BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers and The Pennsylvania Universal Service Fund	:	**Docket No. I-00040105**
AT&T Communications of Pennsylvania, LLC **Complainant**	:	
v.	:	**Docket No. C-2009-2098380, et al.**
Armstrong Telephone Company - Pennsylvania, et al. **Respondents**	:	

RECEIVED

APR 2 0 2010

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

DIRECT TESTIMONY

OF

WILLIAM R. EASTON

QWEST COMMUNICATIONS COMPANY

QCC STATEMENT NO. 1

NOVEMBER 30, 2009

Qwest Stmt. 1
I-00040105
C-2009-2098380
4-14-10
Harrisburg JS

INDEX OF TESTIMONY

I. SUMMARY OF TESTIMONY

Qwest Communications Company LLC ("QCC") supports completing the investigation into the intrastate switched access rates of the rural Local Exchange Carriers ("RLECs") in Pennsylvania. QCC maintains that these access rates should be lowