costs of providing intrastate switched access service, and therefore, did not demonstrate that the increases were needed to bring those rates above cost. The D&E Companies claimed that no such cost data exists. The D&E Companies failed to meet their burden of proving that their access charges increases were reasonable or at or below cost. As discussed below, there was more than substantial evidence in the record for the Commission to conclude that the D&E Companies had failed to show their current access rates to be below cost.

The D&E Companies are erroneous in asserting there was no Commission-approved rate change limitation applicable to the D&E Companies' access rates. In 2003, the Commission prohibited the D&E Companies from increasing their access rates, except under the very limited circumstances. The Commission's July 15, 2003 Order at Docket No. M-00021596 allowed for the rebalance of revenue from access rates without submitting cost studies; however, the Order contained a provision that precluded these rural ILEC carriers from increasing access rates unless they demonstrated that a particular rate element is below cost. Therefore, the rate change limitation was preserved under Section 3015(g). Increases could be justified in an evidentiary proceeding. However, in the instant case, there was more than substantial evidence in the record for the Commission to conclude that the D&E Companies had failed to show their current access rates were below cost.

3. The Commission's Conclusion That The D&E Companies' Access Rate Increases Were Unjust And Unreasonable Was Supported By Substantial Evidence

The Commission had the legal authority to disallow the D&E Companies' access rate increases if they were not just and reasonable. The D&E Companies argue that the Commission's conclusion that the access increases were unjust and unreasonable under 66 Pa.C.S. § 1301 was not supported by substantial evidence.[14] In reviewing a Commission decision this Court must "determine only whether or not the Commission's findings are supported by substantial evidence," and it "may not substitute [the court's]

judgment for that of the Commission, nor may [the court] 'indulge in the processes of weighing evidence and resolving conflicting testimony.'" *Popowsky v. Pa. Public Utility Commission*, 706 A.2d 1197 (Pa. 1997).

The D&E Companies had the burden of proving that their increased rates were just and reasonable – a burden the Commission properly found that the D&E Companies failed to carry. Under 66 Pa.C.S. § 315, "[i]n any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceedings upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility." Under this provision, the D&E Companies have the burden of proving that their access rate increases are just and reasonable, as the D&E Companies' counsel admitted during the hearings. (Tr. 49; R.____). Section 315 places this burden on the D&E Companies, as the utility, both because the Commission was reconsidering the original "proposed increase in rates" and because this expedited proceeding was convened "upon the motion of the Commission." (R.____). The D&E Companies failed to meet this burden and the Commission's conclusion that the access increases were not just and reasonable is supported by substantial evidence.

[14] D&E Companies Brief at 29-30.

There was substantial record evidence showing that the D&E Companies' access rates are already higher than those charged by other carriers and higher than what the D&E Companies charge themselves for the same service in their interstate jurisdiction.[15] There was substantial record evidence showing that by increasing its access rates the D&E Companies were increasing the subsidies paid to it by other carriers.

The D&E Companies claim that the Commission's conclusion that its switched access rates were excessive was based only on a "generalized belief" that access rates almost always exceed their costs and on "policy," and not on actual evidence. (D&E Companies Brief at 29-30). The D&E Companies claim the Commission "refused to evaluate" its purported cost evidence (NECA model).

The "just and reasonable" standard of review requires the Commission to make the precise same policy judgments, such as what portion of a utility's costs should be borne by other carriers and their customers versus the D&E Companies' own retail customers, that the Commission has already made in formulating its policy to reduce access rates and remove implicit subsidies. As the Pennsylvania Supreme Court has observed, "the term 'just and reasonable' is not intended to confine the ambit of regulatory discretion to an absolute or mathematical formulation but rather to confer upon the regulatory body the

[15] In 2001, the Commission found that Denver & Ephrata's access rates were "inflated" and had been set "above cost" to subsidize retail rates that were "well below cost." *Pa. Public Utility Commission v. Denver and Ephrata Telephone and Telegraph Company,* Docket No. R-00016682 (Opinion and Order entered November 30, 2001) at 7 (R ____). D&E offered no evidence to show that this stipulation had changed and the record in the instant case below supports a finding that all three D&E Companies' access charges continue to be above cost. In addition, the issue of access costs is part of the rural telephone companies' access charge investigation pending before the Commission which, as previously noted, the rural companies have requested be stayed pending the outcome of a decision by the FCC in its Unified Intercarrier Compensation proceeding at CC Docket No. 01-92.

power to make and apply policy concerning the appropriate balance between prices charged to utility customers and return on capital to utility investors."[16] In evaluating whether a proposed rate increase is "just and reasonable" under Section 1301, this Commission "has discretion to determine the proper balance between the interests of ratepayers and utilities."[17] It must "protect" ratepayers from "unreasonable rates" while at the same time "ensuring that utility companies "are permitted to charge rates sufficient to cover their costs and provide a reasonable rate of return."[18]

The D&E Companies further argue that the proposed access rate increases would have advanced the Commission's policy to "mirror" interstate rates and, thereby, avoid "jurisdictional arbitrage." (The D&E Companies Brief at 28). In fact, the D&E Companies charge less for the same access service in the interstate jurisdiction. The D&E Companies charge from 2.18 cents a minute for interstate access, as compared to roughly 4 to 5 cents per minute for intrastate access. (VZ St. 1.1 (Price Rebuttal) Exhibit 6; R. ____). In the case of *Mobilfone of Northeastern Pennsylvania, Inc. v. Pa. Public Utility Commission,* 467 A. 2d 902 (Pa. Cmwlth. 1983), the Commission was found to have reasonably compared rates among carriers to determine if a carrier was pricing in an anti-competitive manner. Similarly, in the instant case, the Commission reasonably

[16] *Pa. Public Utility Commission v. Pennsylvania Gas and Water Co.*, 424 A.2d 1213, 1219 (Pa. 1980), *cert denied*, 454 U.S. 824 (1981).

[17] *Popowsky v. Pa. Public Utility Commission*, 665 A.2d 808, 812 (Pa. 1995).

[18] *Pa. Public Utility Commission v. Philadelphia Electric Co.*, 561 A.2d 1224, 1226 (Pa. 1989).

compared the proposed increase to intrastate access charges as well as the current intrastate access charges of the D&E Companies to other rural ILECs operating in Pennsylvania and compared those charges to the D&E Companies' own interstate access charges, and with this substantial evidence, the Commission properly determined that the D&E Companies' current intrastate access charges were still above cost and were not mirroring interstate charges.

Substantial evidence supports the Commission's finding that the D&E Companies' proposed access rate increases would be anti-competitive and contrary to prior Commission Orders attempting to encourage competition in rural ILEC territories by reducing the implicit subsidies in access charges and in gradually reducing them to mirror interstate access charges.

B. Alternatively, The Commission Had Authority Under 66 Pa.C.S. § 3017 To Require The D&E Companies To Rebalance Revenue From Access Rates To Retail Rates

Because this case involves an increase to access rates, Chapter 30 provides another independent basis of authority under which the Commission could have revoked these rate increases without relying on 66 Pa.C.S. § 1301. Under 66 Pa.C.S. § 3017(a) the Commission has specific authority to rebalance revenue among noncompetitive services by reducing access rates and making revenue neutral increases to other noncompetitive rates. Section 3017(a) states that "[t]he Commission may not require a local exchange telecommunications company to reduce access rates except on a revenue-neutral basis." Section 3017(a) provides an independent basis for the Commission to require the D&E

Companies to reduce the access rates back to their pre-2006 levels on a revenue-neutral basis. Thus, Section 3017(a) provides an independent statutory basis to achieve the same result. This statutory provision provides the Commission authority to further its access reform policies by reducing access rates without requiring a finding that the rates are "unjust and unreasonable," so long as the reduction is done on a revenue-neutral basis.[19]

III. The Commission Correctly Applied Chapter 30 Legislation In Denying The D&E Companies' Request To Receive Additional Pennsylvania Universal Service Fund Support To Maintain Service Rates At Established Residential And Business Rate Caps

A. The Commission Properly Waived The Residential Rate Caps For The D&E Companies

The PaUSF established a residential service rate cap rate of $16 per month. This cap was subsequently amended by the Commission's July 15, 2003 Order at Docket No. M-00021596, which approved a joint stipulation of industry and other stakeholders to $18.00 per month. Regarding business service rates, the D&E Companies assert:

> A proportionate PaUSF credit is also calculated and applied against the monthly single-party business rate to maintain parity between business and residence rates. The calculated single-party business to single-party residence ratio is 141%. Therefore, the single-party business rate cap is $18 multiplied by 141%, which results in a single-party business rate cap equal to $25.38.

[19] The statutory provision at 66 Pa.C.S. § 3017(a) undercuts The D&E Companies' contention that the "PUC's action in denying access charge increases and placing the revenue burden on local rates and local customers is directly contrary to" the policy behind Chapter 30. (The D&E Companies Brief at 28). To the contrary, Chapter 30 through Section 3017(a) clearly supports and provides a means to advance the Commission's policy goals to reduce dependence on revenue from other carriers through access rates and to rebalance those revenues to retail rates so that end users will bear more of the companies' costs access rates and to rebalance those revenues to retail rates so that end users will bear more of the companies' costs.

By Commission Order dated November 29, 2007, the Commission allowed the D&E Companies a waiver from compliance with the R-1 and B-1 rate caps to the extent the waiver was necessary to receive its entitled revenue increase and expressly precluded D&E from recovery above the rate caps from the PaUSF.

Appellants content that the D&E Companies cannot be required to raise basic local service rates beyond a certain level because 66 Pa.C.S. § 3015(g) "codified the $18 residential and corresponding business rate cap limitations" that were part of the orders and settlements reducing rural carrier access rates and creating the PaUSF. (D&E Companies Brief at 35). Appellants rely on the second sentence of 66 Pa.C.S. § 3015(g), stating that:

> The annual rate change limitations set forth in a local exchange telecommunications company's effective Commission-approved alternative form of regulation plan or any other Commission-approved annual rate change limitation shall remain applicable and shall be deemed just and reasonable under section 1301.

According to the Appellants, the $18 residential rate cap and corresponding business rate cap were "rate change limitations" within the meaning of the provision and the enactment of Section 3015(g) in November, 2004, eliminated the Commission's authority to alter or waive these "rate change limitations" or even for these limitations to change or expire by their own terms. (D&E Companies Brief at 36; OCA Brief at 26). Thus, Appellants essentially argue that the enactment of Section 3015(g) means that rural ILECs can never raise their residential rates over $18 per month and that this cap cannot be waived, increased, or eliminated unless by future statute. This argument is without merit and is an absurd result which the General Assembly did not intend.

The rate caps were established in the context of setting parameters for rate rebalancing to reduce access and intraLATA toll rates, not as a broader limitation on a rural ILEC's implementation of their annual revenue increase opportunities under their alternative regulation plans. It is true that before the new Chapter 30 took effect on November 30, 2004, the Commission did not anticipate annual rate increase filings on the part of all the ILECs. Most of the rural ILECs have banked their annual revenue increases. The Commission did not anticipate the rate caps applying to constrain the implementation of the alternative regulation rate increases. The issue of increasing rate caps is now before the Commission's Administrative Law Judge Susan Colwell who is conducting an investigation and has hearings scheduled for February, 2009. This is in order to give the OCA an opportunity to be heard on the issue of residential and business rate caps as well as rural ILECs and other interested parties an opportunity to be heard.

B. Section 3015(g) Did Not Deprive The Commission of Authority To Alter or Waive Its Own Rate Limitations

Assuming a rate cap remains in effect, nothing in Section 3015(g) removes the Commission's authority to waive or alter the cap. The Commission has rejected Appellants' argument stating:

> We see nothing in Act 183 in general, or Section 3015(g) in particular, that denies this Commission authority to modify rate caps that existed prior to the passage of Act 183, based on the facts of a specific case. As noted by the OCA, the General Assembly added Chapter 30 to the Code in 1993, and reenacted Chapter 30 through the passage of Act 183. The final sentence of Section 3015(g) is a transitional provision, intended to preserve existing Commission-approved rate change limitations upon the effective date of Act 183. We see nothing in that provision that limits the Commission's

authority to subsequently modify Commission-approved rate change limitations.

It is well established that the courts should "afford great deference to the interpretation of Statutory language rendered by the administrative agency overseeing the implementation of such legislation." *Colville v. Allegheny County Ret. Bd.*, 926 A.2d 424 (Pa. 2007) (citing *Winslow-Quattlebaum v. Md. Ins. Group*, 752 A.2d 878, 881 (Pa. 2000). Especially where the Commission orders adopting rate caps and associated rate rebalancing plans were transitional in nature, it is unreasonable to interpret either Section 3015(g) or the references to those orders in D&E's alternative regulation plans to eliminate the Commission's discretion to waive or alter the caps.

The Commission never stated that all rate caps are off. The Commission merely noted that the $18 cap may have expired since the July 15, 2003 Order states that it covers the period of January 31, 2004 through December 31, 2006, and there was no express addressing of extending the cap in a subsequent order. However, the Commission did through subsequent order move the issue of rate caps to the limited investigation that is now actively pending before the Commission. (R ____). The D&E Companies' exaggerated claim that the Commission "sua sponte abandoned the rate cap limitations" is erroneous. (D&E Companies' Brief at 36). Contrarily, the Commission made a very limited holding to the extent that the rate caps remained in effect, that they would be waived only for one of the three D&E Companies (*i.e.*, Denver & Ephrata) for one small increase above the $18 cap. This, taken with the Commission's re-opening of the access charge investigation on a limited extent in order to consider the broader issue

of rate caps and rural ILEC annual price increase filings, so that all interested parties could participate, demonstrates that the Commission was not in error in its decision nor in violation of Section 703(g). The Commission is giving the Appellants an opportunity to be heard.

Similarly, the D&E Companies' contention that the Commission somehow violated 47 U.S.C.S. § 254(b)(3) because it did not make a specific finding that Denver & Ephrata's retail rates are comparable to the rates charged for the same service in urban areas is baseless. (D&E Companies' Brief at 38-39). This federal regulation pertains to federal universal service and is not a mandate to state Commissions. It has no bearing on rural ILECs' receipt of monies from the PaUSF, but may be relevant to non-rural ILECs' participation as recipient carriers regarding the federal USF.

C. The Commission Was Not Required By Law To Reimburse The D&E Companies From The PaUSF For Rate Increases Above The Residential Rate Cap of $18.00

The D&E Companies claim that their alternative regulation plans require the Commission to provide it with increased USF support to cover any residential rate increases over the $18 cap. (The D&E Companies Brief at 33). The D&E Companies claim that refusing to do so makes it an unauthorized change to the alternative regulation plans in violation of 66 Pa.C.S. § 3013(b). The OCA contends that if the D&E Companies charge customers more than $18, they have the "right" to draw any revenues over the $18 level from other carriers through increased subsidies from the PaUSF. (OCA Brief at 30). Both the OCA and the D&E Companies contend that the right to

recover from the PaUSF is in Denver & Ephrata's alternative regulation plan and that the Commission cannot modify it due to the restrictions of 66 Pa.C.S. Section 3013(b). (OCA Brief at 32).

The PaUSF regulations which govern the maintenance and application of the PaUSF make no provision for allowing USF reimbursement if a fund recipient's retail rates exceed any benchmark. The regulations found at 52 Pa. Code §§ 63.161 – 63.171 merely provide for maintaining the affordability of local service rates for end-user customers while allowing rural telephone companies to reduce access charges and intraLATA toll rates, on a revenue-neutral basis, thereby encouraging greater competition. 52 Pa. Code Section 63.161. The regulation is silent as to using the Fund for annual RLEC revenue increases. At the time the regulations were made effective, in 2000, there existed the possibility that there would be revenue increases due to alternative rate plans and PSI filings, but under the old Chapter 30 statutory provision, it was much less likely. In 1999 – 2000 inflation rates were low, thus the ILECs were filing negative PSI filings requiring the ILECs to reduce their revenues sometimes by non-competitive services rate reductions. That Chapter 30 language was changed on November 30, 2004, with the enactment of the new Chapter 30 legislation, or Act 183. The alternative regulation plans that are being quoted by the Appellants pre-date November 30, 2004. If the legislature or Commission intended for the purpose of the PaUSF to include funding rate increases over and above rate caps, then Section 63.161 would have expressly stated as such.

Appellants' argument depends on a finding that D&E's alternative regulation plan requires the Commission to increase PaUSF subsidies to fund D&E's annual rate increases over the rate cap, notwithstanding the absence of a mechanism or requirement to do so in the regulations. While the plans do refer to the rate caps, the plans do not state that they are incorporating only the dollar figure without all of the surrounding conditions. The 2003 plan stated that "[a]ny approved future increases in rates above the $18.00 rate cap force shall also be recoverable from the USF under the exact same terms and conditions as approved in the *Global Order*." Thus, this plan incorporates the same limitation the *Global Order* and subsequent regulations establishing the PaUSF had on increases in the size of the Fund.

The Fund is designed for annual re-evaluation and recalculation of Fund size and then flat monthly revenues flow to recipient rural ILEC carriers. To have rural ILECs file rate increases sporadically, unpredictably, and frequently throughout a calendar year and expect to receive increasing revenues after the yearly budget of the Fund has been set in December of the prior year, could be problematic to administering the PaUSF. Currently, contributing carriers are billed once at the beginning of a calendar year, and are expected to pay $1/12^{th}$ of that annual amount in a flat monthly rate into the Fund for the whole calendar year. This amount is adjusted annually. Multiple ILECs seeking multiple increases in revenues sporadically throughout the calendar year of the PaUSF will likely increase the complexity of running the PaUSF and possibly cause an increase in its administrative costs as well as the surplus contingency amount that is maintained for uncollectables.

The issue of whether to expand the current PaUSF to now include reimbursement for increased revenues entitled under PSI filings is now properly before the Office of Administrative Law Judge at the Commission. However, under the current language of the regulations it is not appropriate to allow the D&E Companies to draw revenues from the PaUSF for their PSI revenue increases.

Thus, Appellants' argument depends on this court finding that Denver & Ephrata's alternative regulation plan requires the Commission to increase PaUSF subsidies to fund Denver & Ephrata's annual PSI rate increases over the current $18 rate cap, notwithstanding the absence of a mechanism or requirement to do so in the applicable regulations. As with this rate cap argument, the PaUSF was created at a time when alternative regulation plans were showing negative or low inflation growth and the Fund was thought to be a transitional, rather than a permanent, support mechanism for the rural ILECs.

Further, the Commission's *Global Order* and *July 15, 2003 Order* state that all revenues received from the PaUSF after the deduction therefrom of any contribution made by a Fund Recipient to the Fund, shall be used to rebalance, on a revenue neutral basis, the rates/revenues derived from access and/or other services.[20] The *July 15, 2003 Order* states that any approved future increases in rates above the $18.00 rate cap shall also be recoverable from the USF under the exact same terms and conditions as approved

[20] *Global Order* Appendix II, Small Company Universal Service Fund Settlement, Appendix A at 11. B (Exhibit 1 to VZ St. 1.1) (R. ____)

in the *Global Order* thus incorporating that same limitation. Both orders clearly limit USF funding to rate increases tied to access or toll rate reductions.

D. The Commission Did Not Modify Its Prior Orders In Violation of 66 Pa.C.S. § 703(g)

Section 703(g) of the Public Utility Code, 66 Pa.C.S. § 703(g), relating to rescission and amendment of orders, establishes a party's right to seek relief following the issuance of a final Commission decision. Such requests for relief must be consistent with 52 Pa. Code § 5.572(b), relating to petitions for relief following the issuance of a final decision. Also, the standard for our consideration of a petition for relief following the issuance of a final decision are well settled. Under the standards of *Duick v. Pa. Gas & Water*, 56 Pa. PUC 553 (1982), a petition for reconsideration may properly raise any matter designed to convince the Commission that it should amend or rescind a prior Order in whole or in part. Such petitions are likely to succeed only when they raise new and novel arguments not previously heard by the Commission. *Duick* at 559.

Notice and an opportunity to be heard is what Petitioners wanted before the Commission adjudicated and applied the new Chapter 30 requirements. As an administrative agency, the Commission is a creature of the legislature and has only those powers which have been conferred by statute. *Western Pennsylvania Water Co. v. Pa. Public Utility Commission*, 370 A.2d 337 (Pa. 1977).

The D&E Companies contend that Act 183 "codified the $18 residential and corresponding business rate cap limitations" with the enactment of Section 3015(g). (The

D&E Companies Brief at 35). The D&E Companies contend that any rates in excess of this level are by definition not "affordable" and the Commission does not have discretion to waive or alter these supposed rate limitations. (The D&E Companies at 36; OCA at 29). The D&E Companies contend that the Commission "*sua sponte* abandoned the rate cap limitations." (The D&E Companies Brief at 36). Also they claim this was an unauthorized change to the alternative regulation plan. The D&E Companies contend that the rate caps were established through 1999 and 2003 orders and that the Commission "modified" these orders without notice and an opportunity to be heard in violation of Section 703(g). (The D&E Companies Brief at 37; OCA Brief at 34). The D&E Companies contend that the Commission failed to find that its higher business and residential rates would be affordable and reasonable to the D&E Companies' end user customers. (The D&E Companies Brief at 39). The D&E Companies contend that the Commission violated section 254(b) of the TA-96 because it did not make a finding that the D&E Companies' rates were "reasonably comparable" to those charged for similar services in urban areas.

The OCA claims that there was no "notice" that residential customers would be charged more than $18 per month as a result of the Commission's order in this case. (OCA Br. at 37). OCA contends that rural ILECs cannot charge residential customers more than $18. (OCA Brief at 23). OCA contends that the $18 rate cap has been "codified in statute" and cannot be waived. (OCA Brief at 26). OCA contends that the "rate cap" continues indefinitely (claiming it would be in effect for a "minimum" of three years with "no end date." (OCA Br. at 28). The OCA contends that the $18 rate cap

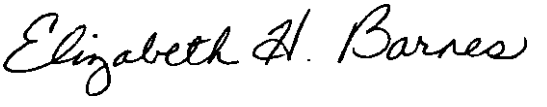
constitutes a "Commission-approved annual rate change limitation" under section 3015(g) (OCA Br. at 29).

All of these arguments are premature and, therefore, without merit. The Commission put the issue of whether the residential rate cap should be increased before the Office of Administrative Law Judge for an investigation and recommended decision. Therefore, an opportunity to be heard will be provided before any rate caps are lifted. The one limited waiver for Denver & Ephrata is not in violation of Section 703(g) because that issue is also going to be heard at the investigation.

CONCLUSION

The Commission's July 11, 2007, December 7, 2007 and April 9, 2008 Orders are in accordance with the law and supported by substantial evidence. Accordingly, the D&E Companies' and the OCA's petitions for review should be dismissed and the Commission's orders affirmed.

Respectfully submitted,



Elizabeth H. Barnes
Assistant Counsel
Attorney ID 64389

Frank B. Wilmarth
Deputy Chief Counsel

Bohdan R. Pankiw
Chief Counsel

Counsel for the Pennsylvania
Public Utility Commission

P.O. Box 3265
Harrisburg, PA 17105-3265
(717)787-5000

Dated: December 31, 2008

VZ St. 1.1, Price Rebuttal
Docket I-00040105

Exhibit 2

FCC Report: "Trends in Telephone Service"
Table 10.2

Trends in Telephone Service

Industry Analysis and Technology Division
Wireline Competition Bureau

August 2008

This report is available for reference in the FCC's Information Center at 445 12th Street, S.W., Courtyard Level. Copies may be purchased by calling Best Copy and Printing, Inc., Portals II, 445 12th Street S.W., Room CY-B402, Washington DC 20554 at 800-378-3160, facsimile 202-488-5563, or via e-mail fcc@bcpiweb.com. The report can also be downloaded from the Wireline Competition Bureau Statistical Reports Internet site at: www.fcc.gov/wcb/iatd/trends.html.

Table 10.2

Telephone Calls and Billed Access Minutes of Large ILECs Reporting to the Commission

Year	Number of Carriers	Number of Telephone Calls (Thousands)						InterLATA Billed Access Minutes Carried by IXCs (Originating and Terminating) (Thousands)		
		Local Calls Carried by the ILECs	Toll Calls Completed [1] (Originating)							
			Total [1]	IntraLATA carried by ILECs	Total InterLATA Carried by IXCs	InterLATA Interstate Carried by IXCs	InterLATA Intrastate Carried by IXCs	Total	Interstate	Intrastate
1984	75	350,391,981	NA	NA	NA	NA	NA	NA	NA	NA
1985	55	365,304,830	NA	NA	NA	NA	NA	NA	NA	NA
1986	57	372,296,473	NA	NA	NA	NA	NA	NA	NA	NA
1987	52	379,864,264	NA	NA	NA	NA	NA	NA	NA	NA
1988	52	379,035,883	67,547,342	18,983,768	48,563,574	36,752,925	11,810,649	NA	NA	NA
1989	51	389,383,322	68,547,451	19,406,222	49,141,229	37,593,867	11,547,362	NA	NA	NA
1990	51	402,492,293	63,359,346	20,263,554	43,095,792	31,888,748	11,207,044	NA	NA	NA
1991	52	416,213,954	67,333,207	23,337,553	43,995,654	32,126,555	11,869,099	405,456,048	305,745,611	99,710,437
1992	54	434,175,743	71,502,090	22,612,572	48,889,518	36,036,032	12,853,486	432,356,515	327,821,281	104,535,234
1993	53	447,473,714	78,077,246	23,757,662	54,319,584	38,746,788	15,572,796	465,270,369	351,022,599	114,247,770
1994	52	465,207,539	83,441,709	23,796,633	59,645,076	43,244,593	16,400,483	500,297,267	374,996,101	125,301,166
1995	53	484,195,345	94,051,667	23,327,801	70,723,866	50,618,771	20,105,095	549,982,263	405,579,546	144,402,717
1996	51	504,131,507	94,905,927	21,376,847	73,529,080	52,677,037	20,852,043	598,563,946	438,772,880	159,791,066
1997	51	522,025,261	98,424,977	21,844,925	76,580,052	54,563,338	22,016,714	647,813,708	469,638,292	178,175,416
1998	52	544,288,934	96,934,938	18,469,316	78,465,622	55,974,210	22,491,412	690,523,467	497,138,901	193,384,566
1999	52	553,853,237	102,245,666	18,116,240	84,129,426	57,806,961	26,322,465	739,042,459	519,272,905	219,769,554
2000	52	536,523,081	105,978,596	16,157,912	89,820,684	59,212,055	30,608,629	792,263,836	535,011,649	257,252,187
2001	52	515,335,676	97,849,444	14,970,794	82,878,650	53,319,645	29,559,005	745,754,124	504,026,109	241,728,015
2002	53	453,603,777	95,709,932	13,324,887	82,385,045	52,905,686	29,479,359	666,477,372	451,602,651	214,874,720
2003	54	418,024,360	87,750,048	11,938,818	75,811,230	48,942,707	26,868,523	611,454,607	414,766,241	196,688,366
2004	56	380,783,208	82,246,587	10,176,082	72,070,505	47,560,862	24,509,643	600,794,362	406,315,068	194,479,294
2005	56	330,018,175	79,410,078	9,320,956	70,089,122	45,362,434	24,726,688	577,264,068	388,640,682	188,623,386
2006	56	280,182,070	73,065,925	8,619,197	64,446,728	41,993,036	22,453,692	543,163,434	372,044,483	171,118,950

[1] Excludes IntraLata toll carried by interexhange carriers.

NA - Not available.

Notes: Between 1987 and 1988, there were significant changes in the definitions of many of the items in this table due to the implementation of a new Uniform System of Accounts (USOA) in 1988. In 1992, some of these definitions were further refined when the reporting mechanism of the carriers was changed for the filing of 1991 data. For these reasons, there may be inconsistencies in the data reported for 1984-1987 compared to what was reported for 1988, and also between 1988 and subsequent years, as the carriers were adapting to the new USOA and automated reporting requirements.
ILEC is an abbreviation for incumbent local exhange carrier. IXC is an abbreviation for interexchange carrier.

Source: Industry Analysis and Technology Division, Wireline Competition Division, *Statistics of Communications Common Carriers*, with updates and revisions contained in the ARMIS database for the most recent five years. Totals may be understated because certain data pertaining to the carriers included in this table are not available.

VZ St. 1.1, Price Rebuttal
Docket I-00040105

Exhibit 3

FCC Report: "Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service, 2008"

REFERENCE BOOK
of Rates, Price Indices, and Household Expenditures for Telephone Service

Industry Analysis & Technology Division
Wireline Competition Bureau
2008

This report is available for reference in the FCC's Reference Information Center, Courtyard Level, 445 12th Street S.W., Washington, D.C. 20554. Copies may be purchased by calling Best Copy and Printing, Inc., Portals II, 445 12th Street S.W., Room CY-B402, Washington, D.C. 20554, telephone 202-488-5300, or via e-mail at fcc@bcpiweb.com. The report can also be downloaded from the **Wireline Competition Bureau Statistical Reports** Internet site www.fcc.gov/wcb/stats.

Table of Contents

Introduction

This 2008 issue of the *Reference Book* highlights the data collected through the Industry Analysis and Technology Division's annual *Urban Rates Survey*. The local rate data reflect the inclusion of various taxes and surcharges and, as such, provide an estimate of the monthly charges residential and single-line business customers pay for local telephone service provided by wireline telephone companies. Local rates pertaining to multiline-business customers are no longer reported. Like the previous edition of the *Reference Book* (2007), this issue primarily focuses on trends in rates, price indices, and expenditures for telephone service. As before, each chapter has a section following the text which informs the reader about the various additional data sources that contain further information on these topics. This report, and previous reports, are also available on the **Wireline Competition Bureau Statistical Reports** website at www.fcc.gov/wcb/stats.

This publication focuses on domestic telecommunications. Those interested in international telecommunications are encouraged to refer to *Trends in the International Telecommunications Industry*, which is also available on the **Wireline Competition Bureau Statistical Reports** Internet site.[1]

[1] *Trends in the International Telecommunications Industry* is published by the FCC's International Bureau. Previously, the report was published by the Industry Analysis and Technology Division of the FCC's Wireline Competition Bureau.

Statistical Findings

Rates for Local Service

- The Lifeline universal service program subsidizes the monthly phone charges for low-income households, while the Link-Up program subsidizes charges for the connection of a phone line. Based on a sample of cities, Lifeline conferred an average monthly benefit of $14.99, and Link-Up conferred an average benefit of $30.04.

- The average rate paid by business customers for a single phone line rose from $45.32 in 2006 to $48.67 in 2007, an increase of 7.4%. Average connection charges for single-line business customers fell from $68.96 in 2006 to $68.74 in 2007, a decrease of 0.32%.

- The average rate paid by residential customers for unlimited touch-tone calling rose to $25.62 in 2007, an increase of 1.4% from $25.26 in 2006. The average connection charge for residential customers increased to $43.22 in 2007 from $43.13 in 2006, which represents an increase of 0.20%.

Toll Service Rates

- The increased availability and marketing of discount and promotional long distance plans, as well as the popularity of wireless "bucket-of-minutes" plans, has made basic schedule rates obsolete for many long distance customers, particularly business customers and high volume residential consumers. Today wireline, wireless, and cable companies are offering consumers bundled packages of local and long distance service, and buckets of minutes that can be used to call anyone, anywhere, and anytime.

- The average revenue per minute of long distance calling, which reflects rates paid by residential and business consumers, has fallen from 15 cents in 1992, when discount and promotional long distance plans were introduced, to 6 cents in 2006, a decrease of 60%.

- During 2007, the consumer price index for interstate toll service rose 2.4% and the consumer price index for intrastate toll service increased 5.9%, while the overall consumer price index rose 4.1%.

Consumer Expenditures for Telephone Service

- According to Bureau of Labor Statistics (BLS) surveys, average monthly expenditures for telephone service for all U.S. households rose from $87.33 in 2006 to $90.58 in 2007, an increase of 3.7%. Telephone service continues to comprise approximately 2% of household expenditures.

- Also, according to BLS surveys, urban households continue to spend more on telephone service than rural households. During 2007, average annual expenditures for urban households were $1,091, as compared to $1,038 for rural households.

- According to data provided by TNS Telecoms, a marketing research firm, households with wireline telephone service spent an average total of $113 per month on telephone services during the year 2007 (compared to $102 in 2006). Out of that total, households spent $45 per month on local and long distance service (compared to $44 in 2006), and $68 per month on wireless service (compared to $58 in 2006).

I. Rates

This section focuses on rates for local telephone service provided by wireline telephone companies. The billing structure for local telephone service can be broadly classified as either flat-rate or message/measured service. Customers subscribing to flat-rate service do not pay any additional fees for calls within their local calling area, regardless of the number of calls they place. Alternatively, customers subscribing to message or measured service pay an additional charge for calls made within the local calling area. Message service denotes those plans which bill customers by the call, regardless of the length of the call, while measured service plans bill customers based upon the length of the call. Either plan may also base charges on the distance between the calling and called party. Under either message or measured service, some amount of calling may be included in the monthly basic charge and therefore may be made without additional cost to the customer.

In addition to monthly charges for basic service and calling charges, customers pay a number of other charges for telephone service. The federal subscriber line charge is a line item that local exchange carriers are authorized to charge to recover a portion of the interstate costs of providing local phone service. Some states, such as Michigan, authorize local carriers to charge a state subscriber line charge. In some areas there are additional surcharges that the state telephone regulatory authority has authorized the carrier to charge customers. These surcharges are generally associated with price-cap plans and other regulatory matters that either limit the carrier's local service revenue to reasonable levels, or ensure that the carrier is fully compensated for the cost of providing service. In some states, most notably California, the surcharges change annually and can either add or subtract to the local rates of customers. Charges to fund local number portability, telecommunications relay services, and 911 services also appear on telephone bills in many parts of the country.

The local rate averages presented in this report include subscriber line charges and local number portability surcharges that are tariffed at the FCC. Revenues from these charges are classified as interstate and therefore are included in incumbent local exchange carrier (LEC) universal service contribution bases. Prior to July 2000, the incumbent LECs recovered the cost of universal service contributions through per-minute interstate access charges. In July 2000 the incumbent LECs began recovering this cost through pass-through charges levied on local exchange service customers. These pass-through charges also are included in our calculations of the base rate for local service.

State, county, and municipal governments levy a number of charges on telephone service. For local service, posted rates provide an accurate picture of prices paid by end users. However, the long distance market features a variety of rates for identical or similar services. Residential consumers may choose from a wide variety of distinct discount plans, and many businesses enter into contracts with toll service providers rather than purchasing service at the posted rates. Consequently, basic rates do not necessarily reflect the prices that residential and business consumers actually pay for long distance services. In fact, the vast majority of customers employ discount long distance calling plans and do not pay the basic schedule rate.[1] Numerous incumbent LECs, competitive local exchange carriers (CLECs), and interexchange carriers (IXCs) are now offering bundled packages of local and long-distance voice services, many at discounted rates. In

[1] Bureau of Labor Statistics (BLS) price indices, presented in Section III, provide an alternative measure of long distance prices.

addition, most wireless providers now offer packages that include unlimited minutes or a set number of minutes that may be used for local or long-distance calls.

A. Local Service Rates

The Industry Analysis and Technology Division of the Wireline Competition Bureau conducts an annual survey of incumbent LEC local telephone service rates in 95 urban areas of the United States.[2] The cities surveyed are those that were included in the BLS Consumer Price Index (CPI) in 1986. In constructing averages and medians, the sample weights derived by the BLS are used. In addition to collecting information on monthly rates for service, the *Urban Rates Survey* collects information on charges paid to have a phone connected to the network and the price of optional inside wire maintenance plans offered by many local exchange carriers.

1. Residential Rates

Table 1.1 presents the national average rates for residential telephone service as of October 15, 2007. The average rate for flat-rate calling with touch-tone service in the 95 cities in the sample was $25.62. Measured or message service was $17.29, with an average additional charge of 8 cents for a 5-minute, same-zone, business-day call.

The charge to have a single residential line connected averaged $43.22 on October 15, 2007. If telephone service is being installed for the first time at a residence, a drop line from the nearest telephone cable must be run to the building and a connection block (network interface device) must be installed. In twenty seven of the sample cities, an additional charge is levied for this work. The nationwide average connection charge would be $12.65 higher if these charges were included.

In some areas of the country, only one type of service is offered, either flat-rate or measured/message service, and consumers do not have a choice. In order to calculate a national average based upon all of the sample cities, we calculate a "representative rate." The representative rate is the flat-rate service charge in those areas where this type of service was available.[3] Table 1.2 presents the national average representative rates from 1986 to 2007. During the twenty-two-year period sample, the average representative rate for residential local service has gone (in nominal terms) from $17.70 to $24.80, and average connection charges have dropped from $49.25 to $40.20.

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[2] In 2003, the form used to conduct the *Urban Rates Survey* was revised. Specifically, a more detailed breakout of carriers' surcharges and taxes now appear as separate line items on the survey instrument. The residential and business survey instruments are included in the attached Appendix. In addition, all carriers are now required to submit all line-item data in terms of dollar amounts, whereas before some line items were reported as percentages. These changes to the survey form allow for more accurate estimates of the total monthly recurring costs for basic local residential and single-line business service. Note that all estimates for 2002 and beyond reflect usage of the revised survey form, estimates for years 2001 and prior reflect those obtained from the previous survey instrument.

[3] If flat-rate service was unavailable, the rate for measured/message service was used, along with the charges associated with placing 100 five-minute, same-zone, business-day calls. As of October 15, 2001, flat-rate local residential service was available in all 95 cities, so that approximating the cost of measured/message service with 100 five-minute, same-zone business day calls was unnecessary.

Table 1.3 provides the rates in each of the 95 cities in the *Urban Rates Survey* as of October 15, 2007. Tables 1.4 and 1.5 provide historical monthly residential rates and residential connection charges respectively, for each of the sample cities.

2. Rates for Low-Income Households

Tables 1.1 through 1.5 show the local rates that are available to all customers. Many states, in addition to federal programs, subsidize low-income households' monthly service charges and connection fees. Most of these subsidy programs are part of the FCC's Lifeline and Link-Up programs. The goal of the Lifeline and Link-Up programs is to help achieve universal service by enabling lower-income households to obtain telephone service. Lifeline subsidizes lower-income households' monthly service charges, while Link-Up subsidizes lower-income households' connection charges. In 2007, qualifying households in all of the 95 surveyed cities received Lifeline and Link-Up benefits. Table 1.6 shows the average Lifeline and Link-Up rates in those cities and compares the subsidized rates to the standard rates. In 2007, low-income households on the Lifeline program paid $10.63 per month for local service, as compared to $25.62 paid by residential subscribers not on the Lifeline program, for an average saving of $14.99 per month. Low-income households receiving Link-Up assistance paid $13.19 for connection charges, as compared to $43.22 paid by residential subscribers not receiving Link-Up assistance, for an average Link-Up benefit of $30.04.

Table 1.7 presents the Lifeline and Link-Up rates, as well as the standard rates, in the sample cities as of October 15, 2007.

3. Business Rates

The *Urban Rates Survey* also collects information on charges for single-line business service. Beginning with the 2003 *Urban Rates Survey*, data pertaining to charges for multi-line business services (key systems and private branch exchanges) are no longer collected.

Table 1.8 presents the average monthly rates for flat-rate and measured/message service paid by a business with a single telephone line, as well as the connection charges a business could expect to pay. Table 1.9 calculates the "representative rate," and shows the trend in rates since 1989. Rates for single-line businesses have followed trends similar to those seen with residential rates. Tables 1.10 through 1.12 present current and historical rates for the sample cities.

B. Standard Deviation Analysis of Residential Rates

In October 2003, the Federal Communications Commission adopted a recommendation by the Federal-State Joint Board on Universal Service establishing an annual adjusted nationwide urban rate benchmark for purposes of determining universal service support for non-rural carriers. This benchmark is used by the states and the Commission as a tool to assess the reasonable comparability of rates in rural and high-cost areas served by non-rural carriers to nationwide urban rates.[4] The urban rate

[4] *See Federal-State Joint Board on Universal Service*, CC. Docket No. 96-45, Order on Remand, Further Notice of Proposed Rulemaking, and Memorandum Opinion and Order, 18 FCC Rcd 22559, 22607-22610,

benchmark adopted by the Commission is based upon the most recent average urban residential rate as shown in Table 1.1.

Because of the great variation in urban rates nationwide, the Commission adopted a "standard deviation analysis" which measures the dispersion of urban rates from the average. As such, an urban rate benchmark level of two (weighted) standard deviations above the (weighted) average urban rate is used. Table 1.13 presents the results of such a standard deviation analysis for the residential rates reported in the *Urban Rates Survey* as of October 15, 2007. The average, plus the two standard deviation benchmark, is $37.36. Table 1.14 shows the historical trend in the standard deviation analysis for the years 1993-2007. Over this period, the average plus the two standard deviation benchmark rose by 31.5%, and presents an increase of 13.1% compared to 2006.

C. Toll Service Rates

Since 1992, carriers have introduced an impressive array of discount and promotional plans, and many long distance residential customers subscribe to these plans. These plans take a variety of formats. Some plans offer a block of calling time for a fixed fee and reduced per minute rates for additional calling while others give volume discounts or discounts for calls to certain phone numbers or area codes. One common trend has been the introduction of flat-rate calling plans, which eliminate the mileage bands associated with traditional basic schedules. For example, Verizon's "Freedom Essentials" plan offers unlimited long-distance and local calling (as well as voice mail, caller ID, and call waiting) for as low as $42.99 per month (not including add-on charges). In addition, Verizon offers discounts on its high-speed Internet offerings to those subscribers who take the service as part of its "Freedom" plans.

Section 271 of the Telecommunications Act of 1996 allowed the Regional Bell Operating Companies (RBOCs) to provide in-region interLATA toll services once the companies satisfied a fourteen-point "checklist" of conditions which demonstrates that their local exchange markets are open to entry by competitive local exchange carriers. All of the RBOCs attained section 271 approvals for their particular markets, and they are now offering discounted bundled packages of voice and popular calling features.

Wireless companies and prepaid calling cards offer more options for long-distance consumers. Wireless companies now offer packages which enable customers to purchase a set number of minutes of usage per month at a set rate (some with unlimited minutes or unlimited nights and weekends) and allow customers to use these minutes for local or long distance calling. Consumers may also purchase prepaid calling cards, which contain an allotted number of minutes, with some charging rates less than three cents per minute.

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paras. 80-82 (2003), *remanded, Qwest Communications Int'l, Inc. v. FCC*, 398 F.3d 1222 (10th Cir. 2005); *Federal-State Joint Board on Universal Service*, CC. Docket No. 96-45, Notice of Proposed Rulemaking, 20 FCC Rcd 19731 (2005).

Using revenue per-minute data for both residential and business interstate toll traffic, Table 1.15 illustrates the downward trend in long distance rates since discount long distance plans were introduced in 1992. The carriers' average revenue per interstate toll minute has fallen by 60% since 1992, demonstrating that the advent of discount long distance plans has produced lower rates for both business and residential consumers.

D. Additional Sources of Information on Local and Toll Rates

1. Local Rates

A few states have begun to place exchange service tariffs on the Internet. The National Association of Regulatory Utility Commissioners (NARUC) web site has links to the web sites of all of the state telecommunications regulatory agencies: www.naruc.org.

The Bureau of Labor Statistics (BLS), part of the U.S. Department of Labor, publishes a number of price indices that follow trends in local telephone rates. Part III of this report reviews these indices. The most current figures can be obtained at www.bls.gov.

2. Toll Rates

Up until August 2001, all interstate interexchange carriers were required to file tariffs setting forth their rates with the FCC. These filings were available for public inspection at the FCC's Reference Information Center, Washington, DC. As of August 1, 2001, interstate carriers were no longer required to file tariffs setting forth their interstate long distance rates. Since that date, carriers are required to post their rates on their websites.

The BLS publishes a number of price indices that follow trends in toll rates. Part III of this report reviews these indices. The most current figures can be obtained at www.stats.bls.gov.

Finally, there are a number of firms that specialize in monitoring major long distance companies and their rates, and many of these firms maintain Internet sites. Some examples are Abtolls.com, a free directory service guide to long distance carriers and their rates; Telecommunications Research and Action Center, which uses a search engine to find the lowest long distance rates for any selected calling pattern; *Phone Bill Busters*, which lists discount long distance plans and uses a search engine to find the lowest long distance rates for any selected calling pattern; and *Discount Long Distance Digest*, an Internet newsletter which offers a "free multi-carrier cost comparison service". One can access these services on the Internet at www.abtolls.com, www.trac.org, www.phone-bill-busters.com, and www.thedigest.com.

Table 1.1
Residential Rates for Local Service in Urban Areas
(As of October 15, 2007)

	Average Rate	Median Rate [2]
Monthly Charge for Flat-Rate Service [1]	$15.62	$14.77
Federal and State Subscriber Line Charges	5.74	5.91
Taxes, 911 and Other Charges	4.26	3.91
Total Monthly Charge for Flat-Rate Service	**$25.62**	**$24.71**
Number of Sample Cities with Flat-Rate Service	95	-
Monthly Charge for Measured/Message Service [1]	$8.49	$8.80
Federal and State Subscriber Line Charges	5.49	5.68
Taxes, 911 and Other Charges	3.31	3.09
Total Monthly Charge for Measured/Message Service	**$17.29**	**$17.57**
Cost of a 5-Minute Daytime Call	0.08	0.08
Number of Sample Cities with Message/Measured Service	79	-
Basic Connection Charge [1]	$39.81	$40.00
Taxes	3.41	2.78
Total Connection Charge	**$43.22**	**$42.78**
Additional Charge if Drop Line and Connection Block Needed	12.65	0.00
Lowest-Cost Inside Wiring Maintenance Plan	$5.38	$5.00

Note: Detail may not add to totals due to rounding.

[1] Rate includes additional monthly charges for touch-tone service.

[2] Where a rate exists for fewer than 95 cities, the median represents the midpoint rate for those cities which have the service offering.

Table 1.2
Average Residential Rates for Local Service in Urban Areas, 1986-2007
(As of October 15)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [1]	2007 [2]
Representative Monthly Charge [3,4]	$12.58	$12.44	$12.32	$12.30	$12.36	$13.03	$13.05	$13.16	$13.19	$13.62	$13.71	$13.67	$13.75	$13.77	$13.64	$14.49	$14.38	$14.54	$14.57	$14.66	$15.03	$15.62
Subscriber Line Charges	2.04	2.66	2.67	3.53	3.55	3.56	3.55	3.55	3.55	3.54	3.54	3.53	3.52	3.58	4.50	5.05	5.74	5.86	5.81	5.82	5.97	5.74
Additional Monthly Charge for Touch-Tone Service	1.57	1.52	1.54	1.52	1.33	1.06	0.97	0.94	0.77	0.44	0.30	0.25	0.10	0.09	0.06	0.04	[4]	[4]	[4]	[4]	[4]	[4]
Taxes, 911, and Other Charges	1.51	1.56	1.58	1.70	2.00	2.12	2.15	2.29	2.31	2.41	2.40	2.42	2.39	2.48	2.57	3.03	3.94	4.12	4.14	4.15	4.26	4.26
Total Monthly Charge	**$17.70**	**$18.18**	**$18.11**	**$19.05**	**$19.24**	**$19.77**	**$19.72**	**$19.95**	**$19.81**	**$20.01**	**$19.95**	**$19.88**	**$19.76**	**$19.93**	**$20.78**	**$22.62**	**$24.07**	**$24.52**	**$24.52**	**$24.64**	**$25.26**	**$25.62**
Basic Connection Charge [4]	45.63	44.04	42.94	43.06	43.06	42.00	41.50	41.38	41.28	40.91	41.11	41.04	41.24	41.26	41.45	40.02	39.83	39.22	39.26	39.62	39.68	39.81
Additional Connection Charge for Touch-tone Service	1.34	1.31	1.55	1.76	1.77	1.27	1.22	1.23	0.85	0.23	0.23	0.17	0.12	0.12	0.12	0.12	[4]	[4]	[4]	[4]	[4]	[4]
Taxes, 911, and Other Charges	2.28	2.20	2.11	2.44	2.32	2.30	2.29	2.30	2.33	2.44	2.36	2.46	2.38	2.57	2.53	2.81	1.33	3.32	3.44	3.17	3.45	3.41
Total Connection Charge	**$49.25**	**$47.55**	**$46.60**	**$47.26**	**$47.15**	**$45.57**	**$45.01**	**$44.92**	**$44.46**	**$43.58**	**$43.70**	**$43.67**	**$43.74**	**$43.95**	**$44.10**	**$42.95**	**$41.16**	**$42.54**	**$42.71**	**$42.80**	**$43.13**	**$43.22**
Additional Charge if Drop Line and Connection Block Needed	[1]	[1]	6.04	6.07	6.89	6.89	6.50	7.29	6.74	5.90	5.74	5.65	5.64	5.86	5.84	5.84	5.85	12.13	12.45	12.65	13.91	12.65
Lowest-Cost Inside Wiring Maintenance Plan	0.58	0.85	0.89	1.07	1.07	1.20	1.25	1.31	1.45	1.52	1.78	1.68	2.22	2.66	3.03	3.62	3.62	3.64	4.08	4.42	4.96	5.38

Note: Details may not add to totals due to rounding.

[1] Revised.

[2] Subject to revision.

[3] Rates are based upon flat-rate service where available and measured/message service with 100 five-minute, same-zone, business-day calls elsewhere. Beginning in 2001, all rates reflect flat-rate service.

[4] Beginning in 2002, rate includes additional monthly charges for touch-tone service.

Table 1.3
Residential Telephone Rates in the Sample Cities [1]
(As of October 15, 2007)

State	City	Telephone Company	Monthly Telephone Rate Including Touch-Tone, SLCs, Surcharges, and Taxes		Cost of a Five-Minute Same-Zone Daytime Call	Connection Charges Including Touch-Tone, Surcharges, and Taxes	Least-Cost Inside Wiring Maintenance Plan
			Flat-Rate Service	Measured/Message Service			
Alabama	Huntsville	AT&T	$26.60			$40.00	$6.95
Alaska	Anchorage	ACS	25.34			53.50	2.00
Arizona	Tuscon	Qwest	22.62	17.22	0.20	30.61	4.75
Arkansas	Pine Bluff	AT&T	29.26	20.47	0.07	45.00	7.00
Arkansas	West Memphis	AT&T	37.47	20.58	0.07	45.00	7.00
California	Anaheim	AT&T	16.70	11.24	0.06	36.97	5.00
California	Bakersfield	AT&T	16.70	11.24	0.06	36.97	5.00
California	Fresno	AT&T	16.70	11.24	0.06	36.97	5.00
California	Long Beach	Verizon	26.31	18.50	0.08	49.22	3.99
California	Los Angeles	AT&T	18.46	12.43	0.06	36.97	5.00
California	Oakland	AT&T	17.92	12.06	0.06	36.97	5.00
California	Salinas	AT&T	17.38	11.60	0.06	36.97	5.00
California	San Bernardino	AT&T	27.00	18.99	0.08	50.52	3.99
California	San Diego	AT&T	16.70	11.24	0.06	36.97	5.00
California	San Francisco	AT&T	16.70	11.24	0.06	36.97	5.00
California	San Jose	AT&T	17.24	11.52	0.06	36.97	5.00
Colorado	Boulder	Qwest	26.22	19.84	0.13	38.93	4.75
Colorado	Colorado Springs	Qwest	26.16	19.85	0.13	38.72	4.75
Colorado	Denver	Qwest	25.06	19.07	0.13	37.71	4.75
Connecticut	Ansonia	AT&T	25.39	15.48	0.18	65.00	4.90
Connecticut	Norwalk	AT&T	24.30	15.52	0.18	65.00	4.90
District of Columbia	Washington	Verizon	21.11	14.61	0.06	24.89	3.99
Florida	Miami	AT&T	23.71			49.72	6.95
Florida	Tampa	Verizon	27.87	19.90	0.10	77.87	3.99
Florida	West Palm Beach	AT&T	23.71			49.72	6.95
Georgia	Albany	AT&T	25.43			42.50	6.95
Georgia	Atlanta	AT&T	28.26			44.24	6.95
Hawaii	Honolulu	Verizon	26.50			52.09	5.45
Illinois	Chicago	AT&T	18.88	11.28	0.04	39.39	6.99
Illinois	Decatur	AT&T	25.98	17.72	0.02	39.39	6.00
Illinois	Rock Island	AT&T	25.38	17.12	0.02	39.39	6.99
Indiana	Indianapolis	AT&T	19.85			47.00	6.99
Indiana	Terre Haute	Verizon	25.82			62.35	3.99
Iowa	Fort Dodge	Citizen	21.46			13.06	3.95
Kentucky	Louisville	AT&T	28.44			44.52	6.95
Louisiana	Baton Rouge	AT&T	23.28			44.28	6.95
Louisiana	New Orleans	AT&T	22.86			42.23	6.95
Maine	Portland	Verizon	27.79			48.90	3.99
Maryland	Baltimore	Verizon	28.94	20.85	0.10	52.24	3.99
Massachusetts	Boston	Verizon	29.95	22.45	0.09	14.59	3.99
Massachusetts	Hyannis	Verizon	29.95	22.45	0.09	14.59	3.99
Massachusetts	Springfield	Verizon	29.95	22.45	0.09	14.59	3.99
Michigan	Detroit	AT&T	30.38	23.40	0.07	46.90	6.99
Michigan	Grand Rapids	AT&T	28.15	21.97	0.07	44.79	6.99
Michigan	Saginaw	AT&T	30.39	25.13	0.07	44.79	6.99
Minnesota	Detroit Lakes	Qwest	22.00	16.28	0.10	19.54	4.75
Minnesota	Minneapolis	Qwest	22.99	17.43	0.10	19.63	4.75
Mississippi	Pascagoula	AT&T	29.93			49.22	6.95
Missouri	Kansas City	AT&T	23.69	15.83	0.08	37.47	7.00
Missouri	Mexico	AT&T	20.94	15.62	0.08	37.25	7.00
Missouri	St. Louis	AT&T	23.41	15.68	0.08	37.30	7.00
Montana	Butte	Qwest	32.45	24.79	0.05	26.00	4.75
Nebraska	Grand Island	Qwest	28.74	22.92	0.10	37.22	4.75
New Jersey	Phillipsburg	Verizon	18.43	14.30	0.10	46.58	3.99

Table 1.3
Residential Telephone Rates in the Sample Cities - Continued [1]
(As of October 15, 2007)

State	City	Telephone Company	Monthly Telephone Rate Including Touch-Tone, Surcharges, and Taxes		Cost of a Five-Minute Same-Zone Daytime Call	Connection Charges Including Touch-Tone, Surcharges, and Taxes	Least-Cost Inside Wiring Maintenance Plan
			Flat-Rate Service	Measured/Message Service			
New Mexico	Alamogordo	Qwest	24.46	15.49	0.15	33.49	4.75
New York	Binghamton	Verizon	34.84	22.17	0.09	63.18	3.99
New York	Buffalo	Verizon	35.78	22.68	0.09	64.63	3.99
New York	Massena	Verizon	32.99	22.05	0.09	62.83	3.99
New York	New York City	Verizon	36.37	23.42	0.09	64.58	3.99
New York	Ogdensburg	Verizon	33.86	22.63	0.09	64.48	3.99
New York	Rochester	Citizen	26.37	16.46	0.15	38.01	3.95
North Carolina	Raleigh	AT&T	28.80	0.00	0.00	45.64	6.95
North Carolina	Rockingham	AT&T	28.21	0.00	0.00	45.64	6.95
Ohio	Canton	AT&T	22.18	16.36	0.08	38.69	7.00
Ohio	Cincinnati	Cincinnati Bell	24.87	15.19	0.15	25.70	5.95
Ohio	Cleveland	AT&T	22.54	16.62	0.08	39.33	7.00
Ohio	Columbus	AT&T	22.23	16.40	0.08	38.78	7.00
Ohio	Toledo	AT&T	22.33	16.47	0.08	38.96	7.00
Oregon	Corvallis	Qwest	22.88	15.59	0.15	18.17	4.75
Oregon	Portland	Qwest	22.83	15.54	0.15	18.17	4.75
Pennsylvania	Allentown	Verizon	23.66	19.03	0.07	43.60	3.99
Pennsylvania	Ellwood City	Verizon	24.10	19.58	0.07	43.60	3.99
Pennsylvania	Johnstown	Verizon	24.71	16.92	0.07	57.44	3.99
Pennsylvania	New Castle	Verizon	22.30	19.58	0.07	43.60	3.99
Pennsylvania	Philadelphia	Verizon	25.05	18.19	0.07	44.00	3.99
Pennsylvania	Pittsburgh	Verizon	25.05	18.19	0.07	44.00	3.99
Pennsylvania	Scranton	Verizon	23.09	18.46	0.07	43.60	3.99
Rhode Island	Providence	Verizon	30.75	19.10	0.05	37.21	3.99
South Carolina	Beaufort	Embarq	24.05	15.80	0.12	32.30	5.45
Tennessee	Memphis	AT&T	23.59	16.42	0.10	45.44	6.95
Tennessee	Nashville	AT&T	23.59	16.42	0.10	45.44	6.95
Texas	Brownsville	AT&T	20.04	14.68	0.08	41.51	7.00
Texas	Corpus Christi	AT&T	21.76	16.42	0.08	41.47	7.00
Texas	Dallas	AT&T	23.01	16.54	0.08	41.51	7.00
Texas	Fort Worth	AT&T	21.62	15.42	0.08	41.32	7.00
Texas	Houston	AT&T	22.88	16.46	0.08	41.13	7.00
Texas	San Antonio	AT&T	20.66	14.93	0.08	41.13	7.00
Utah	Logan	Qwest	21.29	19.28	0.10	27.67	4.75
Virginia	Richmond	Verizon	31.05	17.67	0.09	45.60	3.99
Virginia	Smithfield	Verizon	28.72	19.41	0.11	45.06	3.99
Washington	Everett	Verizon	28.96	22.28	0.02	50.22	3.99
Washington	Seattle	Qwest	21.23	17.34	0.07	32.98	4.75
West Virginia	Huntington	Verizon	31.31	14.51	0.16	44.10	3.99
Wisconsin	Milwaukee	AT&T	38.59	19.78	0.04	49.30	
Wisconsin	Racine	AT&T	38.57	19.76	0.04	49.30	

[1] All figures are preliminary and subject to revision.

Table 1.4
Monthly Residential Telephone Rates in the Sample Cities [1]
(As of October 15, 2007)

State	City	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [2]	2007 [3]
Alabama	Huntsville	$24.60	$24.60	$23.06	$22.67	$22.67	$22.67	$22.67	$23.61	$24.85	$25.98	$26.76	$26.49	$26.54	$26.05	$26.60
Alaska	Anchorage	16.20	14.44	14.47	14.47	14.46	14.48	14.48	14.34	15.42	20.95	21.50	21.61	21.61	23.25	25.34
Arizona	Tuscon	18.23	18.23	19.18	19.13	19.42	19.42	19.43	20.10	20.78	22.89	23.39	22.66	22.74	22.62	22.62
Arkansas	Pine Bluff	22.60	22.22	22.06	22.14	22.22	22.22	22.26	23.22	25.09	26.08	26.11	27.33	27.65	27.97	29.26
Arkansas	West Memphis	29.00	29.55	28.57	28.65	28.78	20.79	28.75	29.72	31.58	32.72	32.71	34.47	34.33	36.59	37.47
California	Anaheim	12.18	12.18	15.59	15.69	15.57	15.57	15.42	15.34	15.71	17.48	16.67	16.03	16.39	17.10	16.70
California	Bakersfield	12.18	12.18	15.59	15.69	15.57	15.57	15.42	15.34	15.71	17.48	16.67	16.03	16.39	17.79	16.70
California	Fresno	12.18	12.18	15.59	15.69	16.67	17.13	15.42	15.34	15.71	17.48	16.67	16.03	16.39	17.10	16.70
California	Long Beach	17.35	16.78	23.56	23.51	23.51	23.51	23.51	24.48	25.05	24.69	25.70	25.13	25.38	26.61	26.31
California	Los Angeles	13.39	13.39	17.09	17.20	15.57	16.01	16.59	16.87	17.28	17.48	16.67	17.59	18.02	18.76	18.46
California	Oakland	13.09	13.09	16.72	16.82	15.57	16.01	16.23	16.49	16.89	17.48	16.67	17.20	17.61	18.35	17.92
California	Salinas	12.79	12.91	16.49	16.59	15.57	16.01	16.02	16.26	16.65	17.48	16.67	16.69	17.05	17.79	17.38
California	San Bernadino	17.12	16.55	23.24	23.19	23.19	23.19	23.19	24.15	25.05	24.69	25.69	25.74	26.07	27.33	27.00
California	San Diego	12.18	12.18	15.59	15.69	15.57	16.01	15.42	15.34	15.71	17.48	16.67	16.03	16.39	17.10	16.70
California	San Francisco	12.18	12.69	15.59	15.69	16.45	16.91	15.16	15.34	15.71	17.48	16.67	16.03	16.39	17.10	16.70
California	San Jose	12.79	12.79	16.34	16.44	16.30	16.30	15.87	16.11	16.49	16.58	16.67	16.05	16.94	17.67	17.24
Colorado	Boulder	20.99	21.26	21.51	21.55	21.36	21.39	22.07	23.04	23.07	27.06	27.68	27.17	26.11	25.83	26.22
Colorado	Colorado Springs	20.29	20.23	19.78	20.38	20.38	20.36	20.85	21.77	22.33	24.48	25.00	24.68	26.09	25.82	26.16
Colorado	Denver	20.80	21.12	21.10	21.14	21.11	21.40	21.91	22.85	22.98	25.71	26.23	25.62	25.07	24.76	25.06
Connecticut	Ansonia	17.22	17.60	18.70	18.70	18.70	18.64	19.41	20.67	22.02	22.41	22.34	22.15	22.05	21.98	25.39
Connecticut	Norwalk	16.13	16.51	17.60	17.60	17.60	17.55	18.32	19.58	20.93	21.32	21.25	21.06	20.96	20.89	24.30
District of Columbia	Washington	21.70	21.67	20.13	21.05	19.23	20.10	19.94	20.12	21.03	21.01	21.53	21.46	21.08	21.34	21.11
Florida	Miami	18.07	16.92	16.84	16.86	16.86	16.85	16.83	17.76	18.97	20.26	21.02	21.14	22.44	22.36	23.71
Florida	Tampa	17.45	17.45	17.65	19.09	19.19	19.23	19.23	20.27	21.04	22.29	22.49	22.27	22.15	25.55	27.87
Florida	West Palm Beach	16.74	15.65	15.59	15.89	15.89	15.60	15.58	16.73	18.15	19.56	20.29	20.65	22.03	21.96	23.71
Georgia	Albany	20.60	20.63	20.63	21.29	21.29	21.34	21.88	22.98	24.22	25.11	26.25	25.91	25.45	25.30	25.43
Georgia	Atlanta	24.50	24.53	24.80	24.98	24.98	24.92	24.92	26.04	27.25	28.56	29.54	28.90	29.85	29.06	28.26
Hawaii	Honolulu	19.35	20.60	21.35	22.52	22.40	22.40	22.40	23.28	23.28	25.34	26.35	26.27	26.13	26.34	26.50
Illinois	Chicago	18.21	18.20	17.31	17.63	17.18	17.18	14.52	15.52	21.64	24.68	22.12	21.19	21.27	21.27	18.88
Illinois	Decatur	21.56	21.54	20.19	20.18	20.18	20.18	22.26	23.26	21.08	31.52	29.15	28.44	28.53	28.99	25.98
Illinois	Rock Island	22.18	22.17	20.82	20.82	20.18	20.18	21.85	22.85	20.79	31.26	28.90	28.19	28.28	28.74	25.38
Indiana	Indianapolis	21.87	20.44	19.81	18.82	18.82	18.82	19.05	20.25	20.40	20.20	20.21	19.74	19.79	20.25	19.85
Indiana	Terre Haute	22.93	23.02	23.02	22.98	22.98	22.98	19.86	22.57	23.63	26.21	25.94	25.95	25.77	25.69	25.82
Iowa	Fort Dodge	13.79	14.06	14.06	14.06	15.96	15.90	15.57	16.49	17.62	19.04	19.51	19.90	21.12	21.12	21.46
Kentucky	Louisville	24.17	24.17	23.66	23.66	24.63	24.63	24.70	26.41	27.11	28.44	29.06	28.87	28.87	28.32	28.44
Louisiana	Baton Rouge	22.25	20.81	20.93	20.66	19.57	19.57	19.57	20.47	23.17	23.00	23.65	23.28	23.33	22.53	23.28
Louisiana	New Orleans	23.28	20.33	20.14	19.99	18.78	18.78	18.78	19.69	20.67	21.84	22.49	22.12	22.16	22.68	22.86
Maine	Portland	18.24	18.27	17.99	18.19	19.12	19.70	22.53	23.34	24.72	26.31	26.99	27.63	28.55	27.77	27.79
Maryland	Baltimore	24.98	24.98	24.98	24.98	24.98	24.67	24.67	25.73	26.47	27.14	28.09	27.94	28.06	28.86	28.94
Massachusetts	Boston	21.72	23.07	23.07	23.07	23.07	23.07	23.07	23.46	24.53	25.61	29.64	29.88	29.76	29.80	29.95
Massachusetts	Hyannis	20.43	23.07	23.07	23.07	23.07	23.07	23.07	23.46	24.53	25.61	29.64	29.88	29.76	29.80	29.95
Massachusetts	Springfield	21.72	23.07	23.07	23.07	23.07	23.07	23.07	23.46	24.53	25.61	29.64	29.88	29.76	29.80	29.95
Michigan	Detroit	19.25	19.55	19.50	19.42	19.42	19.76	22.50	25.99	27.12	27.77	27.39	27.45	27.52	29.32	30.38
Michigan	Grand Rapids	17.19	17.53	18.06	17.95	18.01	18.25	20.08	23.28	24.54	25.47	25.07	24.81	24.81	26.52	28.15
Michigan	Saginaw	18.75	16.93	18.96	20.05	20.05	20.11	19.85	22.99	27.71	28.18	27.52	27.27	27.87	29.66	30.39
Minnesota	Detroit Lakes	19.86	19.84	19.91	19.91	19.63	19.63	19.63	20.57	21.50	22.41	22.42	21.69	21.99	21.85	22.00
Minnesota	Minneapolis	21.64	21.66	21.73	21.73	21.45	21.46	20.61	21.54	22.48	23.38	23.39	22.67	22.97	22.82	22.99
Mississippi	Pascagoula	26.03	26.42	26.42	26.03	26.03	25.26	24.81	25.80	27.05	28.30	28.95	28.73	29.91	29.84	29.93
Missouri	Kansas City	20.40	19.03	18.15	18.15	19.53	19.53	18.25	19.21	20.68	20.33	20.25	21.65	21.76	23.15	23.69
Missouri	Mexico	17.14	15.81	17.19	17.19	17.26	17.26	17.26	18.42	20.10	18.76	18.91	20.29	20.40	22.01	20.94
Missouri	St. Louis	20.23	19.05	18.18	18.18	18.18	18.18	18.28	19.32	20.87	20.52	20.73	21.54	21.65	23.04	23.41
Montana	Butte	18.22	18.22	18.22	18.22	19.26	19.69	22.70	23.16	24.23	26.25	26.54	26.02	26.11	26.02	32.45
Nebraska	Grand Island	21.88	21.88	21.85	21.76	23.39	23.27	26.22	27.14	26.25	29.64	29.38	28.75	28.62	28.69	28.74
New Jersey	Phillipsburg	13.04	13.04	13.04	13.04	13.05	13.05	13.05	13.21	15.31	15.93	16.30	17.09	18.21	18.39	18.43

Table 1.4
Monthly Residential Telephone Rates in the Sample Cities - Continued [1]
(As of October 15, 2007)

State	City	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [2]	2007 [3]
New Mexico	Alamogordo	20.21	20.46	20.65	20.82	20.99	20.99	19.03	17.50	18.14	22.47	24.22	23.74	23.95	24.37	24.46
New York	Binghamton	25.31	24.52	26.03	23.80	23.76	23.74	23.74	23.90	25.01	29.05	30.57	31.24	31.07	32.48	34.84
New York	Buffalo	32.68	31.63	30.62	28.34	28.29	28.27	28.27	28.37	32.41	32.52	34.25	35.35	35.16	35.71	35.78
New York	Massena	22.90	22.88	23.40	21.19	20.33	20.31	20.31	20.50	24.94	24.88	28.79	29.19	29.16	30.65	32.99
New York	New York City	26.75	26.73	25.00	24.92	24.88	24.86	24.86	25.00	28.45	29.04	31.81	32.53	32.50	34.00	36.37
New York	Ogdensburg	23.54	23.52	24.06	21.78	20.90	20.88	20.88	21.08	25.62	25.56	29.56	30.07	29.92	31.46	33.86
New York	Rochester	19.75	18.96	16.83	16.83	17.91	17.86	17.86	18.64	19.55	20.38	20.44	20.41	20.07	22.29	26.37
North Carolina	Raleigh	18.23	18.02	17.75	17.48	17.22	17.23	17.23	18.13	19.33	21.28	23.46	23.98	26.66	26.59	28.80
North Carolina	Rockingham	16.74	16.53	16.22	15.95	15.69	15.69	15.69	16.86	19.20	20.54	21.81	22.15	24.96	24.89	28.21
Ohio	Canton	21.29	21.29	20.00	19.59	18.87	18.72	18.56	19.28	20.31	21.06	21.18	22.14	22.13	22.52	22.18
Ohio	Cincinnati	20.30	21.24	21.13	21.13	21.13	21.05	21.55	22.74	23.54	23.76	23.98	23.61	23.53	23.55	24.87
Ohio	Cleveland	21.29	21.29	20.00	19.44	18.87	18.72	18.56	19.28	20.31	21.06	21.18	22.45	22.43	22.83	22.23
Ohio	Columbus	21.29	21.29	20.00	19.85	18.87	18.72	18.56	19.28	20.31	21.06	21.18	22.19	22.18	22.57	22.23
Ohio	Toledo	21.29	21.29	20.00	19.85	18.87	18.72	18.56	19.28	20.31	21.06	21.18	22.29	22.28	22.28	22.33
Oregon	Corvallis	19.02	18.21	18.73	19.65	19.66	19.88	19.97	21.05	21.62	24.05	23.11	22.67	22.65	22.71	22.88
Oregon	Portland	21.42	18.36	22.07	23.02	21.22	21.19	21.19	22.07	23.64	25.44	21.60	22.66	22.65	22.71	22.83
Pennsylvania	Allentown	17.70	17.70	17.59	17.63	17.47	17.94	17.48	18.35	19.59	20.87	22.21	22.10	22.65	23.27	23.66
Pennsylvania	Ellwood City	15.07	15.07	16.72	16.76	16.60	16.60	16.60	18.74	20.00	21.28	22.65	22.53	23.09	23.71	24.10
Pennsylvania	Johnstown	20.11	21.95	21.78	20.31	19.48	19.48	21.94	22.86	20.97	21.54	23.33	22.87	23.57	23.90	24.71
Pennsylvania	New Castle	15.07	15.58	14.97	15.01	14.90	14.90	14.90	17.04	18.30	19.58	20.84	20.73	21.29	21.91	22.30
Pennsylvania	Philadelphia	20.09	20.09	19.98	18.72	18.56	18.56	18.56	19.41	20.67	22.13	23.57	23.45	24.01	24.68	25.05
Pennsylvania	Pittsburgh	18.78	18.78	18.67	18.72	17.48	17.48	18.56	19.41	20.67	21.95	23.57	23.45	24.01	24.68	25.05
Pennsylvania	Scranton	16.41	16.41	17.59	17.63	18.56	18.56	17.48	18.32	19.59	20.87	22.31	22.10	22.65	23.27	23.09
Rhode Island	Providence	23.09	23.50	23.50	23.50	23.50	23.50	23.49	24.43	25.52	27.68	29.32	30.29	30.15	30.84	30.75
South Carolina	Beaufort	20.30	20.30	19.76	19.76	19.76	19.76	20.41	21.33	22.26	24.56	24.45	23.80	23.92	23.68	24.05
Tennessee	Memphis	20.25	20.25	20.25	20.33	20.33	20.33	19.95	20.33	21.76	22.15	22.80	23.08	23.33	23.25	23.59
Tennessee	Nashville	19.41	19.41	19.41	19.41	19.41	19.88	19.51	19.90	20.99	21.72	22.42	22.41	23.33	23.25	23.59
Texas	Brownsville	15.27	14.33	15.33	15.31	14.91	14.78	15.33	17.16	18.33	21.97	21.54	19.13	19.64	20.24	20.04
Texas	Corpus Christi	17.00	15.93	15.89	15.90	16.22	17.15	17.17	16.23	17.32	27.39	25.77	20.48	21.03	21.66	21.76
Texas	Dallas	18.97	17.99	18.00	17.92	17.47	18.07	17.97	19.45	20.64	28.10	26.79	23.14	23.72	24.36	23.01
Texas	Fort Worth	17.77	16.70	16.73	16.62	16.17	16.75	16.89	19.17	19.66	25.82	25.05	21.49	22.08	22.70	21.62
Texas	Houston	19.42	18.39	18.44	18.28	17.98	18.31	18.31	18.87	19.55	22.19	22.45	21.92	22.50	23.12	22.88
Texas	San Antonio	17.52	16.58	16.56	16.42	16.37	16.35	16.35	17.05	18.13	19.83	20.04	19.71	20.26	20.87	20.66
Utah	Logan	15.66	15.62	15.76	15.76	15.70	17.73	17.99	19.38	19.44	22.13	21.80	21.41	21.49	21.37	21.29
Virginia	Richmond	24.60	24.60	23.90	23.78	23.78	23.78	23.78	28.67	29.60	30.06	31.60	30.74	32.30	33.69	31.05
Virginia	Smithfield	17.01	17.01	17.01	16.90	16.90	16.90	16.90	17.87	27.82	33.29	30.81	30.59	30.42	30.83	28.72
Washington	Everett	18.97	18.97	18.97	18.97	18.97	18.97	19.53	20.47	22.27	24.65	24.71	24.49	27.17	27.09	28.96
Washington	Seattle	17.00	17.00	16.22	15.93	15.97	15.61	18.16	19.03	19.23	21.91	22.01	21.33	21.28	21.05	21.23
West Virginia	Huntington	28.73	28.73	28.73	28.21	27.68	27.16	27.16	25.69	27.47	29.16	29.25	30.67	30.91	31.18	31.31
Wisconsin	Milwaukee	16.56	15.91	15.91	15.92	15.92	15.92	16.76	17.46	34.75	34.95	35.56	33.56	33.84	37.01	38.59
Wisconsin	Racine	16.61	15.96	15.87	15.88	15.88	15.88	16.40	17.09	34.61	34.93	35.54	33.54	33.82	36.99	38.57

[1] Beginning in 2001, all rates reflect flat-rate service. Rates are for flat-rate service where available and measured/message service with 100 local calls elsewhere. All rates include subscriber line charges, touch-tone service, surcharges, 911 charges, and taxes.

[2] Revised figures.

[3] Preliminary figures - subject to revision.

Table 1.5
Connection Charges for a Residential Telephone Line in the Sample Cities [1]
(As of October 15, 2007)

State	City	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [2]	2007 [3]
Alabama	Huntsville	$42.68	$42.68	$40.00	$40.00	$40.00	$40.00	$40.00	$40.00	$40.00	$40.00	$40.00	$40.00	$40.00	$40.00
Alaska	Anchorage	25.50	25.50	25.50	25.50	25.50	35.00	35.00	35.00	43.40	43.40	53.50	53.50	$53.50	53.50
Arizona	Tuscon	51.74	51.74	48.92	48.92	48.92	49.85	46.59	38.43	35.00	30.61	30.61	30.61	$30.61	30.61
Arkansas	Pine Bluff	44.16	43.92	44.08	44.05	44.05	44.16	39.70	44.16	39.70	39.70	45.00	45.00	$45.00	45.00
Arkansas	West Memphis	44.24	44.54	44.67	44.71	44.57	44.69	39.70	44.69	39.70	39.70	45.00	45.00	$45.00	45.00
California	Anaheim	34.32	35.19	35.47	35.61	35.93	34.29	32.23	32.47	33.01	35.82	35.82	35.82	$35.26	36.97
California	Bakersfield	34.32	35.19	35.47	34.92	35.93	34.29	32.23	32.47	35.82	35.82	35.82	35.82	$35.26	36.97
California	Fresno	34.32	35.19	35.47	34.92	35.93	34.29	32.23	32.47	35.82	35.82	35.82	35.82	$35.26	36.97
California	Long Beach	52.89	45.73	45.61	45.61	45.61	45.61	45.61	45.51	46.00	52.46	46.70	47.66	$50.01	49.22
California	Los Angeles	34.32	35.19	35.47	34.92	35.93	33.70	32.23	35.77	35.82	35.82	35.82	35.82	$35.26	36.97
California	Oakland	34.32	35.19	35.47	34.92	35.93	33.70	32.23	32.47	35.82	35.82	35.82	35.82	$35.26	36.97
California	Salinas	34.32	35.19	35.47	34.92	35.93	33.70	32.23	32.47	35.82	35.82	35.82	35.82	$35.26	36.97
California	San Bernadino	52.89	45.73	45.61	45.61	45.61	45.61	45.61	45.51	46.00	53.84	48.05	49.01	$51.36	50.52
California	San Diego	34.32	35.19	35.47	34.92	35.93	34.29	32.23	32.47	35.82	35.82	35.82	35.82	$35.26	36.97
California	San Francisco	34.32	35.19	35.47	34.92	35.93	34.29	32.23	32.47	35.82	35.82	35.82	35.82	$35.26	36.97
California	San Jose	34.32	35.19	35.47	35.93	35.93	34.29	32.23	34.12	35.82	35.82	35.82	35.82	$35.26	36.97
Colorado	Colorado Springs	36.40	36.40	36.40	36.40	36.40	37.53	36.09	37.38	35.00	37.09	37.09	37.78	$38.26	38.72
Colorado	Denver	37.56	37.56	37.56	37.56	37.56	38.72	36.09	38.54	38.27	38.27	38.27	38.76	$37.31	37.71
Connecticut	Ansonia	47.70	47.70	47.70	47.70	47.70	47.70	55.00	58.30	65.00	65.00	65.00	65.00	$65.00	65.00
Connecticut	Norwalk	47.70	47.70	47.70	47.70	47.70	47.70	55.00	58.30	65.00	65.00	65.00	65.00	$65.00	65.00
District of Columbia	Washington	30.76	30.76	30.76	30.76	30.76	30.76	30.76	21.00	23.10	25.10	25.10	25.10	$24.89	24.89
Florida	Miami	40.00	40.00	40.00	40.00	40.00	40.00	40.00	43.32	43.92	44.25	44.17	48.64	$48.64	49.72
Florida	Tampa	62.98	62.98	59.13	59.13	59.13	59.13	55.00	59.13	55.00	61.15	61.15	61.15	$67.25	77.87
Florida	West Palm Beach	40.00	40.00	40.00	40.00	40.00	40.00	40.00	43.28	43.88	44.05	44.05	48.67	$48.64	49.72
Georgia	Albany	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	$42.50	42.50
Georgia	Atlanta	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	$43.20	44.24
Hawaii	Honolulu	45.50	45.50	49.30	50.74	50.74	50.74	50.61	50.72	45.50	53.91	52.09	52.09	$52.09	52.09
Illinois	Chicago	60.56	60.56	60.56	60.56	60.56	63.03	55.00	59.76	45.40	39.60	39.40	39.40	$39.39	39.39
Illinois	Decatur	60.64	60.64	60.64	60.64	60.64	62.56	55.00	59.31	45.40	39.40	39.40	39.40	$39.39	39.39
Illinois	Rock Island	60.64	60.64	60.64	60.64	60.64	62.56	55.00	59.31	45.40	39.60	39.40	39.40	$39.39	39.39
Indiana	Indianapolis	47.00	47.00	47.00	47.00	47.00	47.00	47.00	47.00	47.00	47.00	47.00	47.00	$47.00	47.00
Indiana	Terre Haute	60.06	60.06	60.06	60.06	60.06	60.06	60.06	60.06	57.20	62.35	62.35	62.35	$62.35	62.35
Iowa	Fort Dodge	9.82	9.82	9.82	14.06	13.98	13.59	12.94	13.57	12.80	12.76	12.95	13.06	$13.06	13.06
Kentucky	Louisville	34.50	34.50	42.00	42.00	42.00	42.00	42.00	44.52	44.52	44.52	44.52	42.00	$44.52	44.52
Louisiana	Baton Rouge	51.80	44.63	44.29	42.23	42.23	42.23	41.00	44.28	44.34	44.34	44.34	44.34	$44.28	44.28
Louisiana	New Orleans	52.00	44.29	44.29	42.23	42.23	42.23	41.00	42.23	42.23	42.23	42.23	42.23	$42.23	42.23
Maine	Portland	47.44	47.44	47.44	47.44	47.21	47.21	44.75	46.99	44.75	48.33	48.96	48.90	$48.90	48.90
Maryland	Baltimore	48.00	48.00	48.00	48.00	48.00	48.00	48.00	48.00	48.00	56.18	51.79	51.79	$51.79	52.24
Massachusetts	Boston	38.92	38.92	38.92	38.92	38.92	38.92	37.07	14.18	13.50	14.59	14.59	14.59	$14.59	14.59
Massachusetts	Hyannis	38.92	38.92	38.92	38.92	38.92	38.92	37.07	14.18	13.50	14.59	14.59	14.59	$14.59	14.59
Massachusetts	Springfield	38.92	38.92	38.92	38.92	38.92	38.92	37.07	14.18	13.50	14.59	14.59	14.59	$14.59	14.59
Michigan	Detroit	44.52	44.52	44.52	44.52	44.52	46.62	42.00	46.62	46.62	46.62	46.90	46.90	$46.90	46.90
Michigan	Grand Rapids	44.52	44.52	44.52	44.52	44.52	44.52	42.00	44.52	44.52	44.52	44.78	44.78	$44.79	44.79
Michigan	Saginaw	44.52	44.52	44.52	44.52	44.52	44.52	42.00	44.52	44.52	44.52	44.78	44.78	$44.79	44.79
Minnesota	Detroit Lakes	18.75	18.75	19.97	19.54	19.54	19.54	18.35	19.54	19.54	19.54	19.54	19.54	$19.54	19.54
Minnesota	Minneapolis	18.75	18.75	20.06	19.63	19.63	19.63	18.35	19.63	19.63	19.63	19.63	19.63	$19.63	19.63
Mississippi	Pascagoula	49.22	49.22	49.22	49.22	49.22	49.22	46.00	49.22	49.22	49.22	49.22	49.22	$49.22	49.22
Missouri	Kansas City	42.47	42.47	42.47	42.47	42.47	42.70	36.50	41.69	41.51	37.45	41.16	41.16	$42.25	41.16
Missouri	Mexico	51.98	41.70	41.70	41.88	41.88	41.88	36.50	41.49	41.18	41.55	41.53	41.53	$42.25	41.53
Missouri	St. Louis	53.67	43.06	43.06	43.06	43.06	43.30	36.50	42.93	42.61	42.99	42.97	42.97	$42.25	42.97
Montana	Butte	35.30	25.00	25.00	25.00	25.00	26.00	26.00	26.00	26.00	26.00	26.00	26.00	$26.00	26.00
Nebraska	Grand Island	30.52	30.52	36.03	36.03	36.03	37.41	35.29	37.27	37.44	37.44	37.60	36.22	$37.22	37.22
New Jersey	Phillipsburg	44.52	44.52	44.89	44.89	44.89	44.89	42.35	44.89	44.89	46.16	46.16	46.16	$46.16	46.58

Table 1.5
Connection Charges for a Residential Telephone Line in the Sample Cities - Continued
(As of October 15, 2007)

State	City	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [2]	2007 [3]
New Mexico	Alamogordo	31.96	31.96	31.86	31.86	31.86	31.86	30.00	31.99	32.01	32.01	32.09	32.27	33.60	33.49
New York	Binghamton	62.42	62.71	62.59	62.47	62.41	62.41	57.13	61.53	55.00	61.61	63.32	63.18	63.06	63.18
New York	Buffalo	64.13	63.83	63.71	63.59	63.53	63.53	58.17	62.57	55.00	62.68	64.56	64.42	64.51	64.63
New York	Massena	62.63	62.34	62.22	62.10	62.05	62.05	57.33	61.18	55.00	61.26	62.50	62.63	62.71	62.83
New York	New York	64.58	64.29	64.02	63.90	63.84	63.84	58.32	62.47	55.00	62.62	64.60	64.53	64.53	64.58
New York	Ogdensburg	64.39	64.09	63.97	63.85	63.79	63.79	57.33	62.83	55.00	62.91	64.42	64.28	64.36	64.48
New York	Rochester	33.32	33.32	33.32	33.32	33.32	33.32	33.32	33.32	33.32	33.32	33.32	33.32	33.32	38.01
North Carolina	Raleigh	44.03	44.03	44.03	44.03	44.03	44.03	42.75	44.03	45.32	45.32	45.32	45.74	45.74	45.64
North Carolina	Rockingham	44.03	44.03	44.03	44.03	44.03	44.03	42.75	44.03	45.32	45.32	45.32	45.74	45.74	45.64
Ohio	Canton	45.80	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	38.69	38.69
Ohio	Cincinnati	31.70	31.70	31.70	31.70	25.70	25.70	25.70	25.70	25.70	25.70	25.70	25.70	25.70	25.70
Ohio	Cleveland	45.80	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	39.24	39.33
Ohio	Columbus	45.80	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	38.78	38.78
Ohio	Toledo	45.80	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	36.50	38.96	38.96
Oregon	Corvallis	12.00	12.00	12.36	12.36	12.36	12.36	12.36	12.72	16.50	17.90	17.99	17.99	18.17	18.17
Oregon	Portland	12.00	12.00	12.36	12.36	12.36	12.36	12.36	12.72	16.50	17.90	17.99	17.99	18.17	18.17
Pennsylvania	Allentown	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	43.60	43.60	43.60	43.60	43.60
Pennsylvania	Ellwood City	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	43.60	43.60	43.60	43.60	43.60
Pennsylvania	Johnstown	55.86	55.86	55.86	55.86	55.86	55.86	52.70	55.86	52.70	57.44	57.44	57.44	57.44	57.44
Pennsylvania	New Castle	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	43.60	43.60	43.60	43.60	43.60
Pennsylvania	Philadelphia	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.40	44.00	44.00	44.00	44.00	44.00
Pennsylvania	Pittsburgh	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	44.00	44.00	44.00	44.00	44.00
Pennsylvania	Scranton	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	43.60	43.60	43.60	43.60	43.60
Rhode Island	Providence	36.20	36.20	36.20	36.20	36.20	36.20	33.83	36.20	33.83	37.21	37.21	37.21	37.21	37.21
South Carolina	Beaufort	32.30	32.30	32.30	32.30	32.30	32.30	32.30	32.30	32.30	32.30	32.30	32.30	32.30	32.30
Tennessee	Memphis	47.39	47.39	47.62	47.62	47.62	47.40	43.85	47.28	47.76	47.96	47.96	45.44	45.44	45.44
Tennessee	Nashville	45.13	45.13	45.13	45.13	45.13	44.92	41.50	44.92	45.44	45.45	45.45	45.44	45.44	45.44
Texas	Brownsville	44.06	47.12	47.08	47.07	46.65	47.39	38.35	47.39	44.06	41.51	41.51	41.51	41.51	41.51
Texas	Corpus Christi	47.39	47.28	47.31	48.25	43.85	43.91	38.35	43.91	43.91	41.47	41.47	41.47	41.47	41.47
Texas	Dallas	48.38	48.38	48.18	46.95	48.58	48.31	38.35	48.31	44.06	41.51	41.51	41.51	41.51	41.51
Texas	Fort Worth	47.82	47.90	47.59	46.31	47.95	48.36	38.35	48.36	44.06	41.32	41.32	41.32	41.32	41.32
Texas	Houston	48.37	48.40	47.98	47.20	44.06	44.06	38.35	44.06	44.06	41.13	41.13	41.13	41.13	41.13
Texas	San Antonio	47.38	47.31	46.93	47.71	43.85	43.85	38.35	43.85	43.91	41.18	41.13	41.13	41.13	41.13
Utah	Logan	19.90	19.90	26.53	26.50	26.50	26.83	25.17	27.41	25.00	26.68	27.89	27.90	27.79	27.67
Virginia	Richmond	38.50	38.50	38.50	38.50	38.50	38.50	38.50	38.50	38.50	50.79	49.67	49.67	52.63	45.60
Virginia	Smithfield	29.25	29.25	30.00	30.00	30.00	40.00	40.00	40.00	40.00	47.20	47.20	47.20	49.23	45.06
Washington	Everett	42.08	42.08	46.67	46.67	46.67	46.67	43.25	46.67	43.25	50.09	50.09	50.22	50.22	50.22
Washington	Seattle	33.08	32.98	32.98	32.98	32.98	32.98	32.98	32.98	32.98	32.98	32.98	32.98	32.96	32.98
West Virginia	Huntington	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	44.10	44.10	44.10	44.10	44.10
Wisconsin	Milwaukee	34.87	34.87	34.90	34.90	35.52	47.52	45.00	58.08	55.00	51.90	51.90	49.30	49.30	49.30
Wisconsin	Racine	34.70	34.70	34.74	34.74	35.52	47.30	55.00	57.81	55.00	51.90	51.90	49.30	49.30	49.30

[1] Rates include additonal monthly taxes and surcharges.

[2] Revised figures.

[3] Subject to revision.

Table 1.6
Comparison of Standard Local Telephone Rates to Lifeline and Link-Up Rates
(As of October 15, 2007)

	Standard Rate in Cities with Subsidy Plan (a)	Subsidy-Plan Rate (b)	Benefit (a) - (b)
Representative Monthly Charge [1]	$15.62	$8.70	$6.92
Federal and State Subscriber Line Charges	5.74	0.02	5.72
Taxes, 911 and Other Charges	4.26	1.91	2.35
Total Monthly Charge [2]	$25.62	$10.63	$14.99
Basic Connection Charge	$39.81	$12.33	$27.48
Taxes	3.41	0.86	2.56
Total Connection Charge [2]	$43.22	$13.19	$30.04

Note: Details may not add to totals due to rounding.

[1] All standard rates reflect flat-rate service. Subsidy plan rates reflect flat-rate subsidized service where available and subsidized measured/message service with 100 calls elsewhere.

[2] Averages are for the 95 cities with subsidized monthly rates and connection assistance plans.

Table 1.7
Lifeline and Link-Up Rates in the Sample Cities
(As of October 15, 2007)

State	City	Telephone Company	Monthly Telephone Rate Including SLCs, Surcharges and Taxes[1]		Connection Charge Including Surcharges and Taxes	
			Standard Rates	Lifeline Rates	Standard Rates	Link-Up Rates
Alabama	Huntsville	AT&T	$26.60	$11.11	$40.00	$20.00
Alaska	Anchorage	ACS	25.34	5.85	53.50	0.00
Arizona	Tucson	Qwest	22.62	9.72	30.61	15.31
Arkansas	Pine Bluff	AT&T	29.26	15.30	45.00	22.50
Arkansas	West Memphis	AT&T	37.47	14.55	45.00	22.50
California	Anaheim	AT&T	16.70	5.63	36.97	10.24
California	Bakersfield	AT&T	16.70	5.63	36.97	10.24
California	Fresno	AT&T	16.70	5.63	36.97	10.24
California	Long Beach	Verizon	26.31	5.77	49.22	10.70
California	Los Angeles	AT&T	18.46	6.18	36.97	10.24
California	Oakland	AT&T	17.92	6.04	36.97	10.24
California	San Bernadino	Verizon	27.00	5.92	50.52	10.98
California	San Diego	AT&T	16.70	5.63	36.97	10.24
California	San Francisco	AT&T	16.70	5.63	36.97	10.24
California	San Jose	AT&T	17.24	5.90	36.97	10.24
Colorado	Boulder	Qwest	26.22	6.34	38.93	19.47
Colorado	Colorado Springs	Qwest	26.16	6.46	38.72	19.36
Colorado	Denver	Qwest	25.06	6.18	37.71	18.85
Connecticut	Ansonia	AT&T	25.39	14.63	65.00	35.00
Connecticut	Norwalk	AT&T	24.30	13.53	65.00	35.00
District of Columbia	Washington	Verizon	21.11	4.48	24.89	12.45
Florida	Miami	AT&T	23.71	7.86	49.72	24.86
Florida	Tampa	Verizon	27.87	7.37	77.87	38.94
Florida	West Palm Beach	AT&T	23.71	7.94	49.72	24.86
Georgia	Albany	AT&T	25.43	10.30	42.50	21.25
Georgia	Atlanta	AT&T	28.26	13.04	44.24	22.12
Hawaii	Honolulu	Verizon	26.50	17.48	52.09	26.04
Illinois	Chicago	AT&T	18.88	11.52	39.39	7.70
Illinois	Decatur	AT&T	25.98	18.61	39.39	7.70
Illinois	Rock Island	AT&T	25.38	18.01	39.39	7.70
Indiana	Indianapolis	AT&T	19.85	11.84	47.00	0.00
Indiana	Terre Haute	Verizon	25.82	16.04	62.35	31.18
Iowa	Fort Dodge	Citizen	21.46	11.39	13.06	6.53
Kentucky	Louisville	AT&T	28.44	13.38	44.52	22.26
Louisiana	Baton Rouge	AT&T	23.28	13.76	44.28	22.15
Louisiana	New Orleans	AT&T	22.86	13.39	42.23	21.12
Maine	Portland	Verizon	27.79	9.87	48.90	10.93
Maryland	Baltimore	Verizon	28.94	9.20	52.24	16.82
Massachusetts	Boston	Verizon	29.95	9.01	14.59	7.29
Massachusetts	Hyannis	Verizon	29.95	9.01	14.59	7.29
Massachusetts	Springfield	Verizon	29.95	9.01	14.59	7.29
Michigan	Detroit	AT&T	30.38	20.00	46.90	0.00
Michigan	Grand Rapids	AT&T	28.15	17.87	44.79	0.00
Michigan	Saginaw	AT&T	30.39	20.11	44.79	0.00
Minnesota	Detroit Lakes	Qwest	22.00	12.09	19.54	9.78
Minnesota	Minneapolis	Qwest	22.99	13.06	19.63	9.83
Mississippi	Pascagoula	AT&T	29.93	14.29	49.22	24.61
Missouri	Kansas City	AT&T	23.69	8.29	37.47	18.73
Missouri	Mexico	AT&T	20.94	5.75	37.25	18.62
Missouri	St. Louis	AT&T	23.41	8.17	37.30	18.65
Montana	Butte	Qwest	32.45	7.43	26.00	13.00
Nebraska	Grand Island	Qwest	28.74	16.35	37.22	18.81
New Jersey	Phillipsburg	Verizon	18.43	2.15	46.58	23.30

Table 1.7
Lifeline and Link-Up Rates in the Sample Cities - Continued
(As of October 15, 2007)

State	City	Telephone Company	Monthly Telephone Rate [1] Including Surcharges and Taxes		Connection Charge Including Surcharges and Taxes	
			Standard Rates	Lifeline Rates	Standard Rates	Link-Up Rates
New Mexico	Alamogordo	Qwest	24.46	5.97	33.49	8.29
New York	Binghamton	Verizon	34.84	14.97	63.18	5.74
New York	Buffalo	Verizon	35.78	15.45	64.63	5.88
New York	Massena	Verizon	32.99	13.23	62.83	5.71
New York	New York City	Verizon	36.37	13.58	64.58	5.86
New York	Ogdensburg	Verizon	33.86	11.12	64.48	11.41
New York	Rochester	Citizen	26.37	15.30	38.01	5.87
North Carolina	Raleigh	AT&T	28.80	13.25	45.64	22.81
North Carolina	Rockingham	AT&T	28.21	12.67	45.64	22.81
Ohio	Canton	AT&T	22.18	8.03	38.69	0.00
Ohio	Cincinnati	Cincinnati Bell	24.87	10.37	25.70	0.00
Ohio	Cleveland	AT&T	22.54	8.16	39.33	0.00
Ohio	Columbus	AT&T	22.23	8.05	38.78	0.00
Ohio	Toledo	AT&T	22.33	8.09	38.96	0.00
Oregon	Corvallis	Qwest	22.88	7.45	18.17	9.09
Oregon	Portland	Qwest	22.83	7.86	18.17	9.00
Pennsylvania	Allentown	Verizon	23.66	10.52	43.60	21.80
Pennsylvania	Ellwood City	Verizon	24.10	10.95	43.60	21.80
Pennsylvania	Johnstown	Verizon	24.71	11.39	57.44	28.72
Pennsylvania	New Castle	Verizon	22.30	9.15	43.60	21.80
Pennsylvania	Philadelphia	Verizon	25.05	11.79	44.00	22.00
Pennsylvania	Pittsburgh	Verizon	25.05	11.79	44.00	22.00
Pennsylvania	Scranton	Verizon	23.09	9.94	43.60	21.80
Rhode Island	Providence	Verizon	30.75	12.85	37.21	18.61
South Carolina	Beaufort	Embarq	24.05	7.77	32.30	16.15
Tennessee	Memphis	AT&T	23.59	7.74	45.44	22.17
Tennessee	Nashville	AT&T	23.59	7.74	45.44	22.67
Texas	Brownsville	AT&T	20.04	4.03	41.51	19.18
Texas	Corpus Christi	AT&T	21.76	3.61	41.47	19.18
Texas	Dallas	AT&T	23.01	7.18	41.51	19.18
Texas	Fort Worth	AT&T	21.62	5.59	41.32	19.18
Texas	Houston	AT&T	22.88	5.26	41.13	19.18
Texas	San Antonio	AT&T	20.66	4.99	41.13	19.18
Utah	Logan	Qwest	21.29	5.36	27.67	13.84
Virginia	Richmond	Verizon	31.05	9.44	45.60	22.80
Virginia	Smithfield	Verizon	28.72	11.94	45.06	21.60
Washington	Everett	Verizon	28.96	10.24	50.22	25.11
Washington	Seattle	Qwest	21.23	9.59	32.98	16.49
West Virginia	Huntington	Verizon	31.31	21.40	44.10	0.00
Wisconsin	Milwaukee	AT&T	38.59	28.77	49.30	0.00
Wisconsin	Racine	AT&T	38.57	28.75	49.30	0.00

[1] Rates are for flat-rate service where available and measured/message service with 100 calls elsewhere. Rates are subject to revision.

Table 1.8

Average Local Rates for Businesses with a Single Line in Urban Areas
(As of October 15, 2007)

	Average Rate	Median Rate [1]
Monthly Charge for Flat-Rate Service [2]	$35.17	$34.27
Federal and State Subscriber Line Charges	6.16	6.50
Taxes, 911, and Other Charges	7.35	6.38
Total Monthly Charge for Flat-Rate Service	**$48.67**	**$47.25**
Number of Sample Cities with Flat-Rate Service	56	
Monthly Charge for Measured/Message Service [2]	$18.59	$18.53
Federal and State Subscriber Line Charges	5.57	5.68
Taxes, 911, and Other Charges	5.07	4.29
Total Monthly Charge for Measured/Message Service	**$29.23**	**$28.50**
Cost of a 5-Minute Daytime Call	0.11	0.10
Number of Sample Cities with Message/Measured Service	78	
Basic Connection Charge [2]	$62.67	$59.00
Taxes	6.06	4.39
Total Connection Charge	**$68.74**	**$63.39**
Additional Charge if Drop Line and Connection Block Needed	11.45	0.00
Lowest-Cost Inside Wiring Maintenance Plan	$5.62	$6.10

Note: Detail may not add to totals due to rounding.

[1] Where a rate exists for fewer than 95 cities, the median represents the midpoint rate for those cities which have the service offering.

[2] Includes additional monthly charges for touch-tone service.

Table 1.9

Average Local Rates for Businesses with a Single Line in Urban Areas

(As of October 15, 2007)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [1]	2007 [2]
Monthly Representative Service Charge[3]	$31.06	$30.97	$32.29	$32.45	$32.70	$32.25	$32.48	$32.58	$32.76	$32.44	$32.41	$32.18	$31.88	$30.86	$30.65	$32.11	$32.21	$33.54	$35.17
Subscriber Line Charges	3.55	3.57	3.57	3.56	3.57	3.57	3.57	3.54	3.54	3.54	3.52	4.39	4.91	5.63	5.76	5.71	5.71	5.90	6.16
Extra for Touch-Tone Service [4]	2.43	2.35	1.84	1.71	1.67	1.21	0.97	0.82	0.38	0.32	0.25	0.19	0.18	[4]	[4]	[4]	[4]	[4]	[4]
Taxes, 911, and Other Charges	4.21	4.32	4.42	4.57	4.63	4.61	4.79	4.87	4.99	4.97	5.03	5.04	5.45	5.47	5.55	5.67	5.83	5.88	7.35
Total Monthly Charge	**$41.25**	**$41.21**	**$42.12**	**$42.29**	**$42.57**	**$41.64**	**$41.80**	**$41.81**	**$41.67**	**$41.27**	**$41.21**	**$41.80**	**$42.43**	**$41.95**	**$41.96**	**$43.49**	**$43.75**	**$45.32**	**$48.67**
Monthly Charge for Flat-Rate Service	$33.04	$33.29	$34.12	$34.06	$34.85	$34.39	$34.45	$34.42	$34.68	$34.39	$33.73	$33.45	$32.02	$32.92	$33.17	$34.20	34.19	$34.56	$35.17
Subscriber Line Charges	3.65	3.69	3.70	3.70	3.70	3.70	3.69	3.61	3.61	3.56	3.50	4.35	4.77	5.77	6.03	6.01	6.03	6.16	6.16
Extra for Touch-Tone Service [4]	2.12	2.11	1.87	1.84	1.76	1.12	1.00	0.89	0.53	0.49	0.47	0.43	0.39	[4]	[4]	[4]	[4]	[4]	[4]
Taxes, 911, and Other Charges	4.90	4.98	5.22	5.34	5.50	5.36	5.58	5.55	5.58	5.63	5.49	5.68	5.98	8.16	7.91	7.53	7.77	7.68	7.35
Total Monthly Charge for Flat-Rate Service	**$43.71**	**$44.07**	**$44.91**	**$44.94**	**$45.81**	**$44.57**	**$44.71**	**$44.47**	**$44.39**	**$44.07**	**$43.20**	**$43.90**	**$43.15**	**$46.85**	**$47.12**	**$47.74**	**$47.99**	**$48.39**	**$48.67**
Number of Sample Cities with Flat-Rate Service	59	56	54	54	54	53	53	53	53	54	54	54	54	52	52	56	56	56	56
Monthly Charge for Measured/Message Service	$16.18	$16.17	$16.76	$16.55	$16.60	$16.74	$17.06	$17.26	$17.28	$17.16	$17.06	$16.92	$17.16	$17.56	$17.21	$18.49	18.30	$16.41	$18.59
200 Five-Minute, Business-Day, Same-Zone Calls	16.11	16.19	16.70	17.23	17.57	17.38	17.15	17.10	17.18	17.15	17.24	17.63	17.56	16.78	17.17	17.86	18.16	16.93	17.77
Subscriber Line Charges	3.54	3.55	3.55	3.54	3.55	3.55	3.54	3.51	3.51	3.53	3.52	4.39	4.90	5.56	5.65	5.86	5.80	5.49	5.57
Extra for Touch-Tone Service [4]	2.48	2.39	1.87	1.73	1.68	1.22	0.98	0.83	0.39	0.33	0.25	0.20	0.19	[4]	[4]	[4]	[4]	[4]	[4]
Tax, Including 911 Charges	4.41	4.53	4.56	4.77	4.86	4.83	5.01	5.13	5.22	5.19	5.28	5.32	5.76	4.71	4.78	5.07	5.14	4.74	5.07
Total Monthly Charge for Measured/Message Service	**$42.72**	**$42.83**	**$43.44**	**$43.82**	**$44.26**	**$43.72**	**$43.75**	**$43.84**	**$43.57**	**$43.35**	**$43.35**	**$44.45**	**$45.57**	**$44.61**	**$44.82**	**$47.29**	**$47.40**	**$43.57**	**$47.00**
Number of Sample Cities with Measured/Message Service	83	83	84	84	84	87	87	86	85	85	85	85	85	86	85	86	85	78	78
Cost of a Five-Minute, Business-Day, Same-Zone Call	$0.09	$0.09	$0.09	$0.09	$0.09	$0.09	$0.09	$0.09	$0.09	$0.09	$0.09	$0.09	$0.09	$0.09	$0.09	$0.10	$0.10	$0.09	$0.11
Basic Connection Charge	$71.05	$71.36	$72.75	$72.55	$71.41	$69.88	$67.87	$68.47	$68.67	$65.83	$67.87	$67.77	$67.04	$67.29	$67.23	$67.24	$67.35	$62.55	$62.67
Additional Connection Charge for Touch-Tone Service [4]	1.70	1.89	1.13	1.19	1.17	0.92	0.27	0.17	0.17	0.12	0.12	0.12	0.12	[4]	[4]	[4]	[4]	[4]	[4]
Tax, Including 911 Charges	4.06	4.15	4.32	4.33	4.25	4.13	4.17	4.20	4.45	4.13	4.53	4.40	4.69	5.09	6.95	6.42	6.15	6.41	6.06
Total Connection Charge	**$76.81**	**$77.40**	**$78.20**	**$78.07**	**$76.83**	**$74.93**	**$72.31**	**$72.85**	**$73.29**	**$70.09**	**$72.55**	**$72.29**	**$71.86**	**$72.39**	**$74.18**	**$73.66**	**$73.50**	**$68.96**	**$68.74**
Additional Charge if Drop Line and Connection Block Needed	$5.92	$7.87	$6.90	$6.83	$6.64	$6.49	$7.28	$6.98	$6.54	$6.54	$6.65	$6.62	$6.62	$6.52	$13.43	$13.76	13.96	$11.45	$11.45
Lowest-Cost Inside Wiring Maintenance Plan	$1.78	$1.91	$2.05	$2.03	$2.08	$2.26	$2.39	$2.63	$2.84	$3.04	$3.53	$3.92	$4.86	$4.73	$4.65	$4.94	6.27	$5.77	$5.62

Note: Details may not add to totals due to rounding.

[1] Revised.

[2] Subject to revision.

[3] Rates are based on flat-rate service where available and measured/message service with 200 five-minute, same-zone, business-day calls elsewhere.

[4] Starting in 2002, additional monthly charges for touch-tone service are included in the monthly charge.

Table 1.10
Telephone Rates in the Sample Cities for a Business with a Single Line
(As of October 15, 2007)

State	City	Telephone Company	Monthly Telephone Rate Including Touch-Tone, SLCs Surcharges, and Taxes		Cost of a Five-Minute Same-Zone Daytime Call	Connection Charges Including Touch-Tone, Surcharges, and Taxes
			Flat-Rate Service	Measured/Message Service		
Alabama	Huntsville	AT&T	$49.66			$69.00
Alaska	Anchorage	ACS	40.05			56.50
Arizona	Tucson	Qwest	42.49			47.30
Arkansas	Pine Bluff	AT&T	57.37	32.03	0.07	84.00
Arkansas	West Memphis	AT&T	67.08	29.42	0.07	84.00
California	Anaheim	AT&T		18.69	0.08	70.99
California	Bakersfield	AT&T		18.69	0.08	70.99
California	Fresno	AT&T		18.69	0.08	70.99
California	Long Beach	Verizon		32.45	0.10	90.74
California	Los Angeles	AT&T		20.50	0.08	70.99
California	Oakland	AT&T		20.05	0.08	70.99
California	Salinas	AT&T		19.48	0.08	70.99
California	San Bernadino	Verizon		33.30	0.10	93.14
California	San Diego	AT&T		18.69	0.08	70.99
California	San Francisco	AT&T		20.07	0.08	70.99
California	San Jose	AT&T		19.30	0.08	70.99
Colorado	Boulder	Qwest	50.06	30.55	0.13	60.07
Colorado	Colorado Springs	Qwest	49.70	30.42	0.13	59.74
Colorado	Denver	Qwest	47.37	29.09	0.13	58.17
Connecticut	Ansonia	AT&T	50.99	29.33	0.18	75.00
Connecticut	Norwalk	AT&T	48.82	29.32	0.18	75.00
District of Columbia	Washington	Verizon		25.74	0.09	99.49
Florida	Miami	AT&T	45.66			72.96
Florida	Tampa	Verizon	47.05	37.89	0.10	81.30
Florida	West Palm Beach	AT&T	45.66			72.96
Georgia	Albany	AT&T	45.39			58.25
Georgia	Atlanta	AT&T	62.32			60.64
Hawaii	Honolulu	Verizon	51.41			52.09
Illinois	Chicago	AT&T		18.30	0.20	52.35
Illinois	Decatur	AT&T		28.32	0.20	52.35
Illinois	Rock Island	AT&T		27.72	0.20	52.35
Indiana	Indianapolis	AT&T	49.96	37.19	0.16	52.35
Indiana	Terre Haute	Verizon	41.35			52.35
Iowa	Fort Dodge	Citizen	32.30			52.35
Kentucky	Louisville	AT&T	45.93			77.38
Louisiana	Baton Rouge	AT&T	46.76			91.80
Louisiana	New Orleans	AT&T	45.38			87.55
Maine	Portland	Verizon	47.01			60.87
Maryland	Baltimore	Verizon		26.38	0.10	108.01
Massachusetts	Boston	Verizon	57.03	28.12	0.14	104.66
Massachusetts	Hyannis	Verizon	56.88	27.98	0.14	104.66
Massachusetts	Springfield	Verizon	57.03	28.12	0.14	104.66
Michigan	Detroit	AT&T		28.14	0.14	46.90
Michigan	Grand Rapids	AT&T		26.01	0.14	44.79
Michigan	Saginaw	AT&T		30.14	0.14	44.79
Minnesota	Detroit Lakes	Qwest	45.08	30.01	0.10	51.01
Minnesota	Minneapolis	Qwest	54.32	39.60	0.10	51.25
Mississippi	Pascagoula	AT&T	50.66			71.69
Missouri	Kansas City	AT&T	55.56	29.97	0.00	53.65
Missouri	Mexico	AT&T	35.93	21.66	0.08	53.34
Missouri	St. Louis	AT&T	53.03	28.76	0.00	53.41
Montana	Butte	Qwest	45.03	30.00	0.10	61.25
Nebraska	Grand Island	Qwest	40.05	29.41	0.10	50.75
New Jersey	Phillipsburg	Verizon		25.08	0.07	88.30

Table 1.10
Telephone Rates in the Sample Cities for a Business with a Single Line - Continued
(As of October 15, 2007)

State	City	Telephone Company	Monthly Telephone Rate Including Touch-Tone, Surcharges, and Taxes		Cost of a Five-Minute Same-Zone Daytime Call	Connection Charges Including Touch-Tone, Surcharges, and Taxes
			Flat-Rate Service	Measured/Message Service		
New Mexico	Alamogordo	Qwest	49.14	30.87	0.15	60.02
New York	Binghamton	Verizon		31.47	0.11	121.82
New York	Buffalo	Verizon		32.20	0.11	124.62
New York	Massena	Verizon		31.30	0.11	121.14
New York	New York City	Verizon		32.93	0.11	124.51
New York	Ogdensburg	Verizon		32.12	0.11	124.33
New York	Rochester	Citizen		20.21	0.15	58.05
North Carolina	Raleigh	AT&T	46.64			69.39
North Carolina	Rockingham	AT&T	47.14			69.39
Ohio	Canton	Ameritech		38.15	0.08	66.62
Ohio	Cincinnati	Cincinnati Bell	53.79	37.31	0.15	49.75
Ohio	Cleveland	AT&T		35.16	0.08	67.72
Ohio	Columbus	AT&T		34.68	0.08	66.78
Ohio	Toledo	AT&T		35.67	0.08	67.09
Oregon	Corvallis	Qwest	37.86	28.78	0.15	34.14
Oregon	Portland	Qwest	37.81	28.73	0.15	34.14
Pennsylvania	Allentown	Verizon		34.66	0.08	54.50
Pennsylvania	Ellwood City	Verizon		37.39	0.08	54.50
Pennsylvania	Johnstown	Verizon	43.12	26.77	0.07	62.24
Pennsylvania	New Castle	Verizon		37.39	0.08	54.50
Pennsylvania	Philadelphia	Verizon		28.93	0.08	55.00
Pennsylvania	Pittsburgh	Verizon		28.93	0.08	55.00
Pennsylvania	Scranton	Verizon		34.66	0.08	54.50
Rhode Island	Providence	Verizon		32.05	0.02	53.85
South Carolina	Beaufort	Embarq	43.60	29.17	0.12	35.60
Tennessee	Memphis	AT&T	57.78	46.58	0.10	64.06
Tennessee	Nashville	AT&T	57.78	46.58	0.10	64.06
Texas	Brownsville	AT&T	41.07	28.67	0.08	62.03
Texas	Corpus Christi	AT&T	44.96	32.35	0.08	61.96
Texas	Dallas	AT&T	56.72	41.96	0.08	62.11
Texas	Fort Worth	AT&T	49.58	35.64	0.08	61.74
Texas	Houston	AT&T	52.32	37.70	0.08	61.45
Texas	San Antonio	AT&T	44.62	31.32	0.08	61.45
Utah	Logan	Qwest	33.80	27.81	0.08	55.30
Virginia	Richmond	Verizon	61.59	23.60	0.12	69.88
Virginia	Smithfield	Verizon	45.51	32.46	0.11	43.20
Washington	Everett	Verizon	48.34	34.41	0.02	76.05
Washington	Seattle	Qwest	40.12	30.27	0.07	55.60
West Virginia	Huntington	Verizon	65.96	33.94	0.16	82.95
Wisconsin	Milwaukee	AT&T		31.24	0.16	64.65
Wisconsin	Racine	AT&T		31.22	0.16	64.65

Table 1.11

Monthly Telephone Rates in the Sample Cities for a Business with a Single Line [1]

(As of October 15, 2007)

State	City	1994	1995	1996	1997	1998	1999	2000	2002	2003	2004	2005	2006 [2]	2007 [3]
Alabama	Huntsville	$60.55	$56.15	$53.46	$50.90	$48.40	$45.97	$46.91	$48.97	$49.86	$49.59	$49.64	$48.25	$49.66
Alaska	Anchorage	31.04	31.05	31.05	31.08	31.12	31.11	31.11	35.57	35.68	35.75	38.21	38.21	40.05
Arizona	Tucson	40.72	41.73	41.71	42.00	42.00	42.01	42.68	44.17	43.27	42.54	42.62	42.47	42.49
Arkansas	Pine Bluff	41.10	40.91	41.05	41.13	41.13	41.39	42.53	45.51	45.70	47.10	48.53	53.53	57.37
Arkansas	West Memphis	53.30	53.70	53.85	53.03	53.80	54.14	55.06	58.66	58.61	58.94	58.95	63.19	67.08
California	Anaheim	29.10	30.43	30.65	30.25	30.28	28.34	27.20	18.92	19.00	17.11	29.08	27.24	34.69
California	Bakersfield	29.15	31.06	31.29	30.64	30.92	28.23	27.20	18.92	17.72	17.11	29.08	27.24	34.69
California	Fresno	29.97	31.06	31.29	31.10	30.92	28.11	27.78	19.49	17.72	29.11	29.08	27.24	34.69
California	Long Beach	36.92	43.95	43.84	40.67	43.84	43.84	44.81	43.22	46.67	43.14	43.38	44.77	52.45
California	Los Angeles	31.38	33.36	33.60	31.75	33.16	30.24	30.55	18.92	17.72	30.57	30.54	28.72	36.50
California	Oakland	30.67	32.63	32.86	NA	32.45	29.58	29.24	18.92	17.72	30.21	30.18	28.35	36.05
California	Salinas	31.00	32.97	33.21	31.10	32.79	29.94	29.54	18.82	17.72	29.71	29.69	27.81	35.48
California	San Bernadino	36.41	43.35	43.25	43.29	43.25	43.25	44.20	43.20	47.43	43.80	44.12	45.54	53.30
California	San Diego	28.54	30.43	30.65	30.56	30.30	27.62	27.20	18.92	17.72	29.11	29.08	27.24	34.69
California	San Francisco	31.18	32.63	33.38	33.29	32.45	29.58	29.24	18.92	17.72	30.21	30.18	28.35	36.07
California	San Jose	29.96	31.90	32.13	32.02	31.33	28.93	28.56	18.92	17.72	29.61	29.59	27.72	35.30
Colorado	Boulder	46.88	47.16	47.15	47.03	46.94	45.52	46.25	51.01	51.75	51.07	49.84	49.32	50.06
Colorado	Colorado Springs	44.27	43.82	44.42	44.42	44.40	42.87	43.51	45.89	46.41	45.84	47.44	49.07	49.70
Colorado	Denver	46.69	46.68	46.65	46.59	46.57	45.22	45.89	48.48	49.00	48.11	49.62	46.85	47.37
Connecticut	Ansonia	40.76	43.70	43.70	43.70	43.65	44.39	45.67	47.38	47.30	46.87	47.01	46.94	50.99
Connecticut	Norwalk	37.91	40.86	40.86	40.86	40.70	41.46	42.72	44.47	44.36	44.17	44.07	44.00	48.82
District of Columbia	Washington	35.32	33.37	39.17	37.84	34.85	35.81	36.34	36.18	39.16	39.08	41.44	42.18	43.74
Florida	Miami	40.65	40.65	40.67	40.13	37.40	40.64	41.63	43.86	44.75	44.70	44.70	44.61	45.66
Florida	Tampa	37.66	37.87	41.09	41.09	41.18	41.18	42.21	44.98	45.39	45.36	45.26	45.72	47.05
Florida	West Palm Beach	39.47	37.39	38.13	38.67	40.66	37.38	38.60	41.76	42.57	43.13	44.02	43.95	45.66
Georgia	Albany	39.74	39.74	41.00	41.00	41.15	41.70	42.98	45.16	46.80	46.47	45.94	45.34	45.39
Georgia	Atlanta	53.64	58.82	58.87	58.87	58.81	58.81	60.25	62.60	64.84	64.22	64.22	64.37	62.32
Hawaii	Honolulu	42.74	44.39	46.09	47.32	47.32	47.32	48.20	49.63	51.85	51.19	51.05	51.25	51.41
Illinois	Chicago	34.12	32.12	31.91	31.91	33.74	35.12	36.12	33.08	33.23	32.88	36.64	42.26	57.30
Illinois	Decatur	38.01	35.96	35.71	35.15	40.17	42.49	43.49	40.50	20.81	40.63	44.38	50.99	67.32
Illinois	Rock Island	38.64	36.58	36.58	35.77	40.79	42.02	43.08	40.24	40.51	40.33	44.08	50.74	66.72
Indiana	Indianapolis	57.46	56.78	55.84	55.84	55.84	56.07	57.27	59.03	54.51	49.68	49.76	50.22	49.96
Indiana	Terre Haute	47.07	47.07	47.03	47.03	43.91	43.91	37.99	41.96	41.46	41.47	41.29	41.21	41.35
Iowa	Fort Dodge	22.44	22.44	22.44	22.44	25.95	25.34	26.26	28.81	29.25	29.78	30.03	31.85	32.30
Kentucky	Louisville	60.96	61.01	55.87	56.84	45.27	45.33	48.75	45.12	45.80	45.60	45.58	45.81	45.93
Louisiana	Baton Rouge	48.55	49.50	47.76	46.12	45.40	41.53	42.43	45.72	47.26	46.00	46.00	45.86	46.76
Louisiana	New Orleans	50.21	50.21	46.30	46.34	45.64	41.30	42.22	43.31	43.96	43.59	43.62	44.41	45.38
Maine	Portland	40.54	38.63	38.82	39.75	41.33	43.06	43.78	48.37	49.12	46.89	46.95	47.01	47.01
Maryland	Baltimore	43.57	43.57	43.57	43.60	43.16	43.12	44.14	41.28	42.69	42.52	42.34	45.75	46.38
Massachusetts	Boston	43.22	42.78	42.78	42.78	42.78	42.78	42.99	42.67	47.00	55.13	56.09	56.13	57.03
Massachusetts	Hyannis	46.92	46.92	46.92	48.38	48.38	48.38	47.72	42.67	47.00	55.13	56.09	56.13	56.88
Massachusetts	Springfield	43.22	38.89	38.89	38.89	38.89	38.89	39.31	42.67	47.00	55.13	56.09	56.13	57.03
Michigan	Detroit	37.02	37.81	40.89	40.89	38.32	40.68	43.28	42.49	42.46	42.48	42.55	48.89	56.14
Michigan	Grand Rapids	35.29	36.02	35.81	35.88	36.66	37.57	39.97	41.18	41.12	40.86	40.80	46.72	54.01
Michigan	Saginaw	35.11	36.59	37.95	39.14	37.46	38.35	40.71	44.92	44.61	44.36	44.90	50.80	58.14
Minnesota	Detroit Lakes	42.35	42.41	42.41	42.28	42.28	42.29	43.22	44.97	44.98	44.26	44.56	44.46	45.08
Minnesota	Minneapolis	54.91	54.98	54.98	54.85	54.85	52.05	52.99	54.71	54.72	54.01	54.30	54.16	54.32
Mississippi	Pascagoula	57.33	57.33	57.41	56.16	55.88	55.88	54.51	50.20	50.85	50.63	50.64	50.82	50.66
Missouri	Kansas City	46.02	45.57	45.57	45.15	45.15	45.34	46.37	49.29	48.48	51.85	52.20	53.60	55.56
Missouri	Mexico	32.28	36.13	36.13	36.29	36.29	36.29	37.64	37.10	37.46	36.95	36.69	38.09	35.93
Missouri	St Louis	46.02	45.15	45.15	45.10	45.10	45.40	46.64	49.81	49.90	51.34	51.67	53.07	53.03
Montana	Butte	43.82	43.82	43.82	44.07	45.36	42.29	41.84	44.62	44.91	44.39	44.47	44.40	45.03
Nebraska	Grand Island	47.87	47.84	47.79	47.79	47.57	49.51	44.78	40.91	40.65	40.06	39.82	38.32	40.05
New Jersey	Phillipsburg	27.58	27.58	26.65	26.51	27.86	27.86	28.79	30.48	30.85	31.14	33.06	33.24	33.33

Table 1.11

Monthly Telephone Rates in the Sample Cities for a Business with a Single Line - Continued [1]

(As of October 15, 2007)

State	City	1994	1995	1996	1997	1998	1999	2000	2002	2003	2004	2005	2006 [2]	2007 [3]
New Mexico	Alamogordo	55.84	56.03	56.20	56.37	56.37	50.20	44.55	47.53	48.03	47.57	47.95	48.53	49.14
New York	Binghamton	51.24	49.77	49.68	48.07	45.44	48.03	47.91	48.56	49.01	51.55	49.47	51.90	52.87
New York	Buffalo	50.80	50.58	50.49	49.12	49.08	48.82	48.69	48.06	49.51	50.28	50.04	52.60	53.60
New York	Massena	49.67	49.46	49.37	49.09	49.05	47.74	47.61	45.57	48.84	49.24	49.21	51.73	52.70
New York	New York	51.13	50.92	50.73	50.07	48.03	49.05	48.91	48.56	50.22	50.88	50.86	53.37	54.33
New York	Ogdensburg	51.07	50.85	50.76	49.78	47.74	49.08	48.95	48.31	49.62	50.13	49.98	52.53	53.52
New York	Rochester	49.84	48.28	48.28	48.86	48.82	44.30	44.77	38.59	38.62	38.62	38.31	38.31	51.01
North Carolina	Raleigh	41.76	41.53	40.74	39.94	39.96	39.96	40.86	42.59	45.16	53.63	45.67	45.56	46.64
North Carolina	Rockingham	36.42	36.11	35.32	34.52	34.52	34.52	36.08	41.31	44.23	44.17	44.61	44.50	47.14
Ohio	Canton	44.48	44.22	44.22	44.22	43.11	43.96	44.84	46.31	46.53	48.35	48.26	48.65	48.31
Ohio	Cincinnati	53.19	52.99	52.99	51.88	51.37	51.73	55.48	53.94	54.16	53.79	53.71	53.73	53.79
Ohio	Cleveland	44.48	43.19	42.16	43.38	40.23	40.20	40.20	41.71	41.79	43.87	43.81	44.20	45.32
Ohio	Columbus	44.48	43.19	42.16	42.16	40.23	40.20	40.20	41.68	41.79	43.49	43.43	43.82	44.84
Ohio	Toledo	44.48	44.22	44.22	42.16	42.29	41.23	42.11	43.74	43.85	45.85	45.77	46.16	45.83
Oregon	Corvallis	39.69	36.99	39.56	39.58	39.83	39.97	38.11	39.55	37.86	37.49	37.48	37.68	37.86
Oregon	Portland	46.18	42.79	42.29	42.04	42.00	42.00	42.88	41.86	38.85	37.48	37.48	37.68	37.81
Pennsylvania	Allentown	35.98	37.34	37.34	36.53	37.26	37.26	38.15	45.34	47.21	39.05	38.59	40.00	40.67
Pennsylvania	Ellwood City	36.52	36.52	38.81	39.99	39.99	39.99	40.88	47.92	49.94	41.78	41.32	42.77	43.40
Pennsylvania	Johnstown	37.70	37.37	37.72	37.26	40.01	40.01	40.94	32.69	38.31	41.24	40.82	42.12	43.12
Pennsylvania	New Castle	38.81	38.81	38.81	38.53	39.99	39.99	40.88	47.92	31.41	41.78	41.32	42.77	43.40
Pennsylvania	Philadelphia	30.63	30.63	28.55	29.99	31.53	31.53	32.42	39.94	41.49	33.61	33.13	34.53	34.94
Pennsylvania	Pittsburgh	30.63	31.72	31.72	31.72	31.53	34.26	35.15	39.94	41.75	33.61	33.13	34.53	34.94
Pennsylvania	Scranton	35.98	35.98	37.34	37.26	37.26	37.26	38.15	45.34	47.21	39.08	38.59	40.00	40.67
Rhode Island	Providence	48.44	48.44	47.82	47.82	47.16	70.51	71.44	70.03	35.17	35.05	34.35	36.16	36.05
South Carolina	Beaufort	38.69	38.04	38.04	38.04	38.69	38.69	39.60	42.30	42.19	41.54	42.89	42.36	43.60
Tennessee	Memphis	54.70	54.70	54.95	54.95	54.95	54.69	55.71	55.12	55.77	59.40	56.97	56.65	57.78
Tennessee	Nashville	52.35	52.35	52.35	52.35	53.77	53.52	54.47	53.58	54.77	57.56	57.95	56.65	57.78
Texas	Brownsville	29.23	31.23	31.23	33.82	35.26	31.44	33.83	36.37	35.94	36.50	37.36	40.05	41.07
Texas	Corpus Christi	31.90	31.82	31.85	31.01	30.95	29.92	31.16	37.96	39.23	39.16	40.11	42.85	44.96
Texas	Dallas	38.66	38.65	38.49	33.35	34.54	38.59	39.11	45.70	50.01	51.97	53.19	56.12	56.72
Texas	Fort Worth	34.44	34.50	34.27	37.51	38.81	34.83	37.25	38.47	42.69	44.72	45.80	48.65	49.58
Texas	Houston	41.27	41.37	40.35	39.48	42.85	42.85	39.87	49.45	47.76	47.80	48.95	51.80	52.32
Texas	San Antonio	34.19	34.14	33.86	30.95	30.95	31.56	33.12	39.00	39.81	39.69	40.72	43.63	44.62
Utah	Logan	31.88	31.93	30.22	30.14	28.46	27.82	29.56	32.12	31.37	30.09	31.82	31.06	33.80
Virginia	Richmond	75.06	75.06	72.53	72.53	NA	74.56	77.97	78.63	78.74	76.85	76.65	76.86	61.59
Virginia	Smithfield	30.08	30.08	30.08	29.98	29.98	29.98	30.94	50.23	52.89	52.68	52.52	52.42	45.51
Washington	Everett	39.98	39.98	39.98	39.98	39.98	41.37	42.31	43.98	44.05	43.83	46.55	46.47	48.34
Washington	Seattle	37.03	37.03	37.03	37.19	36.47	36.47	37.42	40.82	40.92	40.18	40.14	39.89	40.12
West Virginia	Huntington	73.39	73.39	75.05	73.03	72.02	72.02	67.31	60.60	60.90	65.32	65.91	65.83	65.96
Wisconsin	Milwaukee	37.48	37.48	37.51	39.69	39.69	40.80	41.15	41.04	40.84	41.94	52.17	56.28	63.24
Wisconsin	Racine	39.40	39.12	39.16	39.53	39.52	40.63	40.97	41.91	40.82	41.92	52.15	56.26	63.22

[1] Rates are based upon flat-rate service where available and measured/message service with 200 five-minute, same-zone, business day calls.

[2] Revised.

[3] Subject to revision.

Table 1.12

Connection Charges for a Single Business Line in the Sample Cities [1]

(As of October 15, 2007)

State	City	1994	1995	1996	1997	1998	1999	2001	2002	2003	2004	2005	2006 [2]	2007 [3]
Alabama	Huntsville	$73.62	$73.62	$69.00	$69.00	$69.00	$69.00	$69.00	$69.00	$69.00	$69.00	$69.00	$69.00	$69.00
Alaska	ACS	30.75	30.75	30.75	30.75	53.00	53.00	53.00	65.70	65.70	56.50	56.50	56.50	56.50
Arizona	Tucson	62.31	62.47	58.91	58.91	58.91	60.03	61.48	53.80	47.30	47.30	47.30	47.30	47.30
Arkansas	Pine Bluff	93.44	92.94	93.27	93.19	93.22	93.43	93.43	93.43	93.43	84.00	84.00	84.00	84.00
Arkansas	West Memphis	93.60	94.24	94.51	94.61	94.30	94.55	94.55	94.55	94.55	84.00	84.00	84.00	84.00
California	Anaheim	69.87	71.64	72.23	73.16	71.10	71.10	66.10	72.92	72.92	72.92	71.37	76.35	70.99
California	Bakersfield	69.87	71.64	72.23	73.16	71.10	69.80	66.10	72.92	72.92	72.92	71.37	76.35	70.99
California	Fresno	69.87	71.64	72.23	73.16	71.10	69.80	66.10	72.92	72.92	72.83	71.37	76.35	70.99
California	Long Beach	80.20	84.33	92.51	92.51	92.51	92.51	92.40	93.30	101.34	86.10	90.94	99.58	90.74
California	Los Angeles	69.87	71.64	72.23	73.16	71.10	69.80	66.10	73.93	73.93	72.92	71.37	76.35	70.99
California	Oakland	69.87	71.64	72.23	73.16	71.10	69.80	66.10	72.92	72.92	72.92	71.37	76.35	70.99
California	Salinas	69.87	71.64	72.23	73.16	71.10	69.80	66.10	72.92	72.92	72.92	71.37	76.35	70.99
California	San Bernadino	80.20	84.33	91.25	91.25	91.25	91.25	91.13	92.03	100.07	88.59	95.92	104.56	93.14
California	San Diego	69.87	71.64	72.23	73.16	71.10	69.80	66.10	72.92	72.92	72.92	71.37	76.35	70.99
California	San Francisco	69.87	71.64	72.23	73.16	71.10	69.80	66.10	72.92	72.92	72.92	71.37	76.35	70.99
California	San Jose	69.87	71.64	72.23	73.16	71.10	69.80	66.10	72.92	72.92	72.92	71.37	76.35	70.99
Colorado	Boulder	74.84	74.91	75.08	75.08	75.08	60.94	59.54	61.94	61.94	62.03	65.58	64.68	60.07
Colorado	Colorado Springs	72.80	72.80	72.80	72.80	72.80	58.97	57.67	56.11	57.23	57.23	65.58	64.66	59.74
Colorado	Denver	75.11	75.11	75.11	75.11	75.11	60.84	59.45	59.05	59.05	59.05	58.30	57.55	58.17
Connecticut	Ansonia	68.90	68.90	68.90	68.90	68.90	68.90	68.90	79.50	79.50	75.00	75.00	75.00	75.00
Connecticut	Norwalk	68.90	68.90	68.90	68.90	68.90	68.90	68.90	79.50	79.50	75.00	75.00	75.00	75.00
District of Columbia	Washington	66.03	66.03	83.25	83.25	83.25	83.25	83.25	83.25	99.49	99.49	99.49	99.49	99.49
Florida	Miami	59.92	60.20	60.20	60.20	59.92	60.20	64.45	64.23	64.58	64.58	71.23	71.23	72.96
Florida	Tampa	78.89	78.89	74.07	74.07	74.07	74.07	74.07	74.07	81.30	81.30	81.30	81.30	81.30
Florida	West Palm Beach	59.92	59.92	59.92	59.92	60.20	59.92	64.39	64.18	64.42	64.42	71.23	71.23	72.96
Georgia	Albany	52.25	52.25	52.25	58.25	58.25	58.25	58.25	58.25	58.25	58.25	58.25	58.25	58.25
Georgia	Atlanta	52.25	52.25	52.25	58.25	58.25	58.25	58.25	58.25	58.25	58.25	60.64	60.64	60.64
Hawaii	Honolulu	47.50	47.50	51.47	52.97	52.97	54.97	49.61	44.61	53.91	52.09	52.09	52.09	52.09
Illinois	Chicago	93.03	57.64	57.64	57.64	57.64	59.99	58.42	58.42	58.42	52.35	52.35	52.35	52.35
Illinois	Decatur	93.17	57.72	57.72	57.72	57.72	59.55	57.98	57.98	57.98	52.35	52.35	52.35	52.35
Illinois	Rock Island	93.17	57.72	57.72	57.72	57.72	59.55	57.98	57.98	57.98	52.35	52.35	52.35	52.35
Indiana	Indianapolis	59.00	59.00	59.00	59.00	59.00	59.00	59.00	59.00	59.00	59.00	59.00	52.35	52.35
Indiana	Terre Haute	68.78	68.78	68.78	68.78	68.78	68.78	68.78	68.78	71.40	71.40	71.40	52.35	52.35
Iowa	Fort Dodge	15.65	15.65	15.65	15.65	22.22	21.60	21.57	21.57	21.51	20.59	20.76	52.35	52.35
Kentucky	Louisville	47.50	47.50	73.00	73.00	73.00	73.00	77.38	77.38	77.38	77.38	73.00	52.35	77.38
Louisiana	Baton Rouge	88.06	87.55	87.55	87.55	87.55	87.55	91.80	87.55	91.93	91.93	91.93	52.35	91.80
Louisiana	New Orleans	87.55	87.55	87.55	87.55	87.55	87.55	87.55	87.55	87.55	87.55	87.55	52.35	87.55
Maine	Portland	59.36	59.36	59.36	59.36	59.08	59.08	58.80	58.80	60.48	60.76	60.87	52.35	60.87
Maryland	Baltimore	98.50	98.50	98.50	98.50	87.00	87.00	87.00	87.00	115.29	115.29	115.29	107.10	108.01
Massachusetts	Boston	97.67	97.67	97.67	97.67	97.67	97.67	97.67	97.67	100.46	100.46	100.46	100.46	104.66
Massachusetts	Hyannis	97.67	97.67	97.67	97.67	97.67	97.67	97.67	97.67	100.46	100.46	100.46	100.46	104.66
Massachusetts	Springfield	97.67	97.67	97.67	97.67	97.67	97.67	97.67	97.67	100.46	100.46	100.46	100.46	104.66
Michigan	Detroit	44.52	44.52	44.52	44.52	44.52	46.62	46.62	46.62	46.62	46.90	46.90	46.90	46.90
Michigan	Grand Rapids	43.68	44.52	44.52	44.52	44.52	44.52	44.52	44.52	44.52	44.78	44.78	44.79	44.79
Michigan	Saginaw	44.52	44.52	44.52	44.52	44.52	44.52	44.52	44.52	44.52	44.78	44.78	44.79	44.79
Minnesota	Detroit Lakes	49.50	49.50	47.93	51.01	51.01	51.01	51.01	51.01	51.01	51.01	51.01	51.01	51.01
Minnesota	Minneapolis	49.50	49.50	48.15	51.25	51.25	51.25	51.25	51.25	51.25	51.25	51.25	51.25	51.25
Mississippi	Pascagoula	71.69	71.69	71.69	71.69	71.69	71.69	71.69	71.69	71.69	71.69	71.69	71.69	71.69
Missouri	Kansas City	70.78	61.44	61.44	61.50	61.63	61.13	59.69	60.37	60.83	61.38	61.38	61.38	53.65
Missouri	Mexico	68.55	59.70	59.70	59.96	60.80	59.96	59.41	58.96	59.49	59.45	59.45	59.45	53.34
Missouri	St. Louis	70.78	61.63	61.63	61.63	59.96	61.98	61.46	62.13	62.59	61.51	61.51	61.51	53.41
Montana	Butte	61.40	61.40	61.40	61.40	61.40	61.40	61.25	61.25	61.25	61.25	61.25	61.25	61.25
Nebraska	Grand Island	49.05	49.05	49.13	49.13	49.13	51.02	50.83	51.05	51.05	51.28	50.75	50.75	50.75
New Jersey	Phillipsburg	79.50	79.50	80.27	80.27	80.27	80.27	85.09	85.09	87.50	87.50	87.50	87.50	88.30

Table 1.12

Connection Charges for a Single Business Line in the Sample Cities - Continued [1]

(As of October 15, 2007)

State	City	1994	1995	1996	1997	1998	1999	2001	2002	2003	2004	2005	2006 [2]	2007 [3]
New Mexico	Alamogordo	57.46	57.47	57.29	57.29	57.29	57.29	57.53	57.57	57.57	57.70	58.05	60.19	60.02
New York	Binghamton	120.48	120.92	120.68	120.46	122.51	120.34	118.64	117.72	120.90	122.09	121.83	121.58	121.82
New York	Buffalo	123.65	123.08	122.85	122.62	123.00	122.51	120.64	117.82	121.00	132.93	124.21	124.38	124.62
New York	Massena	120.77	120.20	119.98	119.75	123.10	119.64	128.76	116.76	119.94	120.50	120.77	120.91	121.14
New York	New York	124.53	123.95	123.45	123.22	120.34	123.10	120.45	118.09	121.27	124.55	124.42	124.42	124.51
New York	Ogdensburg	124.17	123.58	123.35	123.12	119.64	123.00	121.15	119.94	123.12	124.21	123.95	124.09	124.33
New York	Rochester	57.16	55.56	55.56	55.56	57.27	57.27	56.48	54.96	54.96	50.89	50.89	50.89	58.05
North Carolina	Raleigh	64.38	64.38	64.38	66.95	66.95	66.95	66.95	68.90	68.90	68.90	69.55	69.55	69.39
North Carolina	Rockingham	64.38	64.38	64.38	66.95	66.95	66.95	66.95	68.90	68.90	68.90	69.55	69.55	69.39
Ohio	Canton	72.15	62.85	62.85	62.85	62.85	62.85	62.85	62.85	62.85	62.85	66.62	66.62	66.62
Ohio	Cincinnati	55.78	55.78	55.78	55.78	49.75	49.75	49.75	49.75	49.75	49.75	49.75	49.75	49.75
Ohio	Cleveland	72.15	62.85	62.85	62.85	62.85	62.85	62.85	62.85	62.85	62.85	67.56	67.56	67.72
Ohio	Columbus	72.15	62.85	62.85	62.85	62.85	62.85	62.85	62.85	62.85	62.85	66.78	66.78	66.78
Ohio	Toledo	72.15	62.85	62.85	62.85	62.85	62.85	62.85	62.85	62.85	62.85	67.09	67.09	67.09
Oregon	Corvallis	31.00	31.00	31.93	31.93	31.93	31.93	32.86	33.60	33.64	33.79	31.93	34.14	34.14
Oregon	Portland	31.00	31.00	31.00	31.93	31.93	31.93	32.86	33.64	33.64	33.79	33.79	34.14	34.14
Pennsylvania	Allentown	79.50	79.50	79.50	79.50	79.50	79.50	79.50	79.50	81.75	81.75	81.75	54.50	54.50
Pennsylvania	Ellwood City	79.50	79.50	79.50	79.50	79.50	79.50	79.50	79.50	81.75	81.75	81.75	54.50	54.50
Pennsylvania	Johnstown	60.44	60.44	60.44	60.44	60.44	60.44	60.44	78.43	62.24	62.24	62.24	62.24	62.24
Pennsylvania	New Castle	79.50	79.50	79.50	79.50	79.50	79.50	79.50	79.50	81.75	81.75	81.75	54.50	54.50
Pennsylvania	Philadelphia	79.50	79.50	79.50	79.50	79.50	79.50	79.50	79.50	82.50	82.50	82.50	55.00	55.00
Pennsylvania	Pittsburgh	79.50	79.50	79.50	79.50	79.50	79.50	79.50	79.50	82.50	82.50	82.50	55.00	55.00
Pennsylvania	Scranton	79.50	79.50	79.50	79.50	79.50	79.50	79.50	79.50	81.75	81.75	81.75	54.50	54.50
Rhode Island	Providence	46.50	46.50	46.50	46.50	47.73	47.73	47.73	47.73	49.12	49.07	49.07	49.07	53.85
South Carolina	Beaufort	35.60	35.60	35.60	35.60	35.60	35.60	35.60	35.60	35.60	35.60	35.60	35.60	35.60
Tennessee	Memphis	66.80	66.80	67.12	67.12	63.62	66.82	66.65	67.33	67.64	64.37	64.06	64.06	64.06
Tennessee	Nashville	63.62	63.62	63.62	63.62	68.37	63.33	63.33	63.47	64.06	64.06	64.06	64.20	64.06
Texas	Brownsville	64.57	69.00	69.00	68.99	69.45	69.45	69.45	62.22	62.22	62.03	62.03	62.03	62.03
Texas	Corpus Christi	69.45	69.29	69.34	70.72	64.27	64.35	64.35	62.00	62.00	61.96	61.96	61.96	61.96
Texas	Dallas	70.91	70.91	70.61	68.82	64.57	70.80	70.80	62.22	62.22	62.03	62.11	62.11	62.11
Texas	Fort Worth	70.09	70.21	69.75	67.87	70.28	70.87	70.87	62.22	62.22	61.74	61.74	61.74	61.74
Texas	Houston	70.89	70.93	69.18	70.32	71.20	64.57	64.57	62.22	62.22	61.45	61.45	61.45	61.45
Texas	San Antonio	69.45	69.34	68.78	68.78	70.72	64.27	64.27	62.00	62.00	61.45	61.45	61.45	61.45
Utah	Logan	53.06	53.06	53.06	53.00	53.00	53.66	53.30	53.36	53.36	55.78	55.78	55.57	55.30
Virginia	Richmond	64.00	64.00	64.00	64.00	64.00	64.00	64.00	64.00	84.42	82.56	82.56	83.46	69.88
Virginia	Smithfield	29.25	29.25	29.25	29.25	29.25	40.00	40.00	40.00	47.20	47.20	47.20	47.20	43.20
Washington	Everett	57.19	57.19	70.67	70.67	70.67	70.67	70.67	70.67	75.85	75.85	76.05	76.05	76.05
Washington	Seattle	55.25	55.25	55.25	55.45	55.45	55.45	55.29	55.55	55.55	55.55	55.55	55.55	55.60
West Virginia	Huntington	96.90	96.90	96.90	96.90	79.00	79.00	79.00	79.00	82.97	82.95	82.95	82.95	82.95
Wisconsin	Milwaukee	68.21	68.21	68.27	68.27	67.95	68.27	68.27	68.27	68.27	64.65	64.65	64.65	64.65
Wisconsin	Racine	68.21	67.88	67.95	67.95	72.60	67.95	67.95	67.95	67.95	64.65	64.65	64.65	64.65

[1] Charges include touch-tone charges, surcharges, and taxes.

[2] Revised figures.

[3] Subject to revisision.

Table 1.13
Standard Deviation Analysis of Residential Rates in the Sample Cities
(as of October 15, 2007)

a.	Maximum Charge	$38.59
b.	Minimum Charge	$16.70
c.	Representative Monthly Charge (Weighted Average)	$25.62
d.	Weighted Standard Deviation (Std Dev)	$5.45
e.	**Average + 2*(Std Dev) (= c + 2d)**	**$36.52**
f.	Percent to Average (= [e/c] * 100)	143%

Table 1.14

Historical Standard Deviation Analysis of Residential Rates in the Sample Cities
(As of October 15, 2007)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [1]	2007 [2]
Maximum Rate	$32.68	$31.63	$30.62	$28.65	$28.78	$28.27	$28.75	$29.72	$34.75	$34.95	$35.56	$35.35	$35.16	$37.01	$38.59
Minimum Rate	$12.18	$12.18	$13.04	$13.04	$13.05	$13.05	$13.05	$13.21	$15.31	$15.93	$16.30	$16.03	$16.39	$17.10	$16.70
Representative Monthly Rate (Average)	$19.95	$19.81	$20.01	$19.95	$19.88	$19.76	$19.93	$20.78	$22.62	$24.07	$24.65	$24.52	$24.57	$25.26	$25.62
Weighted Standard Deviation (Std Dev)	$4.23	$4.28	$3.41	$3.28	$3.35	$3.24	$3.46	$3.57	$4.20	$4.32	$4.90	$4.93	$4.49	$4.78	$5.45
Average + 2*(Std Dev)	**$28.41**	**$28.38**	**$26.84**	**$26.51**	**$26.58**	**$26.24**	**$26.85**	**$27.92**	**$31.01**	**$32.71**	**$34.45**	**$34.38**	**$33.55**	**$34.83**	**$36.52**
Percentage to Average	**142%**	**143%**	**134%**	**133%**	**134%**	**133%**	**135%**	**134%**	**137%**	**136%**	**140%**	**140%**	**137%**	**138%**	**143%**
Average + 3*(Std Dev)	***$32.65***	***$32.66***	***$30.25***	***$29.78***	***$29.93***	***$29.47***	***$30.31***	***$31.49***	***$35.21***	***$37.03***	***$39.35***	***$39.31***	***$38.04***	***$39.62***	***$41.96***
Percentage to Average	***164%***	***165%***	***151%***	***149%***	***151%***	***149%***	***152%***	***152%***	***156%***	***154%***	***160%***	***160%***	***155%***	***157%***	***164%***

[1] Revised figures.

[2] Subject to revision.

Table 1.15
Average Revenue per Minute for Interstate Toll Service Calls

Year	Revenue per Minute
1992	$0.15
1993	0.15
1994	0.14
1995	0.12
1996	0.12
1997	0.11
1998	0.11
1999	0.11
2000	0.09
2001	0.08
2002	0.07
2003	0.06
2004	0.06
2005	0.06
2006	0.06

Source: Industry Analysis and Technology Division of the Wireline Competition Bureau, *Telecommunications Industry Revenues* (March 31, 2007)

II. Expenditures on Telephone Service

A. Residential Expenditures

The Bureau of Labor Statistics (BLS) conducts surveys of consumer expenditures, in part, to develop weights for the consumer price indices. The surveys collect income, expenditure, and demographic information for "consumer units." Consumer units are often referred to as households, but the definition is not identical to households, as defined by the Census Bureau.[1] For instance, there were approximately 118.8 million consumer units in 2006, compared with approximately 114.3 million households. The BLS uses two types of surveys: diary surveys, where household members record most types of purchases for a few weeks; and interview surveys, where households are interviewed to determine their expenditures for the prior three months. Households selected for the interview survey are interviewed in five successive quarters. Tables 2.1 through 2.5 present the annual average total expenditures and telephone expenditures by various demographic classifications.

Prior to 1984, the BLS published separate expenditure estimates based on the diary and the interview surveys. At that time, telephone expenditures were collected only through the interview surveys, and average levels of telephone expenditures were published only in the interview summaries. The BLS began publishing integrated estimates in 1984, combining information from both types of surveys.

Expenditure data were not collected for rural households for 1980 through 1983. Nationwide expenditure data for rural households are available for 1984 through 2004. According to the BLS, more than 85 percent of households are in urban areas, and the estimates of telephone expenditures by urban households are similar to estimates for nationwide average telephone expenditures. Nonetheless, 1980 through 1983 nationwide data are not completely comparable with subsequent data.

Several changes in the telephone industry make it difficult to interpret changes in the BLS estimates of household expenditures for telephone service. Prior to 1983, most residential telephones were leased from local exchange carriers. As a consequence of the FCC's Computer Inquiry II proceeding, telephone sets were detariffed on January 1, 1984. Existing tariffed equipment became known as "embedded rate base" and much of this equipment was sold "in place" to consumers. Significant amounts of equipment purchases were included on local telephone bills in 1983 and 1984. Telephone bills have not included significant amounts of equipment sales since that time. The remaining Bell System embedded rate base was transferred to AT&T in 1984, but the lease payments were included in local telephone bills into 1987.

The BLS has changed the consumer expenditure survey questionnaires to reflect changes in the equipment market. Beginning in 1982, the survey specifically included telephones and accessories in its list of home furnishings and related household items. Amounts appearing on the telephone bills, however, were included as telephone service until 1986. Thus, the 1983 and 1984 estimates include the sale of the embedded base. The current questionnaire separates equipment sales from other items that appear on telephone bills. The questionnaire does not specifically address payments for leasing telephone equipment, commonly known as customer premises equipment (CPE). CPE lease payments may still be reported as telephone service expenditures.

[1] We also refer to consumer units as "households."

The consumer expenditure survey continues to classify payments for inside wiring maintenance as part of telephone service. This probably accounts for between $10 to $20 of average annual household telephone expenditures. Beginning in 1991, consumers have been asked to separately identify cellular telephone payments. The BLS has not yet published a separate estimate for cellular telephone expenditures, but instead continues to include these with other telephone expenditures.

Table 2.6 presents estimates of monthly household telecommunications expenditure by the type of service provider. This table is derived from Bill Harvesting® data collected by TNS Telecoms, which provides information on actual usage in the residential telecom market as collected from the actual telecommunications bills of households. TNS Telecoms, a telecommunications market information firm, conducts nationwide surveys and Bill Harvesting® on a quarterly basis from over 120,000 households each year. The company has donated databases to the Commission containing information on residential phone usage.

B. Business Expenditures

One of the few sources of information on expenditures for telecommunications services by businesses is contained in the input-output (I-O) accounts of the U.S. economy as published by the U.S. Bureau of Economic Analysis (BEA). The BEA I-O accounts show how industries provide input to, and use output from, each account to produce estimates of Gross Domestic Product (GDP). Note that the BEA's I-O accounts data were once based on Standard Industrial Classification (SIC) industry definitions and released only once every five years in accordance with the U.S. Census Bureau's economic censuses.[2] The U.S. Census Bureau has since replaced SIC industries with those defined according to the 1997 North American Industry Classification System (NAICS). In accordance with this change, the BEA now releases I-O accounts data on an annual basis for NAICS industries. Detailed definitions of NAICS industries are available at www.census.gov/epcd/www/naicstab.htm.

Table 2.7 shows the most recent I-O account of the use of broadcasting and telecommunications commodities by U.S. industry. Table 2.8 presents the most recent account of the commodities used by the U.S. broadcasting and telecommunications industry. The underlying data presented in these tables is available at: http://www.bea.gov/industry/xls/Annual_IOMakeUse_After_Redefintions_98-06.xls.

C. Additional Sources of Information on Expenditures for Telephone Service

Additional information from the *Consumer Expenditure Survey* is available from the Bureau of Labor Statistics at www.bls.gov/cex/.

TNS Telecoms has donated databases to the Commission containing information on residential phone usage collected from actual consumer telecommunications bills. TNS Telecoms has granted the Commission permission to use these databases for industry research purposes and to publish the industry level results. TNS Telecoms has been monitoring the telecommunications market since 1995 through both the ReQuest®

[2] *See, e.g.*, Tables 2.7 and 2.8 of the 2005 edition of the *Reference Book.*

consumer survey and Bill Harvesting® in the residential market and the BusinessWave® business survey in the business market. Table 2.6 comes from these databases. For additional information visit www.tnstelecoms.com or contact them at 1-866-811-TNST or by e- mail at contact@tnstelecoms.com. Their address is 101 Greenwood Ave, Suite 502, Jenkintown, PA 19046.

Additional information on the input-output accounts of the U.S. economy is available from the Bureau of Economic Analysis at www.bea.gov on the Internet.

Concordance between I-O industry codes and 1987 SIC codes can be found in Appendix A of Benchmark Input-Output Accounts for the U.S. Economy, 1997 in *Survey of Current Business*, November, 1997. Information concerning the conversion from 1987 SIC codes to NAICS codes can be found at www.census.gov/epcd/naics02/.

The Bureau of the Census publishes the *Service Annual Survey* that also provides some estimates of household and business expenditures on telephone service. This information can be found at www.census.gov on the Internet.

Table 2.1
Average Annual Household Expenditures
by Household Location

	All Households	Urban Households	Rural Households	Census Region			
				Northeast	Midwest	South	West
Total Household Expenditures							
1980	$16,723	$16,723		$17,222	$16,024	$16,188	$17,962
1981	17,558	17,558		17,053	17,324	17,086	19,275
1982	18,071	18,071		16,980	18,143	17,820	19,710
1983	19,692	19,692		19,077	19,580	19,074	21,538
1984	21,975	22,729	$18,217	21,593	21,167	21,587	24,238
1985	23,490	24,129	20,257	22,808	22,664	23,180	25,961
1986	23,866	24,571	19,677	24,905	22,706	22,545	26,476
1987	24,414	25,063	20,513	25,079	23,021	23,292	27,309
1988	25,892	26,617	21,380	26,348	24,753	24,671	28,830
1989	27,809	28,584	23,106	28,241	26,062	26,232	32,144
1990	28,369	28,989	24,499	28,369	25,919	27,011	32,445
1991	29,614	30,382	24,785	31,026	27,675	28,062	33,131
1992	29,846	30,569	25,347	31,177	28,445	27,750	33,647
1993	30,692	31,431	26,296	31,634	28,884	29,247	34,348
1994	31,731	32,233	28,668	32,549	30,331	30,072	35,318
1995	32,264	33,101	27,160	33,009	31,909	30,289	35,206
1996	33,797	34,502	28,853	34,163	33,025	32,871	35,795
1997	34,819	35,614	29,353	36,070	33,791	32,226	39,037
1998	35,535	36,349	29,813	37,535	34,513	32,958	38,938
1999	37,027	37,905	30,831	38,446	36,337	33,328	42,364
2000	38,045	38,942	31,831	38,902	39,213	34,707	41,328
2001	39,518	40,355	33,681	41,169	39,548	36,285	43,261
2002	40,677	41,600	34,067	42,390	40,601	37,281	44,728
2003	40,817	41,619	35,157	42,162	40,280	37,625	45,381
2004	43,395	44,172	38,088	46,115	43,371	39,174	47,922
2005	46,409	47,177	38,486	47,921	45,027	42,504	52,891
2006	48,398	49,285	38,855	49,164	45,085	44,501	57,486
Household Expenditure for Telephone Service							
1980	$325	$325		$335	$303	$339	$320
1981	360	360		358	353	365	366
1982	375	375		351	364	372	426
1983	415	415		410	393	435	419
1984	435	450	359	433	407	445	458
1985	455	466	402	459	419	457	500
1986	471	478	425	470	444	477	494
1987	499	503	475	501	464	505	532
1988	537	544	493	524	498	545	585
1989	567	577	505	570	532	572	601
1990	592	599	549	589	547	616	611
1991	618	621	601	621	595	616	647
1992	623	629	580	636	589	624	646
1993	658	666	606	677	616	673	664
1994	690	698	642	700	663	690	713
1995	708	720	633	717	706	714	691
1996	772	779	726	763	753	796	764
1997	809	814	773	785	778	839	817
1998	830	834	801	814	801	858	828
1999	849	854	812	846	858	862	822
2000	877	889	790	856	884	891	864
2001	914	927	825	897	914	924	914
2002	957	972	851	952	934	987	936
2003	956	967	875	932	917	1,002	941
2004	990	1,000	923	988	946	1,031	971
2005	1,048	1,055	966	1,035	1,000	1,085	1,047
2006	1,087	1,091	1,038	1,051	998	1,167	1,081
Expenditures on Telephone Service as a Percentage of Total Household Expenditures							
1980	1.94%	1.94%		1.95%	1.89%	2.09%	1.78%
1981	2.05	2.05		2.10	2.04	2.14	1.90
1982	2.08	2.08		2.07	2.01	2.09	2.16
1983	2.11	2.11		2.15	2.01	2.28	1.95
1984	1.98	1.98	1.97%	2.01	1.92	2.06	1.89
1985	1.94	1.93	1.98	2.01	1.85	1.97	1.93
1986	1.97	1.95	2.16	1.89	1.96	2.12	1.87
1987	2.04	2.01	2.32	2.02	2.02	2.17	1.95
1988	2.07	2.04	2.31	1.99	2.01	2.21	2.03
1989	2.04	2.02	2.19	2.02	2.04	2.18	1.87
1990	2.09	2.07	2.24	2.08	2.11	2.28	1.88
1991	2.09	2.04	2.42	2.01	2.15	2.20	1.95
1992	2.09	2.06	2.29	2.04	2.07	2.25	1.92
1993	2.14	2.12	2.30	2.14	2.13	2.30	1.93
1994	2.17	2.16	2.24	2.15	2.18	2.30	2.02
1995	2.19	2.18	2.33	2.17	2.21	2.36	1.96
1996	2.28	2.26	2.52	2.23	2.28	2.28	2.13
1997	2.32	2.26	2.77	2.18	2.30	2.60	2.09
1998	2.34	2.29	2.69	2.17	2.32	2.60	2.13
1999	2.29	2.25	2.63	2.20	2.36	2.59	1.94
2000	2.31	2.28	2.48	2.20	2.25	2.57	2.09
2001	2.31	2.30	2.45	2.18	2.31	2.55	2.11
2002	2.35	2.34	2.50	2.25	2.30	2.65	2.09
2003	2.34	2.32	2.49	2.21	2.28	2.66	2.07
2004	2.28	2.26	2.42	2.14	2.18	2.63	2.03
2005	2.26	2.24	2.51	2.16	2.22	2.55	1.98
2006	2.25	2.21	2.67	2.14	2.21	2.62	1.88

Table 2.2
Average Annual Household Expenditures
by Race and National Origin

	By Race		By National Origin	
	White & Other	Black	Hispanic	Non-Hispanic
1980	$17,335	$12,016		
1981	18,169	12,856		
1982	18,693	13,229		
1983	20,567	12,878		
1984	22,847	14,631		
1985	24,399	15,979		
1986	24,806	16,203		
1987	25,376	16,324		
1988	27,004	16,670		
1989	28,944	18,343		
1990	29,547	19,130		
1991	30,794	20,091		
1992	31,158	19,695		
1993	31,967	20,684		
1994	32,614	22,413	$26,433	$32,165
1995	33,737	23,739	26,744	32,729
1996	34,994	24,926	27,868	34,338
1997	36,076	25,509	29,333	35,325
1998	36,848	25,796	30,013	36,044
1999	38,354	27,374	33,105	37,385
2000	39,406	28,152	32,735	38,549
2001	40,968	28,903	34,361	40,009
2002	42,135	30,136	34,742	41,295
2003	42,451	28,708	34,575	41,521
2004	45,135	30,481	37,578	44,084
2005	48,077	32,849	40,123	47,154
2006	49,994	34,583	43,053	49,093
Household Expenditure for Telephone Service				
1980	$321	$356		
1981	359	370		
1982	368	432		
1983	411	448		
1984	432	462		
1985	454	463		
1986	470	478		
1987	498	506		
1988	537	536		
1989	563	603		
1990	588	624		
1991	613	657		
1992	619	647		
1993	650	719		
1994	681	756	$793	$681
1995	698	782	796	700
1996	757	887	870	763
1997	791	945	833	807
1998	818	915	811	831
1999	837	934	872	847
2000	862	986	889	876
2001	899	1,024	917	914
2002	944	1,050	1,021	950
2003	946	1,027	968	954
2004	986	1,025	1,031	985
2005	1,032	1,124	1,032	1,038
2006	1,074	1,154	1,033	1,072
Expenditures on Telephone Service as Percentage of Total Household Expenditures				
1980	1.85%	2.96%		
1981	1.98	2.88		
1982	1.97	3.27		
1983	2.00	3.48		
1984	1.89	3.16		
1985	1.86	2.90		
1986	1.89	2.95		
1987	1.96	3.10		
1988	1.99	3.22		
1989	1.95	3.29		
1990	1.99	3.26		
1991	1.99	3.27		
1992	1.99	3.29		
1993	2.03	3.48		
1994	2.07	3.37	3.00%	2.12%
1995	2.09	3.29	2.98	2.14
1996	2.16	3.56	3.12	2.22
1997	2.19	3.70	2.84	2.28
1998	2.22	3.55	2.70	2.31
1999	2.18	3.41	2.63	2.27
2000	2.19	3.50	2.72	2.27
2001	2.19	3.54	2.67	2.28
2002	2.24	3.48	2.94	2.30
2003	2.23	3.58	2.80	2.30
2004	3.00	3.36	2.57	2.09
2005	2.15	3.42	2.57	2.20
2006	2.15	3.34	2.40	2.18

Table 2.3
Average Annual Household Expenditures
by Household Income

	Households Grouped by Total Income from Lowest to Highest Quintile				
	1	2	3	4	5
Total Household Expenditures					
1980	$7,746	$11,452	$15,370	$20,143	$29,717
1981	7,945	11,688	16,099	21,280	31,404
1982	8,080	11,788	16,200	21,444	33,311
1983	8,557	12,504	17,239	23,359	36,936
1984	10,894	14,337	19,469	26,138	41,825
1985	11,417	15,092	20,374	27,760	45,156
1986	11,477	14,639	21,088	28,698	46,242
1987	10,355	15,686	21,708	29,603	46,470
1988	10,893	16,880	23,290	32,084	48,718
1989	12,119	17,616	24,476	34,231	53,093
1990	12,908	17,924	24,673	34,247	55,411
1991	13,464	18,986	26,144	36,151	57,597
1992	12,643	19,257	26,573	36,094	57,981
1993	13,957	19,712	26,603	37,299	59,521
1994	14,356	20,891	28,513	39,033	60,803
1995	14,607	22,126	29,125	39,395	62,639
1996	15,896	22,799	30,402	41,965	66,794
1997	16,008	23,558	31,447	42,846	66,800
1998	16,630	23,709	31,400	43,811	70,648
1999	16,766	24,850	33,078	46,015	75,080
2000	17,940	26,550	34,716	46,794	75,102
2001	18,883	26,492	35,660	48,772	77,125
2002	19,061	27,140	36,881	50,432	79,199
2003	18,492	26,729	36,213	50,468	81,731
2004	17,837	27,410	36,980	50,974	83,710
2005	19,120	28,921	39,098	54,354	90,469
2006	20,410	30,224	41,431	55,697	94,150
Household Expenditures for Telephone Service					
1980	$202	$266	$335	$365	$450
1981	235	294	361	415	487
1982	257	314	354	423	506
1983	268	353	386	472	571
1984	295	350	430	476	630
1985	311	363	449	503	628
1986	337	383	453	526	662
1987	335	403	501	547	670
1988	352	441	538	585	727
1989	370	459	564	644	757
1990	402	496	585	647	818
1991	415	532	596	665	834
1992	424	533	621	677	844
1993	457	532	652	731	911
1994	455	591	672	761	963
1995	491	599	703	785	968
1996	513	641	750	892	1,100
1997	530	671	794	909	1,142
1998	527	661	801	947	1,194
1999	559	671	825	975	1,227
2000	575	705	860	1,004	1,305
2001	558	727	906	1,054	1,343
2002	584	741	928	1,150	1,433
2003	564	768	932	1,142	1,441
2004	562	787	956	1,185	1,460
2005	596	847	1,035	1,227	1,532
2006	634	862	1,089	1,297	1,551
Expenditures on Telephone Service as a Percentage of Total Household Expenditures					
1980	2.61%	2.32%	2.18%	1.81%	1.51%
1981	2.96	2.52	2.24	1.95	1.55
1982	3.18	2.66	2.19	1.97	1.52
1983	3.13	2.82	2.24	2.02	1.55
1984	2.71	2.44	2.21	1.82	1.51
1985	2.72	2.41	2.20	1.81	1.39
1986	2.94	2.62	2.15	1.83	1.43
1987	3.24	2.57	2.31	1.85	1.44
1988	3.23	2.61	2.31	1.82	1.49
1989	3.05	2.61	2.30	1.88	1.43
1990	3.11	2.77	2.37	1.89	1.48
1991	3.08	2.80	2.28	1.84	1.45
1992	3.35	2.77	2.34	1.88	1.46
1993	3.27	2.70	2.45	1.96	1.53
1994	3.17	2.83	2.36	1.95	1.58
1995	3.38	2.71	2.41	1.99	1.55
1996	3.20	2.94	2.46	2.05	1.57
1997	3.24	3.02	2.53	2.09	1.63
1998	3.17	2.79	2.55	2.16	1.69
1999	3.33	2.70	2.49	2.12	1.63
2000	3.21	2.66	2.48	2.15	1.74
2001	2.96	2.74	2.54	2.16	1.74
2002	3.06	2.73	2.52	2.28	1.81
2003	3.05	2.87	2.57	2.26	1.76
2004	3.15	2.87	2.59	2.32	1.74
2005	3.12	2.93	2.65	2.26	1.69
2006	3.11	2.85	2.63	2.33	1.65

Table 2.4
Average Annual Household Expenditures
by Age of the Head of the Household

	By Age of the Head of the Household						
	Under 25	25-34	35-44	45-54	55-64	65-74	Over 75
1980	$10,903	$17,452	$21,235	$22,517	$17,535		
1981	11,309	18,503	22,890	23,385	17,418		
1982	11,368	18,814	23,309	23,539	18,449		
1983	11,855	19,708	25,230	25,896	20,585		
1984	13,461	22,294	28,214	28,696	23,401	$15,842	$11,122
1985	13,763	23,349	29,604	30,946	24,766	17,938	13,012
1986	14,142	23,931	31,219	32,218	24,808	17,506	12,198
1987	14,368	24,177	31,473	31,708	25,707	18,888	12,230
1988	16,373	25,770	33,077	33,205	25,765	20,120	13,339
1989	16,577	26,683	35,589	36,073	26,617	21,152	15,919
1990	16,525	28,117	35,594	37,012	29,263	20,901	15,450
1991	16,745	29,280	36,446	38,137	31,945	22,564	15,782
1992	17,258	29,554	37,196	37,427	31,704	22,862	17,794
1993	17,468	28,594	37,429	41,020	32,973	23,706	18,350
1994	18,417	30,468	37,565	41,420	33,682	25,059	19,280
1995	18,425	31,493	38,397	42,179	32,626	25,277	18,572
1996	18,384	33,020	39,944	42,722	36,132	27,739	19,603
1997	18,450	34,902	40,413	45,239	35,954	27,792	20,279
1998	19,436	34,779	42,154	45,475	37,329	27,830	20,987
1999	21,704	36,158	42,792	46,511	39,394	29,864	22,884
2000	22,543	38,945	45,149	46,160	39,340	30,782	21,908
2001	23,526	39,451	46,908	47,930	41,462	32,023	23,099
2002	24,229	40,318	48,330	48,748	44,330	32,243	23,759
2003	22,396	40,525	47,175	50,101	44,191	33,629	25,016
2004	24,535	42,701	50,402	52,764	47,299	36,512	25,763
2005	27,776	45,068	55,190	55,854	49,592	38,573	27,018
2006	28,181	47,582	57,476	57,563	50,789	40,960	28,904
Household Expenditures for Telephone Service							
1980	$248	$343	$401	$415	$319		
1981	275	377	433	458	364		
1982	266	389	436	484	391		
1983	275	439	472	535	421		
1984	292	450	541	558	451	$341	$266
1985	323	449	535	576	473	377	298
1986	342	485	546	580	483	399	316
1987	381	504	586	607	521	401	328
1988	417	534	617	669	543	458	338
1989	396	583	640	719	567	486	360
1990	430	604	682	750	590	476	376
1991	471	629	684	803	641	487	376
1992	469	648	698	753	652	502	421
1993	512	687	734	782	707	520	441
1994	570	726	766	819	697	551	445
1995	541	744	777	859	723	577	443
1996	537	838	856	925	814	618	459
1997	550	893	921	952	842	627	458
1998	560	888	947	993	835	679	494
1999	562	924	950	1,008	869	711	506
2000	589	950	1,018	1,007	909	720	511
2001	629	1,001	1,035	1,072	926	746	551
2002	641	1,032	1,096	1,109	981	794	579
2003	616	1,001	1,097	1,156	981	773	572
2004	642	1,028	1,045	1,178	1,040	815	579
2005	744	1,099	1,208	1,229	1,077	845	619
2006	722	1,129	1,271	1,269	1,115	889	645
Expenditures on Telephone Service as a Percentage of Total Household Expenditures							
1980	2.27%	1.97%	1.89%	1.84%	1.82%		
1981	2.43	2.04	1.89	1.96	2.09		
1982	2.34	2.07	1.87	2.06	2.12		
1983	2.32	2.23	1.87	2.07	2.05		
1984	2.17	2.02	1.92	1.94	1.93	2.15%	2.39%
1985	2.35	1.92	1.81	1.86	1.91	2.10	2.29
1986	2.42	2.03	1.75	1.80	1.95	2.28	2.59
1987	2.65	2.08	1.86	1.91	2.03	2.12	2.68
1988	2.55	2.07	1.87	2.01	2.11	2.28	2.53
1989	2.39	2.18	1.80	1.99	1.98	2.30	2.26
1990	2.60	2.15	1.92	2.03	2.02	2.28	2.43
1991	2.81	2.15	1.88	2.11	2.01	2.16	2.38
1992	2.72	2.19	1.88	2.01	2.06	2.20	2.37
1993	2.93	2.40	1.96	1.91	2.14	2.19	2.40
1994	3.09	2.38	2.04	1.98	2.07	2.20	2.31
1995	2.94	2.36	2.02	2.04	2.22	2.28	2.39
1996	2.92	2.54	2.14	2.17	2.25	2.23	2.34
1997	2.98	2.56	2.28	2.10	2.34	2.26	2.26
1998	2.88	2.55	2.25	2.18	2.24	2.44	2.35
1999	2.59	2.56	2.22	2.17	2.21	2.38	2.21
2000	2.61	2.44	2.25	2.18	2.31	2.34	2.33
2001	2.67	2.54	2.21	2.24	2.23	2.33	2.39
2002	2.65	2.56	2.27	2.27	2.21	2.46	2.44
2003	2.75	2.47	2.33	2.31	2.22	2.30	2.29
2004	2.62	2.41	2.07	2.23	2.20	2.23	2.25
2005	2.68	2.44	2.19	2.20	2.17	2.19	2.29
2006	2.56	2.37	2.21	2.20	2.20	2.17	2.23

Table 2.5
Average Annual Household Expenditures
by Size of the Household

	By Size of the Household				
	1	2	3	4	Over 4
Total Household Expenditures					
1980					
1981					
1982					
1983					
1984	$12,994	$21,515	$26,653	$28,403	
1985	13,954	23,442	28,317	31,408	
1986	13,733	24,675	28,050	32,232	
1987	14,693	24,761	28,549	32,753	
1988	15,671	26,350	30,446	34,455	$32,706
1989	16,814	28,622	32,643	35,803	35,871
1990	17,128	28,851	33,688	37,493	36,279
1991	17,569	30,648	34,389	38,806	38,269
1992	17,797	30,773	34,982	40,658	38,019
1993	17,999	31,603	35,416	42,397	39,981
1994	19,343	33,062	36,732	41,480	40,702
1995	19,389	33,100	37,838	42,819	41,561
1996	20,082	35,559	39,531	43,670	43,217
1997	20,923	36,617	40,926	45,225	43,929
1998	21,483	36,973	41,388	47,020	45,569
1999	22,404	38,895	42,885	49,119	47,581
2000	23,059	38,627	45,156	52,032	49,100
2001	23,507	40,359	45,508	54,395	53,805
2002	24,190	41,797	48,098	54,033	55,501
2003	23,657	43,693	47,406	55,201	52,565
2004	25,423	45,855	51,503	57,866	55,468
2005	26,773	48,492	55,096	62,215	62,618
2006	29,374	50,652	56,382	63,897	64,654
Household Expenditures for Telephone Service					
1980					
1981					
1982					
1983					
1984	$311	$420	$494	$515	
1985	330	458	501	548	
1986	347	470	539	563	
1987	367	489	587	590	
1988	409	527	601	626	$681
1989	423	564	633	650	739
1990	440	582	681	681	769
1991	449	617	693	722	808
1992	470	616	700	722	821
1993	472	656	740	803	854
1994	502	699	774	817	879
1995	506	714	815	839	894
1996	544	777	921	904	972
1997	583	789	954	995	1,016
1998	581	839	990	991	1,022
1999	592	847	994	1,050	1,094
2000	607	865	1,031	1,108	1,136
2001	620	905	1,091	1,166	1,194
2002	624	955	1,160	1,219	1,262
2003	623	965	1,161	1,227	1,229
2004	634	997	1,207	1,270	1,293
2005	664	1,054	1,275	1,340	1,412
2006	684	1,081	1,333	1,439	1,459
Expenditures on Telephone Service as a Percentage of Total Household Expenditures					
1980					
1981					
1982					
1983					
1984	2.39%	1.95%	1.85%	1.81%	
1985	2.36	1.95	1.77	1.74	
1986	2.53	1.90	1.92	1.75	
1987	2.50	1.97	2.06	1.80	
1988	2.61	2.00	1.97	1.82	2.08%
1989	2.52	1.97	1.94	1.82	2.06
1990	2.57	2.02	2.02	1.82	2.12
1991	2.56	2.01	2.02	1.86	2.11
1992	2.64	2.00	2.00	1.78	2.16
1993	2.62	2.08	2.09	1.89	2.14
1994	2.60	2.11	2.11	1.97	2.16
1995	2.61	2.16	2.15	1.96	2.15
1996	2.71	2.19	2.33	2.07	2.25
1997	2.79	2.15	2.33	2.20	2.31
1998	2.70	2.27	2.39	2.11	2.24
1999	2.64	2.18	2.32	2.14	2.30
2000	2.63	2.24	2.28	2.13	2.31
2001	2.64	2.24	2.40	2.14	2.22
2002	2.58	2.28	2.41	2.26	2.27
2003	2.63	2.21	2.45	2.22	2.34
2004	2.49	2.17	2.34	2.19	2.33
2005	2.48	2.17	2.31	2.15	2.25
2006	2.33	2.13	2.36	2.25	2.26

Table 2.6

Average Monthly Household Telecommunications Expenditures by Type of Provider*

	Wireline Carriers	Wireless Carriers	Total Expenditures
1995	$51	$7	$51
1996	51	9	60
1997	57	11	68
1998	56	14	70
1999	55	17	72
2000	53	23	76
2001	51	29	80
2002	48	35	83
2003	47	41	88
2004	45	47	92
2005	44	53	97
2006	44	58	102
2007	45	68	113

Source: Calculated by Industry Analysis and Technology Division staff using survey data from TNS Telecoms *ReQuest Market Monitor*™, Bill Harvesting®.

Note: These data are average monthly *expenditures* based on sample data for those households with wireline telephone service. These data do ***not*** reflect average monthly *bills*. For example, the average household in the sample spent $41 per month for wireless service in 2003. This average was calculated by simply dividing the total wireless expenditures of households in the sample by the total number of households in the sample. Of course, a number of households in the sample did not take wireless service in 2003 and therefore paid nothing. The average monthly bill for wireless service for 2003 - averaged over only those households that received a bill - was therefore much higher, about $62. In addition, these data are only representative of telecommunications revenues from servicing residential *end-users*, and do not reflect any revenues received from servicing business customers or other *carriers*.

* Excludes households in Alaska and Hawaii.

Table 2.7
2006 Use of Broadcasting and Telecommunications Commodities by Industry

	NAICS I-O Industry Group	Total Industry Output (Millions $)	Purchases of Broadcasting and Telecommunications (Millions $)	Broadcasting and Telecommunications Purchases of Percent of Industry Output (%)	Broadcasting and Telecommunications Purchases by Industry as a Percent of Total Broadcasting and Telecommunications
111CA	Farms	254,821.7	954.3	0.37	0.15
113FF	Forestry, fishing, and related activities	64,223.0	17.5	0.03	0.00
211	Oil and gas extraction	251,761.5	80.4	0.03	0.01
212	Mining, except oil and gas	72,573.0	42.5	0.06	0.01
213	Support activities for mining	113,008.4	384.3	0.34	0.06
22	Utilities	399,740.9	70.8	0.02	0.01
23	Construction	1,392,907.0	10,604.8	0.76	1.66
311FT	Food and beverage and tobacco products	680,830.5	2,326.0	0.34	0.36
313TT	Textile mills and textile product mills	69,283.9	175.4	0.25	0.03
315AL	Apparel and leather and allied products	31,558.3	55.9	0.18	0.01
321	Wood products	109,301.0	239.0	0.22	0.04
322	Paper products	166,264.8	329.1	0.20	0.05
323	Printing and related support activities	97,788.0	538.1	0.55	0.08
324	Petroleum and coal products	525,795.7	198.9	0.04	0.03
325	Chemical products	625,910.8	1,284.3	0.21	0.20
326	Plastics and rubber products	206,629.9	608.3	0.29	0.09
327	Nonmetallic mineral products	124,838.5	406.1	0.33	0.06
331	Primary metals	232,881.3	226.4	0.10	0.04
332	Fabricated metal products	310,886.2	1,151.0	0.37	0.18
333	Machinery	311,667.9	2,821.8	0.91	0.44
334	Computer and electronic products	378,161.0	2,621.1	0.69	0.41
335	Electrical equipment, appliances, and components	115,657.6	271.8	0.23	0.04
3361MV	Motor vehicles, bodies and trailers, and parts	491,854.5	1,710.2	0.35	0.27
3364OT	Other transportation equipment	197,611.2	425.5	0.22	0.07
337	Furniture and related products	83,418.1	370.0	0.44	0.06
339	Miscellaneous manufacturing	151,730.9	1,019.0	0.67	0.16
42	Wholesale trade	1,147,749.8	13,361.5	1.16	2.09
44RT	Retail trade	1,249,814.1	12,236.5	0.98	1.91
481	Air transportation	145,510.7	1,360.8	0.94	0.21
482	Rail transportation	58,503.7	33.2	0.06	0.01
483	Water transportation	37,678.6	48.0	0.13	0.01
484	Truck transportation	267,258.9	3,419.3	1.28	0.53
485	Transit and ground passenger transportation	30,523.5	183.4	0.60	0.03
486	Pipeline transportation	35,002.2	162.7	0.46	0.03
487OS	Other transportation and support activities	131,473.1	2,097.8	1.60	0.33
493	Warehousing and storage	51,801.3	363.8	0.71	0.06
511	Publishing industries (includes software)	266,143.2	5,122.4	1.92	0.80
512	Motion picture and sound recording industries	93,918.1	846.0	0.90	0.13
513	Broadcasting and telecommunications	714,742.7	159,944.0	22.38	24.97
514	Information and data processing services	157,148.0	10,148.8	6.46	1.58
521CI	Federal Reserve banks, credit intermediation, and related activities	718,853.5	2,631.4	0.37	0.41
523	Securities, commodity contracts, and investments	420,955.7	2,511.6	0.60	0.39
524	Insurance carriers and related activities	622,099.8	7,863.7	1.26	1.23
525	Funds, trusts, and other financial vehicles	111,358.9	85.4	0.08	0.01
531	Real estate	2,155,769.3	12,445.8	0.58	1.94
532RL	Rental and leasing services and lessors of intangible assets	316,039.7	4,458.7	1.41	0.70
5411	Legal services	264,683.3	4,932.8	1.86	0.77
5412OP	Miscellaneous professional, scientific and technical services	1,014,144.6	22,576.5	2.23	3.52
5415	Computer systems design and related services	277,992.6	6,761.8	2.43	1.06
55	Management of companies and enterprises	389,531.5	14,824.8	3.81	2.31
561	Administrative and support services	570,480.6	11,109.8	1.95	1.73
562	Waste management and remediation services	70,862.2	770.7	1.09	0.12
61	Educational services	186,024.7	2,525.8	1.36	0.39
621	Ambulatory health care services	693,312.1	10,454.5	1.51	1.63
622HO	Hospitals and nursing and residential care facilities	641,480.4	12,411.5	1.93	1.94
624	Social assistance	129,431.2	1,924.8	1.49	0.30
711AS	Performing arts, spectator sports, museums, and related activities	85,475.0	778.1	0.91	0.12
713	Amusements, gambling, and recreation industries	120,540.4	1,359.8	1.13	0.21
721	Accommodation	123,704.9	2,319.7	1.88	0.36
722	Food services and drinking places	571,785.1	8,569.8	1.50	1.34
81	Other services, except government	709,867.8	10,184.1	1.43	1.59
GFE	Federal government enterprises	95,862.0	550.9	0.57	0.09
GFG	Federal general government	820,889.0	10,702.5	1.30	1.67
GSLE	State and local government enterprises	215,337.4	1,649.8	0.77	0.26
GSLG	State and local general government	1,594,339.4	22,877.8	1.43	3.57
F010	Personal consumption expenditures	9,224,507.6	209,153.1	2.27	
F020	Private fixed investment	2,162,503.3	8,615.7	0.40	
F030	Change in private inventories	46,652.4	0.0	0.00	
F040	Exports of goods and services	1,322,440.5	7,311.4	0.55	
F050	Imports of goods and services	-2,084,456.4	0.0	0.00	
F06C	National defense: Consumption expenditures	544,782.0	0.0	0.00	
F06I	National defense: Gross investment	79,524.0	0.0	0.00	
F07C	Nondefense: Consumption expenditures	268,020.0	0.0	0.00	
F07I	Nondefense: Gross investment	40,186.0	0.0	0.00	
F08C	State and local government consumption expenditures, education	601,937.0	0.0	0.00	
F08I	State and local government gross investment, education	87,796.0	0.0	0.00	
F09C	State and local government consumption expenditures, other	674,548.0	0.0	0.00	
F09I	State and local government gross investment, other	226,251.0	0.0	0.00	
T007	Total Commodity Output	24,735,591.9	640,600.5	2.59	

Table 2.8
2006 Use of Commodities by the Broadcasting and Telecommunications Industry

NAICS I-O Industry Group		Total Commodity Output (Millions $)	Sales to Broadcasting and Telecommunications Industry (Millions $)	Percentage of Total Sales to Broadcasting and Telecommunications Industry (%)	Sales to Broadcasting and Telecommunications Industry as Percent of Industry Output (%)
111CA	Farms	244,502.9	16.3	0.01	0.00
113FF	Forestry, fishing, and related activities	76,858.4		0.00	0.00
211	Oil and gas extraction	229,561.3		0.00	0.00
212	Mining, except oil and gas	72,480.1	1.8	0.00	0.00
213	Support activities for mining	113,602.2		0.00	0.00
22	Utilities	495,375.9	3,717.4	0.75	0.52
23	Construction	1,392,907.1	1,760.6	0.13	0.25
311FT	Food and beverage and tobacco products	677,762.9		0.00	0.00
313TT	Textile mills and textile product mills	67,866.5	23.9	0.04	0.00
315AL	Apparel and leather and allied products	31,978.5	54.4	0.17	0.01
321	Wood products	109,491.0	1,616.8	1.48	0.23
322	Paper products	165,136.3	1,273.9	0.77	0.18
323	Printing and related support activities	73,302.7	2,712.8	3.70	0.38
324	Petroleum and coal products	532,119.0	1,211.7	0.23	0.17
325	Chemical products	650,575.4	1,345.4	0.21	0.19
326	Plastics and rubber products	210,360.7	2,854.4	1.36	0.40
327	Nonmetallic mineral products	124,701.8	1,703.3	1.37	0.24
331	Primary metals	237,008.3	1,703.3	0.72	0.24
332	Fabricated metal products	308,427.2	7,160.5	2.32	1.00
333	Machinery	314,335.0	261.7	0.08	0.04
334	Computer and electronic products	371,643.3	10,874.6	2.93	1.52
335	Electrical equipment, appliances, and components	115,244.7	5,206.5	4.52	0.73
3361MV	Motor vehicles, bodies and trailers, and parts	486,180.7	130.0	0.03	0.02
3364OT	Other transportation equipment	200,566.9	2.0	0.00	0.00
337	Furniture and related products	81,772.9	155.2	0.19	0.02
339	Miscellaneous manufacturing	147,248.4	322.0	0.22	0.05
42	Wholesale trade	1,147,837.1	5,184.8	0.45	0.73
44RT	Retail trade	1,255,016.4	276.8	0.02	0.04
481	Air transportation	152,622.2	831.5	0.54	0.12
482	Rail transportation	60,104.3	100.3	0.17	0.01
483	Water transportation	38,143.2	14.6	0.04	0.00
484	Truck transportation	270,590.0	776.4	0.29	0.11
485	Transit and ground passenger transportation	42,111.5	1,188.3	2.82	0.17
486	Pipeline transportation	35,002.2	3.5	0.01	0.00
487OS	Other transportation and support activities	127,884.1	1,425.1	1.11	0.20
493	Warehousing and storage	51,718.6	174.8	0.34	0.02
511	Publishing industries (includes software)	193,029.4	327.3	0.17	0.05
512	Motion picture and sound recording industries	98,669.1	20,777.3	21.06	2.91
513	Broadcasting and telecommunications	640,600.5	152,216.4	23.76	21.30
514	Information and data processing services	167,986.3	2,479.7	1.48	0.35
521CI	Federal Reserve banks, credit intermediation, and related	662,274.5	16,300.4	2.46	2.28
523	Securities, commodity contracts, and investments	432,491.9	1,118.4	0.26	0.16
524	Insurance carriers and related activities	632,146.1	7,717.1	1.22	1.08
525	Funds, trusts, and other financial vehicles	114,811.0		0.00	0.00
531	Real estate	2,176,532.1	8,187.2	0.38	1.15
532RL	Rental and leasing services and lessors of intangible assets	352,897.6	11,280.9	3.20	1.58
5411	Legal services	264,840.4	2,621.0	0.99	0.37
5412OP	Miscellaneous professional, scientific and technical services	1,181,193.8	62,088.5	5.26	8.69
5415	Computer systems design and related services	282,544.7	1,783.2	0.63	0.25
55	Management of companies and enterprises	389,531.5	2,336.2	0.60	0.33
561	Administrative and support services	577,404.4	5,687.6	0.99	0.80
562	Waste management and remediation services	77,927.6	227.0	0.29	0.03
61	Educational services	267,736.9	1,312.0	0.49	0.18
621	Ambulatory health care services	721,071.5		0.00	0.00
622HO	Hospitals and nursing and residential care facilities	769,618.7		0.00	0.00
624	Social assistance	131,852.9		0.00	0.00
711AS	Performing arts, spectator sports, museums, and related	83,199.9	8,403.0	10.10	1.18
713	Amusements, gambling, and recreation industries	161,504.5	116.9	0.07	0.02
721	Accommodation	130,708.6	606.0	0.46	0.08
722	Food services and drinking places	588,732.3	1,012.0	0.17	0.14
81	Other services, except government	711,745.0	14,184.7	1.99	1.98
GFE	Federal government enterprises	76,437.5	1,668.5	2.18	0.23
GFG	Federal general government	813,280.4		0.00	0.00
GSLE	State and local government enterprises	63,967.6	384.6	0.60	0.05
GSLG	State and local general government	1,278,531.0		0.00	0.00
	Total Sales	24,735,592.2	714,742.7	2.89	100.00
	Value Added	13,205,405.9	322,022.1	2.44	45.05

III. Price Indices

The BLS calculates telephone service price indices as part of two major programs. The Consumer Price Index (CPI) program publishes indices based on the amount of money that residential customers in urban areas pay for telephone service. The Producer Price Index (PPI) program publishes indices based on the amount of money that companies receive for providing telephone service. Unlike the CPI, the PPI indices cover business as well as residential telephone service.

A. Consumer Price Indices

The Consumer Price Index is the nation's most widely recognized measure of retail price changes. It is published monthly by the BLS, and measures the prices all urban consumers pay for most goods and services. BLS defines urban areas as Metropolitan Statistical Areas (MSAs) and small cities with populations greater than 10,000. According to BLS, over 79 percent of the U.S. population lives in urban areas.

The BLS has published an index for telephone services since 1935. In 1978 it began publishing an index for local telephone service, interstate toll service, and intrastate toll service. In 1998 it added an index for cellular telephone services. At that time, the BLS also revised the telephone services index to include information from the cellular index and created an aggregate index by combining the interstate and intrastate toll service indices into an index for long distance services. Telephone service price changes are also included in the CPI index for all goods and services, as well as in other broad indices. According to the BLS, as of the end of December 2006, telephone prices accounted for roughly 2.2% of the CPI for all goods and services.[1]

Table 3.1 shows the annual changes in the CPI indices since 1980. In addition to showing the nominal changes in telephone prices, the table shows the changes in telephone prices after adjusting for the impact of inflation, as measured by the CPI for all goods and services. Chart 1 illustrates the changes in toll rates since the AT&T divestiture in 1984; since then, rates for both interstate and intrastate toll calls have fallen. Chart 2 adjusts the price indices for interstate and intrastate toll service for the impacts of inflation. Relative to the prices of other goods and services, long distance rates have fallen substantially since the AT&T divestiture in 1984.

Table 3.2 shows three monthly consumer price indices that were first published in 1998. A long distance service index has been created using the existing information collected for the interstate and intrastate toll indices. An index for cellular telephone service has been created and the previous "telephone services" index has been replaced with a new measure that includes the cellular price index. Since the previous index for telephone services did not include cellular services, the two series are not strictly comparable. Users should exercise caution because current price trends in the cellular market deviate significantly from those in the wireline telephony market.

[1] *See* http://www.bls.gov/cpi/cpiri2006.pdf.

B. Producer Price Indices

The PPI is a statistical series established by the BLS to measure changes in the prices charged by producers. This index, formerly known as the Wholesale Price Index, was first published in 1902. The BLS began publishing indices for telecommunications products in 1972. These indices were wholly redesigned in mid-1995. Consequently, the current indices are not comparable to indices prior to 1995. In addition to 39 current indices of telecommunications products, the BLS publishes overall indices by stage of processing -- finished goods, intermediate goods, and crude materials for further processing.

With the release of data for January 2004, the Producer Price Index program changed its basis for industry classification from the 1987 Standard Industrial Classification (SIC) system to the North American Industry Classification System (NAICS). Developed in cooperation with Canada and Mexico, NAICS represents a profound change for statistical programs focusing on emerging economic activities. The system was developed using a production-oriented conceptual framework, grouping establishments into industries based on the activity in which they are primarily engaged. While many NAICS industries directly compare with SIC industries, a number of SIC industries were split or combined to form a new NAICS industry. The PPI treats the SIC-to-NAIC comparison as continuous if 80 percent or more of the weight of the SIC-based index comprises at least 80 percent of the weight of the NAICS-based index. All index series that have passed this test are published under the NAICS structure using the index base date and price index history established by the SIC-based index. Documentation of the NAICS to SIC concordance for all subsectors, industry groups, and products may be found at http:// www.bls.gov/ppi/ppinaics.htm.[2]

Since the PPI indexes the prices received by producers, it includes the prices paid by businesses as well as consumers. The PPI does not include taxes or other government surcharges. Additionally, it is subject to substantial fluctuations from month to month and each index is revised four months following its release. Consequently, analysts should use caution when using the PPI to measure short-run trends in telecommunications prices. It is suggested that users consider constructing a three to four month moving average of the series to improve the analysis of trends. Table 3.3 presents the monthly PPI indices for the period since January 2000. Certain Producer Price Index categories were discontinued in 1995. These PPIs may be found at http://www.bls.gov.

C. Additional Sources of Information on Price Indices

The BLS maintains current and complete access to all of the price indices at stats.bls.gov on the Internet. Visitors can find documentation on the construction of the indices there as well.

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[2] Several telecommunications PPIs published by the BLS under the SIC classification system are no longer published after the conversion to NAICS. These include "Other Local Service" (SIC pcu4813#114), "Other Local Service except Directory Assistance" (SIC pcu4813#11409), "LEC Intrastate Private Line Service" (SIC pcu4813#311), "Directory Advertising" (SIC pcu4813#91), and "Other Telephone Services" (SIC pcu4813#99). In addition, "Directory Assistance" (SIC pcu4813#11401) is now classified as "Other Local Service" (NAICS 517110114) and "Telephone Communications except Radiotelephone" is now referred to as "Wired Telecommunications Carriers".

Table 3.1

Changes in the Consumer Price Indices Since 1980

(Percent change from December of the previous year through December of the year shown)

	All Goods and Services	Telephone Services		Land-line Telephone Services, Local Charges		Land-line Interstate Toll Calls		Land-line Intrastate Toll Calls		Wireless Telephone Services	
			Inflation Adjusted		Inflation Adjusted		Inflation Adjusted		Inflation Adjusted		Inflation Adjusted
1980	12.5%	4.6%	-7.1%	7.0%	-4.9%	3.4%	-8.1%	-0.6%	-11.6%		
1981	8.9%	11.7%	2.5%	12.6%	3.3%	14.6%	5.2%	6.2%	-2.5%		
1982	3.8%	7.2%	3.3%	10.8%	6.7%	2.6%	-1.2%	4.2%	0.3%		
1983	3.8%	3.6%	-0.2%	3.1%	-0.6%	1.5%	-2.2%	7.4%	3.4%		
1984	3.9%	9.2%	5.1%	17.2%	12.7%	-4.3%	-8.0%	3.6%	-0.3%		
1985	3.8%	4.7%	0.8%	8.9%	5.0%	-3.7%	-7.2%	0.6%	-3.1%		
1986	1.1%	2.7%	1.6%	7.1%	5.9%	-9.4%	-10.4%	0.3%	-0.8%		
1987	4.4%	-1.3%	-5.5%	3.3%	-1.0%	-12.4%	-16.1%	-3.0%	-7.1%		
1988	4.4%	1.3%	-3.0%	4.5%	0.1%	-4.2%	-8.2%	-4.2%	-8.3%		
1989	4.6%	-0.3%	-4.7%	0.6%	-3.9%	-1.3%	-5.7%	-2.6%	-6.9%		
1990	6.1%	-0.4%	-6.2%	1.0%	-4.8%	-3.7%	-9.3%	-2.2%	-7.8%		
1991	3.1%	3.5%	0.4%	5.1%	2.0%	1.3%	-1.7%	-1.5%	-4.4%		
1992	2.9%	-0.3%	-3.1%	0.5%	-2.4%	-1.3%	-4.1%	-2.4%	-5.1%		
1993	2.7%	1.8%	-0.9%	1.0%	-1.7%	6.5%	3.7%	0.2%	-2.5%		
1994	2.7%	0.7%	-2.0%	-0.3%	-2.9%	5.4%	2.7%	-1.0%	-3.6%		
1995	2.5%	1.2%	-1.3%	2.6%	0.0%	0.1%	-2.3%	-3.8%	-6.2%		
1996	3.3%	2.1%	-1.2%	0.9%	-2.4%	3.7%	0.4%	6.1%	2.7%		
1997	1.7%	0.2%	-1.4%	1.0%	-0.6%	-4.3%	-5.9%	2.8%	1.1%		
1998	1.6%	0.3%	-1.9%	1.3%	-0.3%	-0.8%	-2.4%	1.5%	-0.1%		
1999	2.7%	0.4%	-2.2%	2.9%	0.2%	-0.7%	-3.3%	-1.6%	-4.1%	-11.6%	-13.9%
2000	3.4%	-2.3%	-5.5%	5.6%	2.1%	-11.2%	-14.1%	-6.0%	-9.1%	-12.3%	-15.2%
2001	1.6%	1.3%	-0.2%	4.5%	2.9%	-2.0%	-3.3%	-1.7%	-3.2%	-5.5%	-6.9%
2002	2.4%	0.2%	-2.1%	5.3%	2.9%	-5.9%	-8.2%	-6.1%	-3.2%	-0.3%	-2.0%
2003	1.8%	-2.7%	-4.4%	2.6%	0.8%	-10.8%	-12.4%	-9.3%	-10.9%	-1.3%	-3.1%
2004	3.3%	-2.5%	-5.6%	1.1%	-2.1%	-8.7%	-11.7%	-6.6%	-9.6%	-1.4%	-4.5%
2005	3.4%	0.4%	-2.9%	3.3%	-0.1%	-3.1%	-6.3%	0.4%	-2.9%	-1.5%	-4.8%
2006	2.5%	1.7%	-0.8%	2.2%	-0.4%	5.0%	2.4%	3.3%	0.7%	0.0%	-2.5%
2007	4.1%	2.1%	-1.9%	4.1%	0.0%	2.4%	-1.6%	5.9%	1.7%	-0.9%	-4.8%

Chart 1

Consumer Price Indices for Toll Service Since 1984

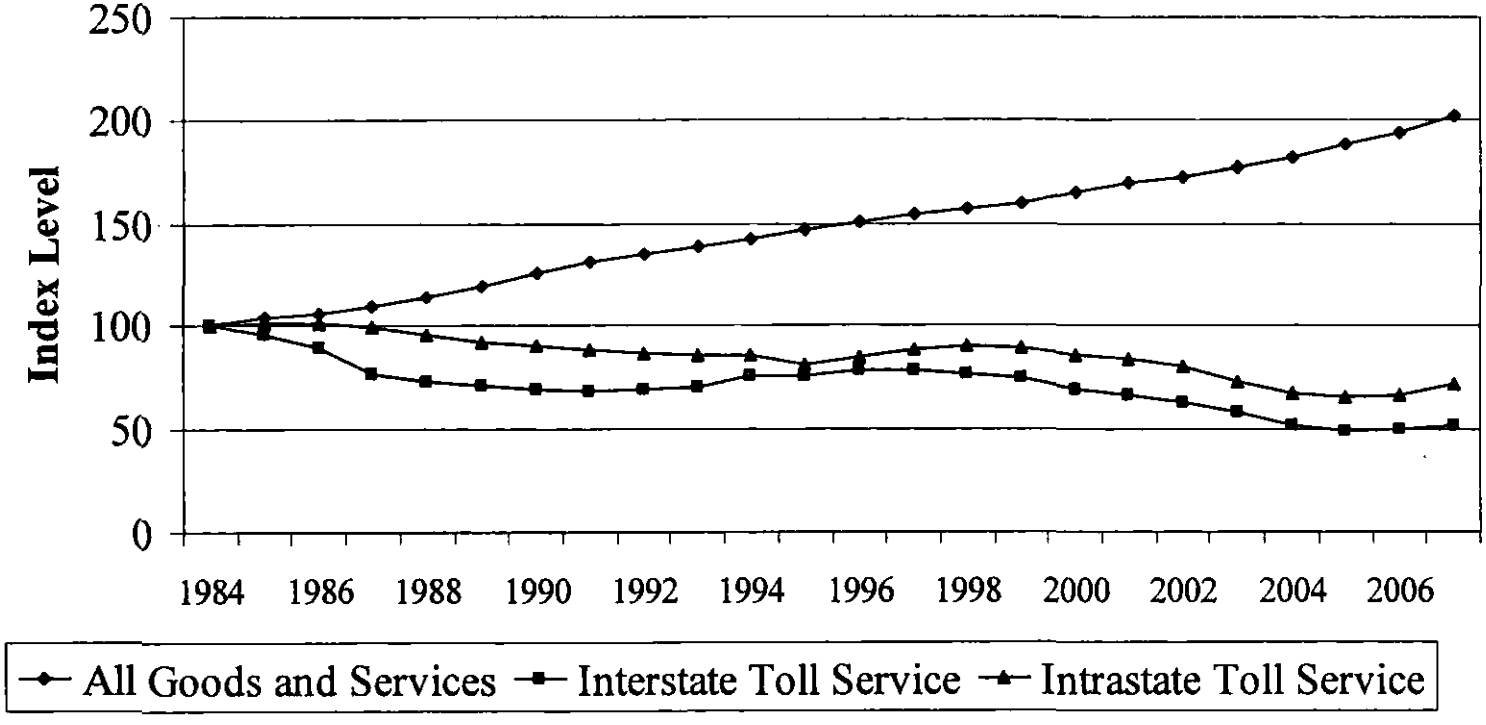

Chart 2

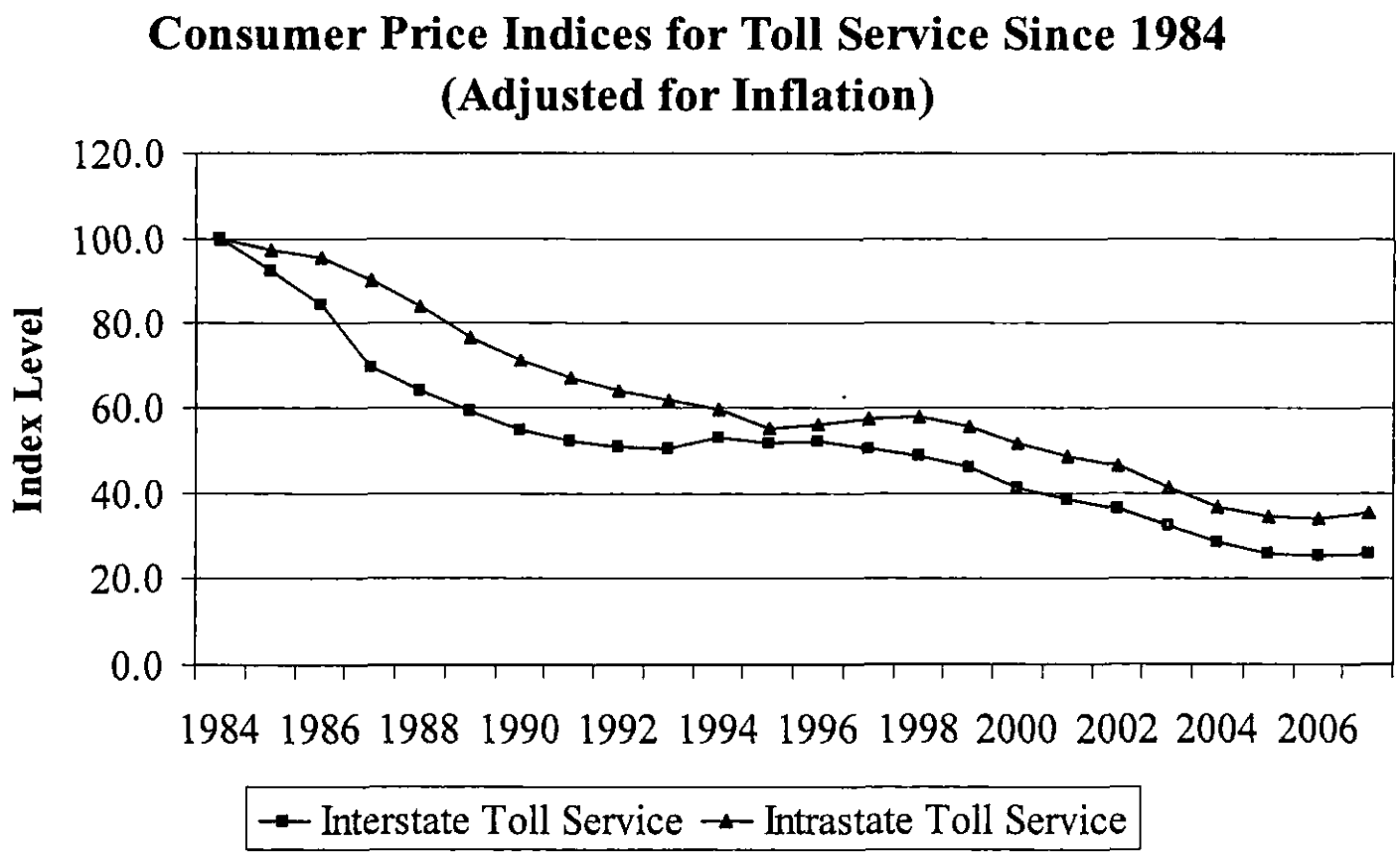
Consumer Price Indices for Toll Service Since 1984
(Adjusted for Inflation)
Index Level
120.0
100.0
80.0
60.0
40.0
20.0
0.0
1984 1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006
Interstate Toll Service
Intrastate Toll Service

Table 3.2
Monthly Consumer Price Indices
(December 1997 = 100)

		All Goods and Services	Telephone Services	Land-line Telephone Services, Local Charges	Land-line Telephone Services, Long-Distance Charges	Land-line Interstate Toll Calls	Land-line Intrastate Toll Calls	Wireless Telephone Services
BLS Series ID		CUUR0000SA0	CUUR0000SEED	CUUR0000SEED01	CUUR0000SEED02	CUUR0000SS27051	CUUR0000SS27061	CUUR0000SEED03
2001	January	108.6	98.8	110.5	89.9	88.0	94.2	68.9
	February	109.0	98.7	110.7	89.5	87.6	93.7	68.9
	March	109.2	99.4	110.9	90.7	89.0	94.5	68.7
	April	109.7	99.0	111.9	89.1	87.2	93.1	68.8
	May	110.2	98.7	112.1	88.2	86.2	92.6	68.5
	June	110.4	99.0	112.3	88.7	86.7	93.0	68.1
	July	110.0	99.6	113.2	88.9	86.8	93.0	68.6
	August	110.0	99.6	113.9	88.5	86.4	92.7	68.1
	September	110.5	99.2	114.1	87.6	85.5	92.0	67.2
	October	110.2	99.9	114.6	88.5	86.4	92.9	67.1
	November	110.0	99.6	114.8	87.6	85.5	92.2	67.5
	December	109.5	99.7	114.9	87.9	85.8	92.3	67.2
2002	January	109.8	100.3	115.7	88.2	86.2	92.6	67.5
	February	110.2	100.3	116.1	87.9	85.8	92.6	67.5
	March	110.8	99.1	114.1	87.0	85.0	91.6	67.5
	April	111.5	98.2	114.0	85.1	82.7	90.1	67.6
	May	111.5	99.3	116.8	85.2	82.6	90.4	66.7
	June	111.5	99.2	116.9	85.0	82.4	90.1	66.6
	July	111.7	99.5	118.7	84.0	81.3	89.1	67.0
	August	112.0	100.6	120.2	84.7	82.6	89.1	67.8
	September	112.2	100.1	120.4	83.7	81.4	88.2	67.5
	October	112.4	99.9	120.6	83.0	80.7	87.5	67.9
	November	112.4	99.8	120.8	82.7	80.7	87.0	67.5
	December	112.2	99.9	121.0	82.6	80.7	86.7	67.4
2003	January	112.6	100.4	121.3	83.4	81.9	87.0	67.6
	February	113.5	100.5	121.2	83.5	82.2	86.9	67.7
	March	114.2	99.7	121.7	81.5	79.8	85.1	67.6
	April	113.9	98.7	121.9	79.2	77.4	83.1	67.5
	May	113.7	98.1	122.0	77.9	76.0	81.8	67.5
	June	113.8	97.5	122.2	76.7	74.6	80.8	66.3
	July	114.0	98.1	123.1	77.2	75.6	80.8	66.2
	August	114.4	97.8	123.7	76.0	74.0	79.7	66.1
	September	114.8	97.4	123.8	75.2	73.3	78.9	66.1
	October	114.6	97.1	124.0	74.3	72.1	78.7	66.1
	November	114.3	97.2	124.2	74.1	71.8	78.3	66.7
	December	114.2	97.2	124.1	74.3	72.0	78.6	66.5
2004	January	114.8	97.0	124.4	73.9	71.6	78.0	66.3
	February	115.4	97.1	124.2	73.9	71.6	77.8	66.6
	March	116.2	96.7	124.2	73.1	70.6	77.2	66.5
	April	116.6	96.5	123.9	72.8	70.1	77.2	66.4
	May	117.2	95.9	124.2	71.3	68.8	75.5	66.5
	June	117.6	95.8	124.2	71.2	68.4	75.4	66.4
	July	117.4	95.6	124.7	70.1	67.6	74.2	66.5
	August	117.5	95.0	124.7	68.7	66.0	72.9	66.5
	September	117.7	95.3	124.9	69.6	67.0	73.9	66.3
	October	118.4	94.6	125.2	68.3	65.7	72.6	65.5
	November	118.4	94.9	125.1	69.3	66.4	74.0	65.5
	December	118.0	94.8	125.5	68.6	65.7	73.4	65.6
2005	January	118.2	94.8	125.9	68.5	65.7	72.9	65.3
	February	118.9	95.1	126.9	68.5	65.3	73.8	65.4
	March	119.8	95.0	127.4	67.9	64.9	72.5	65.2
	April	120.6	95.3	127.8	68.4	64.9	73.4	65.2
	May	120.5	94.8	127.3	67.5	64.0	72.6	65.2
	June	120.6	94.6	127.5	67.1	63.7	72.1	65.2
	July	121.1	94.4	128.0	66.7	63.3	72.3	64.7
	August	121.8	94.1	128.6	65.5	62.0	71.2	64.7
	September	123.2	95.1	128.6	67.7	64.5	73.4	64.8
	October	123.5	94.6	128.8	66.5	63.2	72.1	64.8
	November	122.5	95.2	129.1	67.8	64.1	74.0	64.6
	December	122.0	95.2	129.5	67.4	63.7	73.7	64.6
2006	January	122.9	95.2	129.1	67.7	64.1	73.8	64.6
	February	123.2	95.2	129.2	67.7	64.2	73.8	64.6
	March	123.9	95.0	129.4	67.2	63.8	72.9	64.6
	April	124.9	95.4	129.5	68.4	64.9	74.4	64.3
	May	125.5	95.2	129.8	67.7	64.1	73.8	64.3
	June	125.8	95.4	130.0	67.9	64.5	73.9	64.4
	July	126.2	95.6	130.7	67.6	64.1	73.5	64.7
	August	126.4	95.9	131.2	68.2	64.8	73.9	64.6
	September	125.8	96.1	131.8	68.3	65.0	74.0	64.7
	October	125.1	96.8	131.9	69.8	67.0	75.5	64.6
	November	124.9	96.5	132.0	69.3	66.8	75.3	64.6
	December	125.1	96.8	132.4	69.6	66.9	76.1	64.6
2007	January	125.5	96.9	132.5	69.8	67.2	75.9	64.6
	February	126.2	97.1	133.3	69.9	67.2	75.9	64.6
	March	127.3	97.5	133.9	70.5	67.2	76.7	64.6
	April	128.1	97.6	134.6	70.3	67.5	76.6	64.6
	May	128.9	98.5	135.0	72.2	68.6	80.6	64.5
	June	129.2	98.5	135.3	72.2	68.5	80.8	64.4
	July	129.1	98.6	136.1	72.0	68.5	80.8	64.3
	August	128.9	98.8	136.6	72.2	68.7	81.1	64.4
	September	129.3	98.9	137.0	72.2	68.7	81.0	64.4
	October	129.5	99.0	137.6	72.1	68.7	80.9	64.4
	November	130.3	98.8	137.5	72.0	68.7	80.7	64.0
	December	130.2	98.8	137.8	71.9	68.5	80.6	64.0

Note: Figures for local telephone service, interstate toll service, and intrastate toll service are converted from 1982-1984 base index series reported by the Bureau of Labor Statistics. Additional historical data on these series can be found in prior editions of the Industry Analysis and Technology Division, Wireline Competition Bureau, *Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service* .

Table 3.3
Monthly Producer Price Indices
(June 1995 = 100)

	Wired Telecommunications Carriers	Local Service, except Private Lines	Residence Local Service	Business Local Service	Coin Local Service	Other Local Service
NAICS Series ID	517110	5171101	517110111	517110112	517110113	517110114
2000 January	94.8	100.6	100.3	100.6	101.8	104.0
February	94.1	100.6	100.3	100.6	101.8	104.0
March	94.8	100.7	100.3	100.9	101.8	104.0
April	94.1	100.7	100.5	100.7	101.5	104.0
May	93.4	100.7	100.6	100.6	101.9	104.0
June	94.1	100.8	100.8	100.5	102.3	104.0
July	94.0	101.3	101.7	100.6	102.7	104.0
August	94.0	101.3	101.7	100.6	103.2	104.0
September	93.8	101.5	101.9	100.6	103.6	104.2
October	93.4	101.4	101.9	100.5	103.6	104.2
November	93.0	101.4	101.9	100.5	103.6	104.2
December	93.1	101.4	101.9	100.5	103.6	104.2
2001 January	92.2	101.4	101.9	100.5	103.6	104.5
February	92.0	101.5	101.9	100.5	103.6	104.5
March	92.0	101.5	101.9	100.5	103.6	104.5
April	91.9	101.9	102.5	100.7	103.5	104.5
May	91.8	101.9	102.6	100.7	103.4	104.5
June	91.4	102.0	102.9	100.7	103.6	104.5
July	91.5	102.7	104.4	100.7	103.7	104.8
August	91.8	102.8	104.4	100.7	103.9	104.8
September	92.0	102.9	104.5	100.7	104.1	104.8
October	90.1	102.9	104.5	100.8	104.3	104.8
November	90.1	102.9	104.5	100.8	104.3	104.8
December	89.2	102.9	104.5	100.8	104.3	104.8
2002 January	88.4	103.4	105.2	101.0	104.3	104.8
February	88.0	103.4	105.2	101.0	104.3	104.8
March	87.9	103.4	105.3	101.0	104.3	104.8
April	87.5	103.4	105.4	101.0	104.3	104.8
May	87.8	103.4	105.3	101.0	104.3	104.8
June	87.7	103.5	105.5	101.1	104.3	104.8
July	87.4	104.0	106.1	101.1	104.3	119.5
August	87.8	104.0	106.1	101.2	104.3	119.5
September	87.7	104.0	106.2	101.1	103.9	119.9
October	85.5	104.0	106.2	101.1	103.9	119.9
November	86.4	103.9	106.2	101.1	103.9	119.9
December	86.0	104.0	106.2	101.1	103.9	119.9
2003 January	85.7	103.9	106.2	101.1	103.9	119.9
February	85.8	103.9	106.2	101.1	103.9	119.9
March	85.8	104.0	106.2	101.1	103.9	119.9
April	85.5	104.5	106.8	101.5	103.9	119.9
May	85.9	104.8	107.4	101.6	103.9	119.9
June	85.9	105.0	107.9	101.6	103.9	119.9
July	86.0	105.2	108.2	101.6	103.9	120.3
August	86.1	105.2	108.2	101.6	103.9	120.3
September	85.7	105.2	108.2	101.6	103.9	120.3
October	85.2	105.2	108.3	101.6	103.9	120.3
November	84.7	105.2	108.3	101.6	103.9	120.3
December	84.1	105.2	108.3	101.6	103.9	120.3
2004 January	84.5	105.4	108.6	101.6	103.9	120.3
February	84.0	105.4	108.6	101.6	103.9	120.3
March	84.1	105.4	108.6	101.6	103.9	120.3
April	83.9	105.4	108.6	101.6	103.9	120.3
May	83.7	105.4	108.6	101.6	103.9	120.3
June	83.8	105.4	108.6	101.6	103.9	120.3
July	83.6	105.4	108.6	101.7	103.9	120.3
August	83.7	105.4	108.6	101.7	103.9	120.3
September	83.5	105.5	108.7	101.7	103.9	120.5
October	83.3	105.5	108.8	101.7	103.9	121.0
November	83.2	105.6	108.9	101.7	103.9	121.0
December	83.0	105.6	109.0	101.7	103.9	121.0
2005 January	83.3	106.0	109.6	101.9	103.9	121.0
February	82.8	106.0	109.6	102.0	103.7	121.0
March	83.0	106.0	109.6	102.0	103.5	121.0
April	83.2	106.0	109.6	102.1	103.3	121.0
May	83.3	106.0	109.6	102.1	103.3	121.0
June	83.5	106.0	109.6	102.1	103.3	121.0
July	83.7	106.1	109.8	102.1	103.3	121.0
August	83.7	106.1	109.8	102.1	103.3	121.0
September	83.5	106.1	109.8	102.1	103.3	121.0
October	83.6	106.1	109.8	102.1	103.3	121.0
November	83.3	106.1	109.8	102.1	103.3	121.0
December	83.3	106.1	109.9	102.1	103.3	121.0
2006 January	83.0	106.3	110.2	102.2	103.3	121.0
February	83.0	106.5	110.7	102.2	103.3	121.0
March	83.4	106.6	110.8	102.2	103.3	121.0
April	83.2	106.6	110.8	102.3	103.3	122.8
May	83.5	107.2	111.8	102.3	103.3	122.8
June	83.8	107.3	111.8	102.5	103.3	122.8
July	84.1	107.3	111.9	102.5	103.3	122.8
August	84.5	107.5	112.2	102.5	103.3	122.8
September	84.8	107.5	112.2	102.5	103.3	122.8
October	85.4	107.5	112.2	102.5	103.3	122.8
November	84.9	107.9	112.7	102.8	103.3	122.8
December	85.6	108.0	112.8	103.0	103.3	122.8
2007 January	85.2	108.1	112.8	103.0	103.3	124.5
February	85.3	108.1	113.0	103.0	103.3	124.5
March	85.8	108.2	112.8	103.5	103.3	124.5
April	86.2	108.2	112.8	103.5	103.3	124.5
May	86.2	108.2	112.8	103.5	103.3	124.5
June	86.8	108.2	112.8	103.5	103.3	124.5
July	87.6	108.4	113.3	103.5	103.3	124.5
August	87.3	109.1	114.5	103.4	103.3	123.5
September	87.8	109.1	114.5	103.5	103.3	123.5
October*	88.1	109.1	114.5	103.5	103.3	123.5
November*	87.3	109.3	114.8	103.4	103.3	123.5
December*	87.4	109.3	114.8	103.4	103.3	123.5

* Subject to revision.

Table 3.3
Monthly Producer Price Indices - Continued
(June 1995 = 100)

	Public Switched Toll Service	Residence Switched Toll Service	Intrastate Residence Switched Toll Service	Interstate Residence Switched Toll Service	International Residence Switched Toll Service	Business Switched Toll Service	Business Switched Access Toll Service
NAICS Series ID	5171102	51711021	517110211	517110212	517110213	51711022	517110221
2000 January	89.7	96.5	94.8	107.4	67.5	81.6	95.4
February	88.4	94.1	96.2	100.1	65.9	81.6	92.9
March	89.7	96.2	95.0	105.9	68.2	82.1	95.3
April	88.3	94.6	94.4	102.8	67.0	80.8	93.4
May	87.0	92.9	93.6	99.3	65.7	80.0	93.2
June	88.3	95.1	94.4	104.1	67.0	80.3	94.0
July	87.8	94.3	93.8	102.1	68.0	80.0	94.6
August	87.7	94.2	93.8	102.2	67.2	80.0	94.5
September	87.3	94.8	93.9	104.7	64.5	78.4	92.6
October	86.6	93.2	93.5	101.7	61.6	78.8	93.1
November	85.6	92.6	93.5	101.7	58.4	77.3	91.5
December	85.9	93.0	93.7	101.8	60.2	77.5	91.1
2001 January	84.2	92.2	93.3	107.4	60.9	74.7	87.6
February	83.8	92.1	94.1	99.5	61.8	73.9	87.9
March	83.9	92.4	94.7	98.2	61.3	73.8	87.5
April	83.4	92.1	94.3	98.6	61.3	73.0	87.2
May	83.1	92.2	94.3	98.2	60.4	72.2	85.8
June	82.4	91.4	95.2	98.9	57.4	71.6	84.7
July	81.9	91.3	95.6	96.9	57.9	70.7	84.3
August	82.5	92.8	95.8	96.0	54.8	70.2	83.2
September	82.7	91.7	95.9	101.2	52.9	72.0	84.3
October	79.2	88.4	94.9	92.2	49.7	68.2	80.5
November	79.1	89.0	95.5	94.7	45.6	67.4	77.6
December	77.4	88.2	96.0	92.4	44.5	64.6	74.6
2002 January	75.7	86.7	95.4	89.1	43.9	62.7	72.7
February	75.0	85.2	95.8	85.4	42.4	62.8	73.3
March	74.6	84.5	95.6	84.8	40.2	62.8	73.6
April	73.8	83.9	95.3	82.9	41.2	61.9	73.4
May	74.5	83.5	95.3	82.1	40.6	63.7	73.7
June	74.2	83.3	95.1	81.3	41.6	63.3	74.3
July	73.3	83.1	94.7	80.9	42.1	61.5	72.1
August	74.1	84.1	96.9	81.5	42.3	62.0	72.4
September	73.8	83.0	96.9	78.8	41.4	62.8	72.8
October	69.7	77.1	96.8	63.6	39.4	60.7	71.1
November	71.4	80.9	96.4	74.9	38.3	60.2	69.8
December	70.7	80.9	95.7	75.4	38.5	58.6	69.1
2003 January	70.0	79.9	95.6	73.0	38.2	58.3	68.5
February	70.4	79.7	87.4	81.2	37.2	59.2	68.9
March	70.2	79.8	87.4	81.6	37.0	58.7	67.9
April	69.4	78.2	86.9	78.2	35.6	58.9	68.7
May	69.8	79.5	87.1	82.2	34.4	58.3	67.1
June	69.7	78.9	87.1	80.7	33.8	58.7	68.3
July	69.8	79.4	86.9	81.3	36.3	58.4	67.0
August	69.9	79.5	86.7	82.2	35.4	58.5	67.2
September	69.3	78.1	85.9	79.8	33.9	58.7	67.7
October	68.3	77.6	85.4	79.5	32.5	57.4	66.5
November	67.4	76.1	84.7	76.5	31.8	57.0	64.9
December	66.3	74.6	83.7	73.5	31.3	56.3	64.6
2004 January	66.7	75.4	83.1	76.6	30.8	56.4	64.7
February	65.9	74.1	82.6	73.1	31.4	56.1	64.3
March	66.1	74.7	82.2	76.4	29.1	55.8	63.9
April	65.8	74.4	82.1	75.2	29.9	55.5	63.4
May	65.4	74.3	82.0	75.3	29.1	54.9	62.5
June	65.5	74.3	82.1	75.7	28.5	55.0	62.9
July	65.2	74.4	82.3	75.1	29.5	54.2	62.4
August	65.3	75.0	82.5	76.8	29.6	53.9	62.0
September	64.9	74.3	81.9	75.7	28.7	53.8	61.8
October	64.5	74.5	82.2	75.9	28.6	52.8	60.4
November	64.2	73.7	81.9	75.1	26.7	52.9	61.1
December	63.7	73.2	81.3	74.0	27.0	52.6	60.2
2005 January	64.0	73.7	81.5	74.8	25.9	52.5	59.9
February	62.9	72.2	80.4	71.9	25.8	51.9	59.2
March	63.3	73.6	81.0	74.9	26.2	51.2	58.9
April	63.7	73.8	81.2	74.7	27.0	51.8	59.3
May	63.9	74.7	81.2	77.7	26.3	51.0	58.0
June	64.2	75.0	81.8	77.8	26.7	51.4	58.5
July	64.6	76.2	82.2	79.8	28.4	50.9	58.0
August	64.5	76.3	82.0	80.2	28.3	50.7	57.9
September	64.2	75.3	81.9	77.4	28.3	51.1	57.9
October	64.2	75.7	82.1	79.0	27.5	50.7	57.6
November	63.8	75.3	81.6	78.8	26.9	50.1	58.3
December	63.7	75.7	81.4	79.6	27.6	49.6	57.3
2006 January	63.1	74.9	81.6	76.9	28.0	49.3	57.0
February	62.7	74.5	80.7	77.5	26.6	48.8	56.5
March	63.4	75.9	80.8	81.3	26.6	48.7	56.3
April	63.1	75.1	81.5	78.1	27.0	49.0	56.8
May	63.1	76.8	79.2	85.2	26.6	47.3	54.2
June	63.7	77.1	81.6	83.3	27.7	48.0	55.4
July	64.3	78.3	81.8	85.5	29.4	47.9	55.3
August	64.8	79.1	82.1	87.7	28.5	48.0	56.0
September	65.5	80.0	82.3	90.5	28.1	48.5	56.2
October	66.6	82.0	82.3	94.9	28.3	48.6	55.6
November	65.4	80.6	82.3	92.1	27.7	47.6	55.6
December	66.6	82.7	82.4	96.0	29.2	47.7	55.4
2007 January	65.2	79.1	81.8	86.8	32.9	48.2	55.9
February	65.7	81.0	83.8	88.0	34.9	47.4	55.1
March	66.8	83.0	84.2	91.4	34.9	47.9	54.7
April	67.7	85.9	85.6	94.7	36.5	47.3	54.4
May	67.8	86.1	86.8	95.1	36.1	47.2	53.9
June	69.2	88.9	87.7	99.1	37.1	47.4	54.4
July	71.3	93.7	88.6	106.1	38.6	47.3	55.3
August	69.7	91.3	89.4	101.3	38.9	46.4	54.2
September	71.2	94.1	89.5	106.1	39.1	46.8	53.5
October*	72.0	94.7	90.7	107.8	38.0	47.8	54.9
November*	69.7	93.0	89.2	106.8	36.0	44.9	51.1
December*	69.9	92.5	90.0	106.4	35.0	45.8	50.8

* Subject to revision.

Table 3.3
Monthly Producer Price Indices - Continued
(June 1995 = 100)

	Outbound Business Switched Access Toll Service	Intrastate Business Switched Access Toll Service, Outbound	Interstate Business Switched Access Toll Service, Outbound	International Business Switched Access Toll Service, Outbound	Inbound Business Switched Access Toll Service	Intrastate Business Switched Access Toll Service, Inbound	Interstate Business Switched Access Toll Service, Inbound	International Business Switched Access Toll Service, Inbound
NAICS Series ID	517110221I	51711022111	51711022112	51711022113	517110221I	51711022121	51711022122	51711022123
2000 January	102.1	102.4	109.9	85.2	83.R	70.7	76.6	76.2
February	9R.5	101.5	104.8	76.9	83.2	70.2	75.7	75.0
March	101.4	103.0	113.6	69.3	84.6	76.1	74.9	80.1
April	100.0	102.0	110.5	70.5	81.9	69.5	74.6	58.9
May	100.5	102.0	110.5	74.0	R0.7	6R.4	72.7	56.5
June	100.6	102.2	111.1	72.6	82.6	6R.R	77.4	52.0
July	101.6	102.2	110.5	R0.9	R2.5	6R.7	77.3	51.0
August	101.6	102.2	110.R	R0.3	R2.2	6R.3	76.6	54.1
September	100.1	102.0	110.0	73.0	79.5	61.9	74.2	51.9
October	9R.9	101.R	108.2	69.6	R3.1	69.4	7R.2	52.9
November	97.5	101.3	105.6	6R.3	R1.1	67.5	75.2	46.9
December	96.9	100.R	103.0	72.4	R1.1	67.2	74.R	52.5
2001 January	92.1	99.4	95.6	62.R	79.7	65.R	72.5	51.1
February	91.2	99.0	95.5	5R.0	R2.2	6R.5	77.3	46.R
March	91.0	99.5	92.7	62.2	R1.5	67.6	75.7	51.4
April	91.0	9R.4	96.1	57.1	R0.6	66.3	74.5	50.7
May	89.3	97.7	93.2	55.1	79.7	66.4	72.3	49.6
June	87.0	9R.0	R6.7	55.3	R0.6	66.7	74.3	49.3
July	87.1	9R.4	R6.3	55.3	79.4	67.5	71.0	49.3
August	R6.2	9R.3	R5.6	51.9	77.R	64.9	69.1	47.4
September	8R.2	97.6	91.1	53.3	77.6	63.5	6R.9	51.9
October	R1.5	95.4	77.6	4R.9	7R.6	66.R	70.1	45.9
November	R0.2	96.7	70.R	53.5	73.2	62.0	60.2	45.4
December	74.6	93.4	60.7	51.3	74.5	56.5	66.9	40.4
2002 January	72.6	93.3	56.2	4R.9	72.7	60.R	60.R	37.4
February	72.3	93.3	55.1	49.3	75.1	62.6	64.7	37.9
March	73.3	93.1	57.4	50.9	74.1	63.2	61.9	39.R
April	72.7	92.R	54.5	53.9	74.7	60.7	65.2	36.4
May	72.4	91.7	49.7	64.2	76.1	63.3	66.2	41.0
June	72.9	92.1	52.9	61.1	76.7	62.5	67.0	41.0
July	70.5	91.9	49.4	53.4	74.R	63.2	63.5	39.4
August	69.3	91.R	4R.7	4R.4	77.6	64.7	6R.2	42.1
September	69.7	91.R	49.0	50.2	7R.0	64.9	67.6	55.1
October	6R.3	91.4	4R.9	43.0	75.9	62.6	64.0	5R.4
November	67.7	91.0	4R.2	42.2	73.6	61.0	61.5	45.7
December	66.0	90.5	44.4	40.9	74.4	60.2	63.9	45.3
2003 January	65.3	90.2	42.5	41.6	73.9	62.9	60.3	52.2
February	64.4	89.9	41.1	39.R	76.7	63.2	65.9	54.3
March	64.4	90.0	40.6	40.4	74.0	63.3	60.2	52.6
April	64.4	89.4	41.4	40.4	76.0	63.4	64.2	55.4
May	62.3	89.1	37.6	36.R	75.5	63.5	62.6	57.5
June	63.0	89.2	37.R	39.R	77.4	64.6	66.4	54.R
July	61.R	8R.9	34.5	40.4	75.9	64.5	61.9	65.5
August	62.0	8R.R	34.3	41.9	76.1	64.6	62.9	60.3
September	61.3	8R.R	34.4	3R.1	7R.6	67.2	65.R	6R.R
October	61.1	8R.7	35.5	35.1	75.R	64.3	62.7	59.R
November	60.0	8R.5	32.9	34.4	73.3	62.4	59.R	47.7
December	59.5	8R.3	31.9	33.7	73.4	60.0	61.7	46.1
2004 January	59.2	8R.2	32.1	32.0	74.0	61.2	62.6	43.1
February	5R.3	87.2	30.4	32.7	74.5	60.0	64.6	41.7
March	5R.4	8R.1	30.5	30.4	73.3	60.5	62.4	35.R
April	57.R	87.5	29.4	31.0	72.9	60.9	60.9	39.6
May	57.1	86.9	2R.5	30.2	71.6	60.5	5R.4	39.5
June	57.4	87.1	2R.7	30.9	72.5	60.2	60.6	3R.R
July	57.0	87.0	27.6	31.4	71.5	59.R	5R.5	40.4
August	57.1	86.7	27.9	31.5	70.6	61.0	55.6	40.4
September	56.6	86.6	27.2	30.6	70.R	61.3	56.0	39.R
October	54.7	85.0	24.9	27.9	70.3	60.9	55.3	3R.5
November	55.1	86.1	25.3	27.2	71.4	61.0	5R.0	35.1
December	54.7	85.4	24.2	2R.3	69.R	60.2	54.7	39.0
2005 January	54.1	85.1	23.6	26.9	70.0	59.6	55.R	36.3
February	54.1	85.1	23.7	26.7	6R.2	5R.R	52.4	35.7
March	53.9	85.0	23.6	25.R	67.7	59.5	50.9	36.7
April	54.0	85.1	23.9	25.7	6R.5	60.9	51.7	36.1
May	53.0	84.6	22.3	24.4	66.7	61.0	4R.0	34.6
June	53.0	84.9	21.9	24.5	6R.2	60.0	51.R	35.0
July	52.5	84.7	21.2	23.5	67.R	60.0	50.9	35.6
August	52.6	84.5	21.6	23.3	67.4	59.R	50.4	33.2
September	52.1	84.2	21.0	22.5	6R.1	5R.6	52.6	33.7
October	52.0	84.1	21.0	22.1	67.6	5R.3	51.9	32.3
November	52.2	84.6	21.1	22.0	6R.9	59.3	54.3	30.0
December	51.7	84.1	20.5	21.5	67.2	5R.5	50.6	35.7
2006 January	51.6	83.R	20.2	22.7	66.5	57.9	49.R	31.7
February	50.6	R3.3	1R.7	21.2	66.9	5R.0	50.9	29.3
March	50.9	R3.3	1R.9	21.9	65.9	57.6	4R.5	33.6
April	50.R	R3.4	19.1	21.3	67.3	56.9	52.5	27.R
May	50.3	R3.2	1R.5	19.9	61.2	55.9	40.1	2R.3
June	49.3	R3.0	16.2	1R.9	66.0	56.5	50.1	29.3
July	50.1	R3.3	1R.1	19.5	64.5	56.R	46.6	2R.4
August	50.5	R3.4	17.5	22.2	65.6	57.0	4R.R	2R.9
September	50.9	R4.3	1R.2	20.R	65.5	57.0	4R.R	27.2
October	50.2	R3.9	17.5	19.7	65.2	57.4	4R.2	26.3
November	50.5	R4.0	1R.5	19.0	64.R	57.1	47.R	26.6
December	49.R	R3.7	1R.1	16.R	65.4	56.R	4R.7	27.6
2007 January	50.5	R3.7	1R.6	17.2	65.4	56.R	49.0	26.5
February	49.6	R3.4	1R.3	15.9	64.7	56.6	4R.1	26.R
March	49.4	R3.6	17.9	16.3	63.R	56.R	45.R	29.R
April	49.1	R3.5	1R.3	14.1	63.4	56.R	46.0	27.1
May	49.0	R3.7	1R.0	14.R	62.4	56.R	45.4	25.0
June	49.3	R3.9	1R.2	14.9	63.2	56.R	45.7	27.3
July	50.1	R4.1	1R.6	15.4	64.2	56.9	46.R	2R.1
August	4R.3	R3.4	17.3	15.5	64.4	56.7	46.9	29.4
September	4R.2	R3.6	17.1	15.R	62.7	56.5	45.1	27.6
October*	49.4	R3.9	1R.0	15.9	64.7	56.9	47.2	29.2
November*	44.2	R2.4	14.4	14.4	63.3	56.4	45.9	2R.4
December*	44.3	R2.0	14.5	14.5	62.7	56.1	45.0	2R.5

* Subject to revision.

Table 3.3
Monthly Producer Price Indices - Continued
(June 1995 = 100)

	Business Special Access Switched Toll Service, except Private Lines	Outbound Business Special Access Switched Toll Service	Intrastate Business Special Access Switched Toll Service, Outbound	Interstate Business Special Access Switched Toll Service, Outbound	International Business Special Access Switched Toll Service, Outbound	Inbound Business Special Access Switched Toll Service	Intrastate Business Special Access Switched Toll Service, Inbound
NAICS Series ID	517110223	517110222I	517110222II	517110222I2	517110222I3	517110222I2	517110222221
2000 January	58.2	50.6	47.0	44.9	51.3	71.9	62.4
February	62.4	55.5	55.3	51.9	53.8	74.8	66.0
March	59.7	52.6	52.3	49.4	49.1	72.5	63.1
April	59.7	53.2	52.6	50.2	49.7	71.3	61.6
May	57.7	51.7	50.0	48.3	48.6	68.5	58.3
June	57.0	50.5	51.3	48.4	43.8	68.8	58.6
July	55.4	49.0	49.4	48.0	40.3	66.8	56.1
August	55.6	48.7	50.3	48.2	38.5	67.9	57.4
September	54.3	46.5	46.3	45.3	36.9	68.3	57.9
October	54.7	48.9	49.2	46.8	41.6	65.3	54.3
November	53.3	48.2	49.1	47.2	38.7	62.5	50.9
December	54.5	45.7	45.5	44.2	36.4	70.3	60.5
2001 January	53.0	43.8	40.7	39.4	39.0	69.5	59.5
February	50.2	42.8	43.1	39.7	34.4	63.5	52.1
March	50.7	41.9	41.1	39.5	32.2	66.5	55.4
April	48.9	41.3	47.0	34.8	35.4	62.4	52.9
May	49.3	41.4	49.5	35.5	33.8	63.4	58.5
June	49.6	40.7	44.4	34.9	34.4	65.5	56.8
July	47.9	41.1	41.5	38.7	30.8	60.1	49.9
August	48.4	39.5	37.5	34.6	33.0	64.4	57.7
September	51.2	43.5	49.1	37.2	38.5	65.1	58.5
October	47.4	40.7	49.7	33.6	34.1	59.6	53.3
November	50.2	41.9	29.5	32.6	47.3	65.0	60.8
December	47.7	40.2	47.8	30.0	38.8	61.3	53.4
2002 January	46.0	36.9	47.2	25.7	34.9	62.8	62.8
February	45.3	39.1	48.3	29.4	36.1	56.2	45.7
March	44.9	38.9	52.2	28.3	35.5	55.3	48.1
April	42.8	36.8	53.8	25.0	33.1	53.5	45.4
May	46.7	39.4	50.0	30.2	34.8	59.9	57.0
June	45.0	38.7	49.0	29.5	34.2	56.2	51.9
July	43.9	38.1	49.7	27.7	34.5	54.2	48.5
August	44.8	38.4	43.7	29.4	35.0	56.2	51.2
September	45.9	40.0	52.1	30.4	35.8	56.3	50.5
October	43.3	36.8	45.8	27.0	33.0	54.8	47.2
November	43.9	37.9	47.7	28.6	33.3	54.5	46.3
December	41.2	35.4	43.1	24.3	33.5	51.6	46.6
2003 January	41.5	34.9	47.3	25.1	29.0	53.2	54.0
February	42.8	36.1	42.5	27.3	31.0	54.8	46.7
March	43.1	37.4	46.8	29.7	29.9	53.2	51.5
April	42.6	36.3	47.1	25.3	33.3	53.9	47.8
May	43.4	37.5	41.8	28.1	35.1	53.7	50.8
June	42.6	35.9	44.2	26.2	31.7	54.7	46.9
July	43.7	39.4	51.1	31.0	32.9	51.0	51.0
August	43.9	38.8	49.6	30.0	33.2	52.5	44.3
September	43.5	38.6	50.5	29.0	34.1	51.7	52.3
October	41.9	36.7	46.2	28.4	29.8	51.0	48.1
November	43.5	38.7	49.3	30.5	32.2	51.6	50.2
December	42.3	36.9	46.9	28.5	30.2	51.6	48.8
2004 January	42.4	36.6	47.4	28.1	29.6	52.5	49.4
February	42.3	37.1	42.6	31.7	26.8	51.3	46.9
March	42.0	35.6	42.4	29.6	25.4	53.5	50.0
April	42.0	36.1	46.0	29.7	25.3	52.4	46.7
May	41.8	36.0	43.6	29.7	26.0	52.2	48.4
June	41.6	35.7	43.8	29.3	25.5	52.0	50.5
July	40.4	35.1	43.0	27.7	26.5	49.8	47.7
August	40.0	34.5	44.1	26.4	26.2	49.8	48.4
September	40.2	34.4	45.0	26.8	25.1	50.5	51.7
October	39.8	34.6	44.0	26.5	26.5	48.8	48.0
November	39.1	33.9	41.2	26.1	25.6	48.3	45.0
December	39.5	33.9	42.2	26.1	25.4	49.5	47.2
2005 January	39.7	34.0	41.1	26.1	26.2	49.9	48.3
February	39.1	34.1	38.1	26.4	27.3	47.7	46.0
March	37.9	32.5	42.7	23.7	24.4	47.5	46.5
April	38.9	33.9	43.0	24.7	27.4	47.9	49.2
May	38.9	34.5	46.6	25.0	27.8	46.4	50.3
June	38.8	34.6	46.5	25.7	26.8	46.1	46.4
July	38.3	34.1	45.1	25.0	26.9	45.5	46.9
August	38.1	33.6	44.0	24.1	27.2	45.9	47.0
September	39.2	35.5	43.2	27.8	27.9	45.3	42.1
October	38.5	33.7	40.9	25.0	27.3	46.8	44.1
November	36.3	30.8	32.7	20.4	27.9	46.2	44.9
December	36.3	31.2	32.7	21.6	27.2	45.5	43.1
2006 January	36.0	31.0	34.8	21.8	25.6	44.9	42.8
February	35.6	30.8	31.9	20.9	27.5	44.0	40.6
March	35.7	31.3	34.5	22.3	25.7	43.4	40.2
April	35.7	31.6	32.0	23.9	24.8	42.8	36.9
May	35.2	29.8	32.5	20.2	25.0	45.0	44.1
June	35.3	30.8	30.4	21.9	26.3	43.2	37.0
July	35.1	30.5	32.0	21.1	26.1	43.2	39.5
August	34.6	30.0	31.0	20.7	25.2	42.7	40.1
September	35.3	30.8	31.5	20.6	28.2	43.1	40.3
October	36.4	30.5	32.3	20.5	27.3	47.1	41.8
November	33.9	29.3	32.5	20.0	25.0	42.2	40.4
December	34.4	29.8	30.5	20.4	26.3	42.5	39.5
2007 January	34.8	29.8	30.8	20.4	24.6	44.6	41.1
February	34.3	29.8	29.4	20.7	27.5	41.8	39.7
March	36.1	31.5	33.6	21.2	27.3	43.9	40.4
April	35.0	30.5	32.0	20.7	26.8	42.5	39.1
May	35.5	31.2	33.2	21.1	26.4	42.0	38.9
June	35.2	30.4	32.2	20.6	26.9	43.9	40.8
July	33.8	29.5	31.1	20.0	26.9	40.9	39.4
August	33.3	28.8	29.5	19.7	27.4	41.1	39.6
September	35.2	30.7	31.8	20.9	29.1	42.5	42.9
October*	35.3	30.8	31.9	21.0	29.2	42.5	42.9
November*	34.2	29.7	30.1	20.4	27.5	41.9	38.4
December*	36.5	31.0	30.1	21.6	28.5	47.8	41.7

* Subject to revision.

Table 3.3
Monthly Producer Price Indices - Continued
(June 1995 = 100)

	Interstate Business Special Access Switched Toll Service, Inbound	International Business Special Access Switched Toll Service, Inbound	Other Toll Service	Private Line Service	Intrastate Private Line Service	Other Telephone Services
NAICS Series ID	51711022222	51711022223	51711029	5171103	51711031	5171109
2000 January	75.2	90.6	99.1	100.4	101.2	100.7
February	79.5	90.0	99.6	100.4	101.2	100.9
March	76.1	90.8	100.2	100.4	101.2	100.5
April	74.3	88.5	100.6	100.4	101.2	100.6
May	70.2	89.1	100.3	100.4	101.2	100.0
June	70.6	89.1	100.8	100.4	101.2	100.0
July	67.6	85.2	100.6	100.4	101.2	100.7
August	69.2	93.0	100.3	100.4	101.2	100.6
September	69.8	95.5	100.4	100.4	101.2	101.3
October	65.2	93.0	99.3	100.4	101.1	100.0
November	61.2	78.2	99.8	100.4	101.2	101.3
December	72.9	88.8	95.6	100.4	101.2	101.0
2001 January	71.6	84.2	101.7	100.4	101.1	101.5
February	62.7	81.3	102.9	100.4	101.0	101.5
March	67.2	84.5	101.0	100.4	101.0	101.5
April	60.4	90.4	101.6	100.4	101.0	101.5
May	60.6	90.1	101.4	100.3	100.7	101.5
June	65.0	93.2	101.2	100.3	101.0	101.5
July	56.9	92.6	100.3	100.3	101.0	101.4
August	62.8	88.5	100.2	100.3	101.0	101.4
September	63.7	87.7	101.0	100.5	101.5	101.5
October	55.1	85.7	100.6	100.6	101.7	101.5
November	63.0	80.7	100.3	100.6	101.7	101.7
December	58.3	70.4	101.6	100.6	101.7	101.7
2002 January	58.4	78.6	102.4	100.6	101.7	101.7
February	50.6	76.0	100.5	100.6	101.9	101.7
March	48.4	77.2	99.2	100.6	101.9	101.7
April	45.6	75.6	99.2	100.7	102.2	101.7
May	54.5	74.4	99.9	100.8	102.3	101.6
June	48.9	74.6	100.1	100.9	102.5	101.6
July	46.1	74.2	99.5	100.9	102.7	101.6
August	49.1	75.6	99.6	100.9	102.7	101.6
September	49.6	75.2	99.5	100.9	102.7	101.6
October	47.6	73.5	95.9	101.3	103.7	101.9
November	47.3	74.5	96.4	101.3	103.7	101.8
December	41.6	74.0	93.9	101.3	103.7	102.0
2003 January	42.7	73.9	91.5	101.3	103.7	102.0
February	47.7	74.4	92.4	101.3	103.7	101.9
March	43.4	60.9	90.5	101.3	103.7	101.9
April	45.8	61.3	90.4	101.3	103.7	101.9
May	44.5	59.2	87.2	101.3	103.7	101.9
June	47.5	55.4	86.9	101.3	103.7	101.9
July	39.4	56.4	85.6	101.2	103.6	101.9
August	44.2	54.6	86.7	101.2	103.6	101.7
September	40.4	56.2	84.9	101.2	103.6	101.7
October	40.2	58.6	84.1	101.2	103.6	101.9
November	40.8	52.4	82.7	101.2	103.6	101.9
December	41.1	52.3	81.6	101.2	103.6	101.9
2004 January	42.7	55.6	82.9	101.2	103.6	101.9
February	41.1	54.3	80.7	101.2	103.6	101.9
March	44.4	62.6	78.7	101.2	103.6	101.8
April	43.3	48.5	77.4	101.2	103.6	101.8
May	42.4	46.9	76.9	101.2	103.6	101.8
June	41.4	49.2	75.2	101.2	103.6	101.8
July	38.2	46.6	74.6	101.2	103.6	101.8
August	38.0	45.1	73.3	101.2	103.6	101.8
September	38.2	44.4	74.0	101.3	103.8	101.8
October	36.1	44.1	71.9	101.3	103.9	102.0
November	36.0	37.1	71.2	101.4	104.1	102.0
December	37.7	38.1	71.7	101.5	104.3	102.6
2005 January	38.2	36.8	69.7	101.6	104.6	102.6
February	34.9	23.5	70.4	101.6	104.7	102.7
March	34.2	37.7	68.1	101.7	104.9	102.6
April	34.2	35.4	68.1	101.8	105.0	102.6
May	31.1	35.4	66.2	101.8	105.0	102.6
June	31.4	35.9	67.3	101.8	105.0	102.6
July	30.2	33.6	66.4	101.8	105.0	102.6
August	31.0	34.6	65.5	101.8	105.0	102.6
September	31.2	38.5	66.0	101.8	105.0	103.0
October	33.5	35.1	64.3	101.8	105.0	103.2
November	32.1	39.8	64.0	101.8	105.0	103.8
December	31.3	34.1	63.8	101.8	105.0	103.2
2006 January	30.3	33.8	64.0	101.9	105.6	103.2
February	29.3	34.5	63.8	102.3	106.7	103.1
March	28.1	33.9	62.0	102.6	107.4	103.1
April	28.0	26.5	62.1	102.8	108.1	103.2
May	30.0	32.9	61.4	103.1	109.0	103.1
June	28.7	24.9	61.6	103.2	109.4	103.1
July	28.0	30.8	60.8	103.2	109.4	103.1
August	27.0	29.2	60.3	103.2	109.4	103.1
September	27.6	31.2	61.1	103.2	109.4	103.1
October	30.8	30.4	59.9	103.2	109.4	103.1
November	26.8	29.5	57.8	103.3	109.6	103.1
December	27.3	30.5	58.2	103.4	109.9	103.1
2007 January	28.8	30.7	58.5	103.5	110.2	103.1
February	26.6	31.8	58.3	103.5	110.5	103.5
March	28.3	30.5	57.7	103.5	110.8	105.6
April	27.5	30.2	57.5	103.5	110.9	104.3
May	26.9	30.7	57.5	103.5	110.9	104.2
June	28.2	31.4	57.2	103.5	110.9	104.2
July	25.7	31.6	57.0	103.5	110.9	103.9
August	25.9	31.3	56.7	103.5	110.9	103.8
September	26.1	30.6	56.6	103.5	110.8	103.8
October*	26.1	30.6	56.6	103.5	110.8	103.8
November*	27.0	30.1	56.1	103.6	111.1	103.8
December*	31.7	29.5	56.3	103.6	111.1	103.8

* Subject to revision.

Appendix

Residential Rate Review (2007)

Please update these data for October 15, 2007

I. Access Rates Monthly Charges per line [Note: Express all figures in line items a. through h. in DOLLAR amounts ($)]	Generally Available Service		Subsidized Services Such as Lifeline	
	(#1) Unlimited or Flat-Rate Service	(#2) Measured or Message Service	(#3) Unlimited or Flat-Rate Service	(#4) Measured or Message Service
a. Recurring service charge (including touch-tone) ($)				
b. Federal subscriber line charge (SLC) ($)				
c. State subscriber line charge ($) (Network Access Fee)				
d1. Federally tariffed local number portability (LNP) surcharge ($)				
d2. Federal universal service surcharge on Fed. SLC and LNP ($)				
d3. Other mandatory surcharges (such as gross receipts tax, regulatory or passthrough charges on the State SLC) accounted as company revenue ($)				
d4. Tax or surcharge for funding 911 service ($)				
d5. Federal excise tax (Note: This amount should be equal to 3% of line item f.) ($)				
d6. Intrastate telecommunications relay service (TRS or relay) tax ($)				
d7. Tot. other taxes (such as sales, excise, etc.) levied on customers by state, county, local govts. ($)				
e. Total Surcharges and Taxes (sum d1 to d7) ($)				
f. Total Monthly Recurring Charge ($) = a+b+c+e				
g. Lowest monthly inside wiring ($)				
h. Optional extended area plan ($)				
Charges for calls in the local service area (Note: Express figures for line item k. only in DOLLAR amounts)				
i. Number of voice calls or message units included in monthly rate if message service (#)				
j. Dollar calling allowance for voice calls incl. in monthly rate if measured service (#)				
k. Charge for a 5-minute, business day, same-zone voice call ($)				

II. Service Connection Charges [Note: Express all figures in DOLLAR AMOUNTS ($)]	Normal Service	Subsidized Service (e.g., Link-Up)
a. Total connection charge for residential service if no premises visit is required. ($)		
b. Minimum additional charge if drop line and terminal block are needed to connect service. Do not include any inside wiring charges. ($)		

III. Other Mandatory Charges for Connection [Note: Express all figures in DOLLAR amounts ($)]	Normal Service	Subsidized Service (e.g., Link-Up)
a. Mandatory surcharges on connection accounted as company revenue ($)		
b. State, county, and local taxes and surcharges on connection ($)		
c. Other mandatory connection charges ($)		

Notes:

Form Completed by:

Contact Phone Number:

Contact E-mail:

Business Rate Review (2007)

Please update these data for October 15, 2007		
I. Access Rates	**Single Line Business**	
Monthly Charges per line [Note: Express all figures in DOLLAR amounts ($)]	**Unlimited Service**	**Measured Service**
a. Recurring service charge (including touch-tone) ($)		
b. Federal subscriber line charge (SLC) ($)		
c. State subscriber line charge ($) (Network Access Fee)		
d1. Federally tariffed local number portability (LNP) surcharge ($)		
d2. Federal universal service surcharge on the Fed. SLC and LNP ($)		
d3. Other manadatory surcharges (such as gross receipts tax, regulatory or passthrough charges on the State SLC) accounted as company revenue ($)		
d4. Tax or surcharge for funding 911 service ($)		
d5. Federal excise tax [Note: This amount should be equal to 3% of the total reported in line item f.] ($)		
d6. Intrastate telecommunications relay service (TRS or relay) tax ($)		
d7. Total other taxes (such as sales, excise, etc.) levied on customers by state, county, local governments		
e. Total Surcharges and Taxes (sum d1 to d7) ($)		
f. Total Monthly Recurring Charge = a+b+c+e ($)		
g. Lowest monthly inside wiring ($)		
Charges for calls in the local service area [Note: Express figures in DOLLAR amounts for line item j. only]		
h. The number of voice calls or message unites included in the monthly recurring rate if message service (#)		
i. The dollar calling allowance for voice calls included in the monthly recurring rate if measured service ($)		
j. The charge for a 5-minute, business day, same-zone voice call ($)		
II. Service Connection Charges [Note: Express all figures in DOLLAR amounts ($)]		**Single Line Business**
a. Total connection charge for single-line business service. Assume no premise visit is required. ($)		
b. Minimum additional charge if drop line and terminal block are needed to connect service. Do not include any inside wiring charges. Do not include the cost of an NT1 interface or poser supply for ISDN lines. ($)		
III. Other Mandatory Charges for Connection [Note: Express all figures in DOLLAR amounts ($)]		
a. Mandatory surcharges on connection accounted as company revenue ($)		
b. State, county, and local taxes and surcharges on connection ($)		
c. Other mandatory connection charges ($)		
IV. Payphone Charges [Note: Express figure in DOLLAR amount ($)]		
a. Tariff rate for a 5-minute, business day, same-zone call at a company-owned payphone ($)		
Notes:		

Form Completed By:

Contact Phone Number:

Contact E-mail:

Customer Response

Publication: *Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service, 2008.*

You can help us provide the best possible information to the public by completing this form and returning it to the Industry Analysis & Technology Division of the FCC's Wireline Competition Bureau.

1. Please check the category that best describes you:
   - ____ press
   - ____ current telecommunications carrier
   - ____ potential telecommunications carrier
   - ____ business customer evaluating vendors/service options
   - ____ consultant, law firm, lobbyist
   - ____ other business customer
   - ____ academic/student
   - ____ residential customer
   - ____ FCC employee
   - ____ other federal government employee
   - ____ state or local government employee
   - ____ Other (please specify)

2. Please rate the report:

	Excellent	Good	Satisfactory	Poor	No opinion
Data accuracy	○	○	○	○	○
Data presentation	○	○	○	○	○
Timeliness of data	○	○	○	○	○
Completeness of data	○	○	○	○	○
Text clarity	○	○	○	○	○
Completeness of text	○	○	○	○	○

3. Overall, how do you rate this report?

Excellent	Good	Satisfactory	Poor	No opinion
○	○	○	○	○

4. How can this report be improved?

5. May we contact you to discuss possible improvements?
   Name:
   Telephone #:

Questions? Contact James Eisner at 202-418-0940 or email James.Eisner@fcc.gov		
Fax this response to	Or	Mail this response to
202-418-0520		FCC/IATD Washington, D.C. 20554

VZ St. 1.1, Price Rebuttal
Docket I-00040105

Exhibit 4

Verizon Pennsylvania Inc. Tariffed Residential Rates

Price Rebuttal Exhibit 4
(Revised 2/17/09)

Verizon Pennsylvania Inc.
Tariffed Residential Rates[1]

Verizon PA Basic Residential Rates as of 1/15/09

Cell	Cell 1	Cell 2	Cell 3			Cell 4		
Usage Rate Group	City	City	A	D	F[2]	A	D	F
Dial Tone Line	$6.72	$7.02	$7.40	$7.40	$7.40	$7.80	$7.80	$7.80
Local Area Unlimited Usage	$8.85	$8.85	$3.80	$5.20	$6.85	$3.80	$5.20	$6.85
Sum	$15.57	$15.87	$11.20	$12.60	$14.25	$11.60	$13.00	$14.65

Verizon PA Basic Residential Rates effective 3/1/09

Cell	Cell 1	Cell 2	Cell 3			Cell 4		
Usage Rate Group	City	City	A	D	F[2]	A	D	F
Dial Tone Line	$7.19	$7.49	$7.87	$7.87	$7.87	$8.27	$8.27	$8.27
Local Area Unlimited Usage	$8.87	$8.87	$3.82	$5.22	$6.87	$3.82	$5.22	$6.87
Sum	$16.06	$16.36	$11.69	$13.09	$14.74	$12.09	$13.49	$15.14

[1] Pa. P.U.C. No. 180A - Pennsylvania
Pa. P.U.C. No. 182 - Philadelphia
Pa. P.U.C. No. 182A – Philadelphia Suburban
Pa. P.U.C. No. 185B – Pittsburgh Pa. P.U.C. No. 185C – Pittsburgh Suburban

[2] The rates for Philadelphia and Pittsburgh Suburban areas in Density Cell 3 are the same as those for Density Cell 3 rate group "F," and thus are not separately depicted.

VERIZON
STATEMENT NO. 1.2

INVESTIGATION REGARDING INTRASTATE ACCESS CHARGES AND INTRALATA TOLL RATES OF RURAL CARRIERS, AND THE PENNSYLVANIA UNIVERSAL SERVICE FUND

DOCKET NO.
I-00040105

VERIZON

STATEMENT NO. 1.2

(SURREBUTTAL TESTIMONY)

WITNESS: Don Price

DATED: February 10, 2009

EXPURGATED VERSION

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I. INTRODUCTION AND BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. ARE YOU THE SAME DON PRICE WHO SUBMITTED DIRECT TESTIMONY ON DECEMBER 10, 2008 AND REBUTTAL TESTIMONY ON JANUARY 15, 2009, ON BEHALF OF VERIZON PENNSYLVANIA INC. ("VERIZON PA"), VERIZON NORTH INC. ("VERIZON NORTH") AND MCIMETRO ACCESS TRANSMISSION SERVICES LLC D/B/A VERIZON ACCESS TRANSMISSION SERVICES (COLLECTIVELY "VERIZON")?

A. Yes.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. The purpose of this testimony is to rebut certain statements made in the rebuttal testimony of the other parties submitted on January 15, 2009 relating to the issues set for investigation in the Pennsylvania Public Utility Commission's ("PUC") April 24, 2008 Order in this matter. In particular, I rebut the testimony submitted by Joseph J. Laffey on behalf of the Pennsylvania Telephone Association ("PTA"), Russell R. Gutshall, Jeffrey L. Lindsey and Christy V. Londerholm on behalf of the United Telephone Company of Pennsylvania LLC d/b/a Embarq Pennsylvania

("Embarq"),[1] and Robert Loube and Roger D. Colton on behalf of the Office of Consumer Advocate ("OCA").

Q. PLEASE SUMMARIZE YOUR RESPONSE TO THE REBUTTAL TESTIMONY SUBMITTED BY THE RLECS AND OCA.

A. The other parties' rebuttal testimony offers nothing to support their proposal to transform and expand the state universal service fund ("USF") by requiring that other carriers provide the RLECs with ever-increasing, risk-free annual payments to replace revenue that the RLECs should secure through changes to their own retail rates under Chapter 30 of the Public Utility Code and their alternative regulation plans. Instead of entertaining arguments to create the new and vastly different USF advocated by the RLECs and OCA, the PUC should work to decrease the anticompetitive stream of revenues that is already flowing from other PUC-regulated carriers to the RLECs through the existing USF and inflated access charges, which has continued for far too long.

Even if one assumes for the sake of argument that the USF provisions and plan language on which the RLECs rely to support their claims have not already expired by their express terms – which they have – there is no doubt that the PUC, through this investigation, has the authority to alter, reduce and even to eliminate these USF provisions going forward. In their rebuttal testimony, the RLECs and OCA could no longer hide behind the bare assertion that the RLECs have an absolute "right" and "entitlement" to this ever-increasing flow of subsidies, and were

[1] Embarq and the PTA companies are referred to collectively herein as the rural incumbent local exchange carriers, or "RLECs."

forced to try to justify their subsidy demands. They failed to do so. The RLECs provided not one shred of real evidence to suggest that they are or will be unable adequately to serve customers without new USF subsidies – a fatal flaw in their case. Indeed, they cannot even justify the need for the subsidies that they already receive from the USF today. Given that Pennsylvania telecommunications consumers will ultimately pay the (high) price for the RLECs' demands, as I demonstrated in my rebuttal testimony, the absence in the RLEC and OCA rebuttal testimony of any justification for burdening consumers in this manner is jarring.

Instead of producing any proof that increased subsidies are necessary or required, the RLECs continue to maintain that their finances are none of the PUC's business. They argue that other carriers must subsidize their operations simply because the RLECs purportedly serve "high cost" areas, and that the PUC should not investigate or consider their overall finances and their ability adequately to serve customers with their current revenues. As I explain at length in my direct and rebuttal testimony, the RLECs' USF proposal is unprecedented and potentially devastating to Pennsylvania telephone carriers and their customers. That proposal should not be undertaken based on nothing more than the bare and unsubstantiated assertion that the RLECs face unquantified "high costs" in some unspecified locations.

It is evident that what the RLECs really seek is to enjoy the revenue guarantees of rate-of-return regulation, while at the same time reaping all the benefits of alternative regulation, such as freedom from an examination of their profits and finances, full pricing flexibility for competitive services and annual

inflation-based revenue increases without regard to costs or need. The PUC should not permit the RLECs to have their cake and eat it, too. As I explained in my rebuttal testimony, the RLECs are the only beneficiaries of their scheme to create an ever-increasing, one-way flow of millions of dollars each year from the customers of other telephone carriers to the RLECs. This distortion of the competitive marketplace and tortured application of alternative regulation will hurt Pennsylvania consumers and will do nothing but protect the RLECs from competition and the discipline of the market. The RLECs failed to provide any reason why the PUC should guarantee them this revenue stream funded by other carriers to the detriment of consumers.

The RLECs also have failed to prove the central assumption of their plan because they have not established that the PUC should cap residential and business rates in the first place, or that such caps should be set at the low levels asserted by the RLECs. Without low caps on both residential and business basic rates, the RLECs' whole USF proposal falls apart. Thus, there is no need for the PUC to do anything to increase the USF in this proceeding. To the contrary, the PUC can – and should – simply permit the RLECs' annual inflation-based revenue increases to take their course without artificial rate caps, and should look to reduce the substantial subsidies already provided to the RLECs by the USF, rather than considering an exponential increase to those subsidies as the RLECs advocate.

III. THE OTHER PARTIES PROVIDE NO JUSTIFICATION TO EXPAND THE USF TO PAY FOR THE RLECS' ANNUAL REVENUE INCREASES

Q. MR. LAFFEY CLAIMS THAT LANGUAGE IN THE RLEC ALTERNATIVE REGULATION PLANS "AUTHORIZ[ES] THE RLECS TO RECOVER FROM THE PA USF REVENUE INCREASES BROUGHT ABOUT BY RATE CHANGES AUTHORIZED UNDER THE PLANS THAT EXCEED THE RATE CAP." (LAFFEY REBUTTAL AT 11). WHAT IS YOUR RESPONSE TO THIS TESTIMONY?

A. I don't see how the quoted language supports that claim. If Mr. Laffey is making the legal argument that the RLECs' alternative regulation plans provide an absolute and unalterable right for the RLECs to fund their annual Chapter 30 revenue increases by extracting ever-increasing USF subsidies, (*see, e.g.*, Laffey Direct at 15), Verizon will rebut that argument in briefing, as I already indicated. (Price Rebuttal at 12). Verizon will likewise address in briefing how the alternative regulation plans could not read out of the *Global Order* and July 2003 Order USF plans their built-in expiration dates, any limitations as to their applicability and the PUC's continuing authority to alter or eliminate them.

Q. HOW DO THE RLECS ATTEMPT TO CONVINCE THE PUC THAT IT SHOULD EXPAND THE USF SO THAT OTHER CARRIERS PAY FOR THEIR ANNUAL REVENUE INCREASES?

A. The RLECs ask the PUC to assume that their costs of providing service are so high that they cannot adequately serve their customers without these USF subsidies – but they present no evidence to prove this allegation. In fact, in direct testimony they

claimed that the PUC should not look at their finances at all, because their "need" for USF subsidies is not relevant. (Gutshall Direct at 5; Laffey Direct at 15). Yet in rebuttal they attempt to justify the very same USF subsidies on the ground that their costs are too high and that they cannot serve customers without subsidies – but they put forth no evidence to substantiate their claims.

Mr. Laffey argues that the RLECs "provide service in areas of the state where access line density is generally very low," and that the PUC should presume – without considering the "overall size" and "corporate affiliation" of the RLEC – that these carriers require USF subsidies above current levels to operate in these rural areas. (Laffey Rebuttal at 52). According to Mr. Laffey, even mid-tier RLECs like Windstream should be entitled to this additional USF support "based upon the high cost geographic areas it serves" without regard to the size and resources of the company. (Laffey Rebuttal at 55).

Embarq's Mr. Lindsey similarly argues that "[t]he size of the serving ILEC does not drive the need for USF. The need for USF is driven by the existence of [carrier of last resort] obligations in high-cost areas." (Lindsey Rebuttal at 8-9). He further contends that "[i]n areas of low customer density, revenues from existing customers in those areas will not cover costs due to affordability and competitive pressures." (*Id.* at 9) Mr. Lindsey even argues that it would be "unfair" to consider "financial measures" to determine whether to require other carriers to fund a particular RLEC's annual revenue increases, and that the PUC should just presume that the absence of these greater subsidies "would cause great financial harm to mid-

size rural carriers and impact their ability to continue to serve and invest." (Lindsey Rebuttal at 9-10).

Q. DO YOU AGREE THAT THE COMMISSION SHOULD SIMPLY PRESUME THAT THE RLECS ARE ENTITLED TO FUND THEIR ANNUAL REVENUE INCREASES THROUGH THE USF AND THUS FROM THE CUSTOMERS OF OTHER TELEPHONE COMPANIES?

A. No. Simply because the RLECs serve rural territories does not establish that they cannot serve their customers adequately without increased subsidies from other carriers. To date, the RLECs have provided service to their customers without the additional subsidies they now seek. They have presented no evidence demonstrating that they are in jeopardy of not being able to continue providing adequate service without a new infusion of cash from the USF. Also, the RLECs already receive federal USF support for serving high-cost areas, and they have presented no evidence demonstrating that this support is insufficient to allow them to serve their customers adequately.

Q. IS IT REASONABLE FOR THE RLECS TO CONTEND THAT THEIR OVERALL FINANCES AND PROFITIBILITY ARE NOT RELEVANT TO DECIDING WHETHER THEY SHOULD OBTAIN SIGNIFICANT SUBSIDIES FROM OTHER TELEPHONE CARRIERS?

A. No. The RLECs' premise that the PUC should require other telephone carriers – and thereby those carriers' customers – to subsidize the RLECs' operating costs simply because the RLECs serve "high cost" areas is completely unreasonable. When it serves their arguments, the RLECs are quick to consider all of the regulated services

that a carrier provides to all of its customers instead of focusing in isolation only on stand-alone basic service in purportedly high cost areas. For example, Mr. Laffey expects the Verizon ILECs' "urban" customers to "subsidize" the costs of serving "rural" customers. (Laffey Rebuttal at 50).[2] Similarly, Mr. Gutshall concedes that services provided "in lower cost, more competitive" areas of RLEC territory may provide support to "higher cost, less competitive areas." (Gutshall Rebuttal at 6). While they recognize that a company supports its operations with revenues from many services and sources, the RLECs would have the PUC assume that they provide only stand-alone basic service to customers in allegedly high-cost areas. The claim that the RLECs "need" additional USF subsidies rests on a fiction – that is, that they only provide service to high cost customers. That clearly is not the case. Even if one accepts the RLECs' unsubstantiated premise that the hypothetical farmer on the mountaintop in the most remote areas of RLEC territory who purchases only stand-alone basic service does not pay enough to cover the costs of serving him, despite federal high-cost USF support (an assertion on which there is no evidence), that still does not prove that the RLEC needs additional subsidies from other carriers to serve adequately its overall customer base. Before they are permitted to demand subsidies from other carriers, to the detriment of consumers and the competitive marketplace, the RLECs should provide full disclosure of their finances and abilities to provide service. And even if the PUC were to determine that any particular

[2] Mr. Laffey has presented no evidence to prove such subsidization is actually occurring. Now that the Verizon ILECs are regulated under Chapter 30's alternative form of regulation the cost of providing service is not relevant. Like any ILEC under alternative regulation, Verizon's rates are not set based on costs, and it is free to price competitive services at any rate that the market will bear. Its rates for noncompetitive services, on the other hand, are constrained by the inflation-based formula in its alternative regulation plan.

RLEC cannot sustain its business, it would be more appropriate to require that RLEC to abandon alternative regulation and return to rate-of-return regulation to set appropriate rates for all of its services following a thorough rate case, rather than adopting the RLECs' proposal with its attendant harms.

Q. DO YOU HAVE ANY COMMENT ON THE RLECS' ATTEMPT TO CONTRAST THEMSELVES TO THE VERIZON ILECS?

A. Yes. The RLECs advocate a double standard. For themselves, the RLECs contend that the PUC should ignore their scale, scope, finances and other available sources of income and consider only the fact that ***some*** of their service territory is purportedly high cost. But with the same breath, the RLECs contend that because of ***Verizon's*** scale and scope it can "easily afford" its current payments to the USF and in fact could "contribute much more." (Lindsey Rebuttal at 9). The RLECs cannot have it both ways. If the PUC were to adopt the RLECs' theory that the only relevant consideration is the "high cost" of rural territory – and that the carrier's overall scale, scope and finances and corporate affiliations cannot be considered – then the Verizon ILECs should be the largest ***recipients*** of state USF contributions, not the largest contributors. While Mr. Lindsey dismisses Verizon as a "behemoth urban-focused carrier[]," he fails to acknowledge the fact that the Verizon ILECs serve more rural access lines in Pennsylvania than all of the RLECs put together.[3] But Verizon does not receive and is not asking for state USF subsidies, and most of the RLECs should not be receiving those subsidies either. The RLECs' references to

[3] According to Verizon's most recent biennial update to its network modernization plan, as of December 31, 2006, Verizon PA and Verizon North together served over 1.1 million rural access lines in Pennsylvania based on the PUC's classification of exchanges as rural for network modernization purposes.

Verizon's size and scope, national line counts, nationwide federal universal service receipts and the like are nothing but an irrelevant attempt to divert attention from their own failure to prove their case – a case that is about the RLECs, not about Verizon.

Q. MS. LOUNDERHOLM ASSERTS THAT EMBARQ'S "REVENUE PER LINE DIRECT FROM RESIDENTIAL CUSTOMERS" IS LOWER THAN EMBARQ'S "AVERAGE MONTHLY COST PER LINE." (LOUNDERHOLM REBUTTAL AT 13-16 AND TABLE CVL-1). DOES THIS SOMEHOW ESTABLISH THAT EMBARQ IS NOT COVERING ITS OPERATING COSTS AND NEEDS MORE USF SUBSIDIES?

A. No. As an initial matter, the "cost" portion of Ms. Lounderholm's analysis is based on Dr. Loube's cost study, which many witnesses – including Ms. Lounderholm herself – have asserted is flawed and unreliable. But even if, for the sake of argument, one accepts Dr. Loube's cost results, Ms. Lounderholm's analysis does not provide useful evidence. She compares the alleged cost of providing basic residential service in each Embarq exchange to what she contends is the average residential revenue per line for basic service, features, subscriber line charge and intraLATA toll in each exchange, and concludes that for most of Embarq's exchanges the monthly cost is higher than the monthly revenue. (Lounderholm Rebuttal at 14-15). But the most that Ms. Lounderholm could demonstrate with this table is that an individual customer that purchases only basic service, features and toll from Embarq, and nothing else, ***may*** not cover the cost of providing service to that particular customer viewed in isolation, if one accepts Dr. Loube's flawed cost

estimates. She does not demonstrate that the revenues of Embarq as a whole are less than Embarq's overall costs of providing service when regulated revenues from all services to ***all*** customers are taken into consideration. In short, she does not establish that Embarq cannot operate without additional USF subsidies.

It is readily apparent that what Ms. Lounderholm depicts in her column D is not Embarq's average revenue per line, because it only includes "direct" revenue from "basic, features, subscriber line charge, [and] intralata toll." (Lounderholm Rebuttal at 15). The "revenue per line" depicted in column D of her table, ranging from approximately **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** is far lower than Embarq's actual revenue per line. For example, if one divided Embarq's PUC-reported regulated operating revenue by its PUC-reported number of residential and business POTS lines as depicted in Table 1 to my direct testimony, the average operating revenue per line is $76.88 per line. This per-line revenue figure would include all of Embarq's reported revenue from all services, its current federal and state USF subsidies as well as access revenue, all of which also support Embarq's operating costs but are ignored by Ms. Lounderholm. Even if one looked only at average customer bill information (which excludes revenue from other services and from subsidies), Ms. Lounderholm's figures are understated. Embarq's average monthly revenue per household as reported in its third quarter 2008 form 10-Q filed with the Securities and Exchange Commission was almost $57. (Nurse/Oyefusi Rebuttal at 10). While Ms. Lounderholm asserts that "other revenue sources" besides revenue from basic service, features and toll are necessary to "fully recover" Embarq's alleged **[BEGIN PROPRIETARY]**

[END PROPRIETARY] average monthly cost per line, Embarq does already and should continue to look to its own business as a source for those additional revenues. In arguing that "the $18 residential rate cap benchmark is not enough to recover" Embarq's alleged costs, (Lounderholm Rebutttal at 17), and that additional USF subsidies should be provided, Embarq is trying to secure the benefits of rate-of-return regulation for its basic service rates without submitting itself to the kind of examination of all of its regulated costs and revenues that would be required of a company that is subject to rate-of-return regulation. Under alternative regulation, Embarq's costs of providing service are not relevant, and Embarq has provided no justification to increase its already sizeable subsidies from the USF.

Q. MR. LAFFEY ARGUES THAT "WITHOUT AN URBAN CUSTOMER BASE TO 'AVERAGE DOWN' ITS COSTS PER CUSTOMER THE RLECS ARE LEGITMATELY SEEKING EXTERNAL SUPPORT FOR RURAL TELEPHONE CUSTOMERS." (LAFFEY REBUTTAL AT 51). IS THIS A LEGITIMATE ARGUMENT?

Q. No. Mr. Laffey's argument suffers from the same flaws as Embarq's arguments. Mr. Laffey asserts that because Verizon serves urban as well as rural areas, Verizon is able to cover its overall cost of providing service when revenues from all services to all customers in all areas are taken into account. But that assumption regarding Verizon does ***not*** establish that the RLECs are not ***also*** able to recover their overall costs when revenues from all services to all customers are taken into account. In other words, Mr. Laffey's argument does not establish that RLECs need additional USF subsidies. Rather, by Mr. Laffey's logic, it would be reasonable to assume that

the RLECs ***also*** are able to recover their overall costs when revenues from all services to all customers are taken into account. Mr. Laffey's unsubstantiated argument is unavailing.

Q. EVEN IF THE RLECS HAD PRESENTED EVIDENCE TO PROVE THAT THEIR OVERALL REVENUES DO NOT RECOVER THEIR OVERALL COSTS, SHOULD THE PUC EXPAND THE USF TO SUBSIDIZE THEIR ANNUAL ALTERNATIVE REGULATION REVENUE INCREASES?

A. No. The RLECs have chosen to be governed by alternative regulation, under which their costs of service are not relevant and their return is not guaranteed. If an RLEC asserts that it cannot stay in business under alternative regulation without additional external subsidies, then that RLEC should return to rate-of-return regulation and submit itself to a rate case, but it should not be entitled to increase its subsidies from other carriers based on vague claims and generalities.

Q. ARE THE RLECS' ARGUMENTS CONSISTENT WITH THE CONCEPT OF ALTERNATIVE REGULATION?

A. No. Mr. Laffey contends that the RLECs have "eschewed the safety net provided by rate of return regulation." (Laffey Rebuttal at 58). To the contrary, by asking the PUC to require other carriers and their customers to provide the RLECs with an ever-increasing and guaranteed stream of revenue to replace the revenue from their annual Chapter 30 retail rate increases, the RLECs are requesting the ultimate safety net.

Q. DO THE RLECS AGREE WITH OCA THAT THE USF SUBSIDIES THEY SEEK WILL BE USED TO FUND BROADBAND DEPLOYMENT?

A. No. Contrary to Dr. Loube's argument (Loube Direct at 30-31), the RLECs concede that this money would subsidize overall RLEC operating costs. (*See* Laffey Rebutal at 18) (denying that "inflation-based revenue increases [are] earmarked for" broadband deployment and stating that the revenue instead would be "spent across the full spectrum of everything the RLECs do.")

Q. EVEN IF THERE WERE SOME BASIS TO REQUIRE OTHER CARRIERS TO PROVIDE THE RLECS WITH REVENUE THROUGH THE USF AFTER THEIR BASIC LOCAL EXCHANGE RATES ARE INCREASED TO CERTAIN LEVELS, HAVE THE RLECS ESTABLISHED THAT THEIR RATES ARE APPROACHING A RATE LEVEL WHERE SUCH A PLAN SHOULD BE CONSIDERED?

A. No. Even if one concluded that, in concept, the USF should subsidize RLEC revenue increases after their basic service rates reach a particular level – which is not a reasonable conclusion for the reasons I have discussed – the RLECs and OCA have not established that the RLECs' rates are approaching such a level. For the reasons discussed below, they have not produced sufficient evidence to support an $18 residential rate cap or ***any*** business rate cap, so there is no reason for the PUC to consider expanding the USF in the manner they propose.

IV. THE OTHER PARTIES' REBUTTAL TESTIMONY DOES NOT DEMONSTRATE THE EXISTENCE OF, OR THE NEED FOR, A RESIDENTIAL RATE CAP

Q. MR. LAFFEY CONTENDS THAT YOUR DIRECT TESTIMONY "CONCEDES THAT THERE IS A RESIDENTIAL RATE CAP." (LAFFEY REBUTTAL AT 14). IS THAT AN ACCURATE READING OF YOUR POSITION?

A. No. I stated that "[t]here is a ***question*** as to whether there is currently an effective $18 rate cap on RLEC residential rates in light of the relevant orders and the applicable expiration dates, but that is a legal issue that is not appropriate for testimony and will be addressed by counsel in briefing." (Price Direct at 22-23) (emphasis added). In fact, it is my understanding that there is no such cap. My testimony only "[p]resum[ed] ***for the sake of argument*** . . . that either there is an $18 rate cap in place or the PUC is considering whether to impose a new rate cap." (*Id.*) (emphasis added). It is my understanding that the PUC has the authority in this case to eliminate or increase any cap that might exist.

Q. EVEN IF THERE IS AN $18 RESIDENTIAL RATE CAP STILL IN EFFECT, HAVE THE RLECS AND OCA ALREADY CONCEDED THAT THE PUC HAS THE AUTHORITY IN THIS INVESTIGATION EITHER TO ELIMINATE SUCH A CAP OR TO INCREASE IT ABOVE $18?

A. Yes. In recent briefing to the Commonwealth Court the OCA conceded that it is "not OCA's position" that the $18 rate cap "must continue in perpetuity," and that instead the rate cap may be "modified by the PUC through the proper legal process"

under Section 703(g) of the Public Utility Code."[4] This proceeding is providing precisely the "legal process" that the OCA claims the PUC must provide in order to eliminate or raise this cap (if the cap is still in effect). Similarly the three D&E RLECs,[5] on whose behalf Mr. Laffey is testifying in this investigation, told the Commonwealth Court that it is "not [D&E's] position that the rate caps can never be altered," and instead conceded that "the PUC may revisit the rate cap limitation in an appropriate proceeding" with "notice and opportunity," such as this "pending generic investigation."[6]

Q. EVEN IF THERE IS AN $18 RESIDENTIAL RATE CAP STILL IN EFFECT, SHOULD THE PUC CONTINUE TO APPLY SUCH A CAP?

A. No. For the reasons I discussed in my direct and rebuttal testimony, the PUC should not establish or continue a cap on RLEC basic residential rates, and if any such cap is found to be presently in effect it should be eliminated. Under the current version of Chapter 30 and in today's competitive environment, there is no need for the PUC to cap RLEC residential basic service rates as a constraint on their annual price change filings. Not only does Chapter 30 contain its own internal safeguard to control the pace of any RLEC rate increases by limiting overall revenue increases to the rate of inflation, but also the record shows that there is no widespread risk of most RLECs approaching or exceeding the $18 level given present rate levels and the pattern of RLEC banking decisions. (Price Direct at 23-24; Price Rebuttal at 22-

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4 OCA Commonwealth Court Reply Brief at Dockets 847 CD 2008 and 940 CD 2008, at 6-7 (pertinent portions appended as Price Surrebuttal Exhibit 1 hereto).

5 *See* Price Direct at 12, n. 18.

6 D&E Commonwealth Court Reply Brief at Dockets 847 CD 2008 and 940 CD 2008, at 22 (pertinent portions appended as Price Surrebuttal Exhibit 2 hereto).

23). If the Commission were to establish an $18 residential rate cap (or a rate cap at any level), the cap in combination with the prospect of USF subsidies for carriers that increase their residential rates to that level would actually encourage RLECs to increase their rates when they might not otherwise have done so just so they can get guaranteed, competition-proof payments from the USF.

Q. MR. LAFFEY CONTENDS THAT "A RESIDENTIAL RATE CAP IS IMPORTANT" TO PROTECT END-USERS AGAINST RLEC RATE INCREASES IN AREAS WHERE HE CONTENDS THE RLECS ARE NOT SUBJECT TO SUFFICIENT COMPETITIVE PRESSURE. (LAFFEY REBUTTAL AT 23). DO YOU AGREE?

A. No. As an initial matter, competitive pressures are not the only safeguard protecting customers from uncontrolled RLEC basic service rate increases. As I discuss above, Chapter 30's own internal inflation-based safeguards and the evidence regarding current rate levels and RLEC banking choices also constrain the prospect of RLEC rate increases. Mr. Laffey fails to address the impact of these other safeguards. Further, even Mr. Laffey does not deny the existence of competition in RLEC territory, particularly from cable and wireless carriers. He simply argues that competition is not yet as robust in certain remote areas. (Laffey Rebuttal at 23). The record evidence shows, however, that competitive pressures are already constraining the RLECs' decisions to increase their rates because some RLECs have chosen to bank their revenue increase opportunities even though the resulting residential rates would still be below the alleged $18 rate cap. (*See* Price Direct at 24). Indeed, Embarq's Mr. Gutshall concedes that "[e]conomic and affordability

considerations will dictate the rate levels RLECs can sustain in their markets." (Gutshall Rebuttal at 6).

But in any event, the RLECs' "request" that the PUC set a rate cap to protect the RLECs' own residential customers from the RLECs' decision to increase rates must be taken with a great deal of skepticism. No one is forcing the RLECs to increase their rates. While they have the ***opportunity*** to do so, neither the statute nor their alternative regulation plans says they must do so. Mr. Laffey's argument that the rate cap is "important" to protect the customers from the RLECs themselves is disingenuous. The only reason the RLECs are arguing forcefully for the lowest possible rate cap is to establish a level where they can claim USF subsidies from other carriers and thus obtain a guaranteed, risk-free, competition-proof stream of subsidies from other companies, including from their own competitors. While I do not agree that the RLECs' territory is lacking in competition, if that were the case, the only thing that Mr. Laffey's proposal would guarantee is that competition would not progress.

Q. MR. COLTON CONTENDS THAT COMPETITION WILL NOT DISCIPLINE RATES WITHOUT A RATE CAP BECAUSE COMPETITORS DO NOT PROVIDE STAND-ALONE BASIC LOCAL SERVICE. (COLTON REBUTTAL AT 2). DO YOU AGREE?

A. No. Again, as I discuss above, competitive pressures are not the only safeguards that will prevent uncontrolled RLEC basic residential rate increases. More importantly, the ways in which available competitive alternatives might influence the RLECs' decision whether or not to increase regulated basic service rates are more complex

than Mr. Colton admits. When shopping for communications services, customers will not ignore the availability of an attractively priced package in favor of regulated, stand-alone basic local service. For example, if a cable carrier is offering a $20 package that includes unlimited local and long distance calling and some features, and the RLEC is offering stand-alone basic local service for $18, a prospective customer would reasonably be expected to consider the availability of the $20 package in its purchasing decision. The RLEC, therefore, must consider the pricing of the competitive package in deciding how it may most effectively price stand alone basic local service within the constraints of alternative regulation. Mr. Colton unrealistically presumes that the typical customer is looking for nothing other than stand-alone basic local service and will ignore attractively priced options that provide local service bundled with long distance and/or features. In fact, it is unlikely that the concept of stand-alone basic local service is even meaningful to the typical customer in today's competitive market, because the market is driven more and more to all-distance calling products.

Q. YOU SUBMITTED TESTIMONY DISCUSSING WHY ANY RATE CAP SHOULD BE HIGHER THAN $18. DOES THIS MEAN THAT YOU AGREE THAT THERE IS OR SHOULD BE A RATE CAP?

A. No. As I discuss above, I don't concede that there is a rate cap or that there should be one. If the PUC disagrees with me and wishes to establish some sort of residential basic rate cap for the RLECs, then the record does not support $18 as the cap level, but rather it shows that any cap should be higher.

Q. HAVE THE ADVOCATES FOR A RESIDENTIAL RATE CAP PRESENTED ANY CONVINCING ARGUMENTS THAT THIS CAP SHOULD BE SET AT $18?

A. No. The RLECs and OCA present two arguments in support of a residential rate cap – affordability and comparability – but as I discuss below, neither argument supports setting that cap at $18.

Q. WHAT IS THE PRIMARY ARGUMENT ADVANCED BY THE RLECS IN FAVOR OF AN $18 RATE CAP?

A. The primary argument is "affordability." The RLECs concede that their request for a cap is not based on factors specific to the individual RLEC, such as the underlying cost of providing service, (Lounderholm Rebuttal at 4, 10), but rather, the "affordability" of service to the end user. (Gutshall Rebuttal at 2). As Mr. Laffey states,"[t]he rate cap was set as a means to assure an 'affordable' rate." (Laffey Rebuttal at 19). He further discusses establishing an "affordability rate," referring to statements in Chapter 30 regarding "affordable" and "reasonably priced" service as support for an $18 cap. (Laffey Rebuttal at 15-16, 21).

If, as the RLECs concede, the primary justification for a cap is to limit regulated residential basic service rates to an allegedly "affordable" level, then the record evidence does not support a cap as low as $18 to ensure "affordability." As I discussed in my rebuttal testimony, even Mr. Colton's conservative affordability analysis shows that RLEC residential rates could increase substantially higher than $18 and still remain "affordable." (Price Rebuttal at 24). Under Mr. Colton's data, there would appear to be no danger of RLEC rates becoming unaffordable in the

near future if the RLECs are permitted to let their alternative regulation revenue increase opportunities take their natural course with small, inflation-based rate increases each year at the carrier's option, constrained by the disciplines of the competitive market. Accordingly, there is no need for a residential rate cap at all, and certainly no justification to cap those rates at $18.

Q. MR. LAFFEY REFERS TO TESTIMONY REGARDING A $21 LEVEL BASED ON THE RATE OF INFLATION. (LAFFEY REBUTTAL AT 21). WHAT IS THE RELEVANCE OF THE $21 FIGURE?

A. Some of the other witnesses implied that I was advocating a $21 cap, but that was not my testimony. I simply noted that $18 cannot be a reasonable rate cap because that figure itself was not set based on evidence and "accounting for the change in the rate of inflation, $18 in 2003 would be over $21 today" and so the cap should be "no lower than $21." (Price Direct at 25). Mr. Laffey opposes the use of inflation rates to escalate the $18 cap to today's dollars because he is "more persuaded" by Mr. Colton's analysis of "affordability." (Laffey Rebuttal at 21). But as I discuss above and in my rebuttal testimony, Mr. Colton's affordability analysis suggests that even a $21 cap would be too low.

Q. DO THE ARGUMENTS BASED ON "COMPARABILITY" SUPPORT AN $18 RATE CAP?

A. No. Because the only record evidence regarding "affordability" does not come close to supporting an $18 rate cap, OCA and the RLECs attempt to skew the number downward by arguing that "comparability" to urban rates must also be considered. I

addressed the flaws in this argument in my rebuttal testimony.[7] In short, to the extent they look to Verizon's urban rates, those rates have been kept artificially low and thus those rates do not provide a reasonable point for comparison. However, even if they were relevant, the parties' calculations based on Verizon's urban rates are flawed and thus not relevant for determining a rate that could be considered "reasonably comparable." (Price Rebuttal at 32-35).

Interestingly, Dr. Loube and Mr. Laffey effectively point out the flaws in each other's comparability arguments. Mr. Laffey's argument is flawed because he assumes that "reasonably comparable" can only mean 'equal to," or "effectively equal to." (Laffey Rebuttal at 22). But as Dr. Loube explained, the FCC and other states that have looked to comparability have not required strict equality, but have found it reasonable for rural rates to exceed urban rates within a range. Dr. Loube conservatively proposes a range of 120%, but his testimony cites ranges as high as 150%. (Loube Direct at 4-12).

Dr. Loube's comparability argument is flawed because he significantly understates the Verizon rates to which he compares the proposed $18 cap by calculating an alleged weighted average statewide residential rate that is lower than the rates Verizon charges in urban areas. But the very federal statute upon which he relies states that rural rates should be "reasonably comparable to rates charged for similar services in ***urban*** areas." (Loube Direct at 8) (emphasis added). As Mr. Laffey recognizes, Dr. Loube's approach "deviates from the statute by using average

[7] I understand that there may also be a legal argument about whether the "reasonably comparable" language from 47 U.S.C. § 254(b) is even relevant in the present situation, but that argument will be addressed in briefing as I am not presenting testimony on legal issues.

statewide rates, rather than comparing urban and rural rates specifically." (Laffey Rebuttal at 22).

Even if it were valid to look to comparability with Verizon's own artificially depressed regulated rates, correcting for both witnesses' flaws would lead to a much higher "reasonably comparable" level than either of them advocates. For example, using Verizon's $16.06 Density Cell 1 rate and a 150% comparability range would yield a "reasonably comparable" rate of $24. (*See* Price Rebuttal at 35).

Q. THE RLECS CLAIM THAT THE BASIS FOR HAVING A RATE CAP IS TO MAINTAIN "AFFORDABILITY," BUT IS THAT HOW THEY PROPOSE TO APPLY THE CAP?

A. No. The duplicity of the RLECs' arguments is highlighted most starkly by Mr. Gutshall's rebuttal testimony. Mr. Gutshall actually argues against the imposition of a "generic" or absolute cap, contending instead that each RLEC should be afforded to opportunity to "seek rate levels permitted by their alternative regulation plans" and to "demonstrate to the Commission that a proposed rate level permitted by its alternative regulation plan is appropriate and affordable." (Gutshall Rebuttal at 6). To this point, Mr. Gutshall's suggestion is not unreasonable. However, he goes on to argue that even if the PUC finds that "a given rate level permitted by the RLEC's alternative regulation plan is appropriate and affordable," the PUC should still allow the RLEC to demonstrate that it cannot raise its rates to that level "without . . . losing access lines to competitors." In such an instance, the RLEC "should be permitted additional support from the state USF" so that it does not raise its end user rates above the level that would cause competitive losses. (*Id.*). Plainly then,

Embarq is not seeking a rate cap for purposes of assuring "affordability" to end users at all. Instead, it wants a "cap" to mark the point where it can obtain USF subsidies to protect itself from competition and obtain a guaranteed revenue stream funded by other carriers. Embarq's proposal is anti-consumer, anti-competitive and contrary to the very premise of alternative regulation.

Q. WOULD THE RLECS' PROPOSAL REQUIRE ALL BASIC SERVICE RATES TO BE INCREASED TO THE RATE CAP BEFORE THE RLECS COULD CLAIM FROM THE USF?

A. No. Mr. Laffey explains that the RLECs are only proposing that the "weighted average" rate equal the rate cap, so that rates in some RLEC exchanges could remain below the cap and rates at other exchanges could exceed the cap. (Laffey Rebuttal at 3). This proposal does not comport with the concept that the rate cap is the "affordable" rate, because it allows the RLECs to charge some customers rates higher than those considered "affordable." At the same time, it allows RLECs to keep rates low in competitive exchanges and still claim USF subsidies.

V. THE OTHER PARTIES' REBUTTAL TESTIMONY DOES NOT DEMONSTRATE THE EXISTENCE OF OR THE NEED FOR A BUSINESS RATE CAP

Q. DOES THE REBUTTAL TESTIMONY OF THE OTHER PARTIES PROVIDE ANY MORE INFORMATION ON THE BUSINESS CAP THAT THEY PROPOSE?

A. Not much. Mr. Laffey argues that the *Global Order* adopted a business rate cap that was "set in proportion to the residential rate cap." (Laffey Rebuttal at 3). He then states that each individual RLEC's cap would be different because it was "set based

upon the relationship to the weighted average residential rate at the time the $16.00 cap as established in the *Global Order*." (*Id.*) He does not disclose what the "proportion" was or how it was calculated. It is not logical or reasonable for Mr. Laffey to suggest that the RLECs' business rates should be capped at some level tied to the RLECs' residential rates dating back to the time of the *Global Order*, nearly 10 years ago, when the residential rates have largely increased since that time. It also makes no sense for something that is allowed to vary among the different RLECs to be considered a "rate cap." That is particularly true given the RLEC witnesses' acknowledgment that the primary basis for a cap on RLEC rates is the concept of "affordability" of the end user, not specific characteristics of the individual RLEC, as discussed above. Moreover, the RLECs have not presented any evidence either to demonstrate that an "affordability" cap is even relevant for business customers or to establish any particular affordability level for business customers. Mr. Laffey's own testimony concedes that the national average single line business rate was $36.59 in 2007. (Laffey Rebuttal at 22). This figure is $10 higher than Embarq's alleged cap of $26.23 and $13 higher than D&E's alleged cap $23.58, (Price Rebuttal at 39), demonstrating that setting a business cap at the levels advocated by D&E and Embarq would be unreasonable. Requiring other carriers to reimburse the RLECs to allow them to avoid increasing business rates that are presently at least $10 below the national average would be absurd.

Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.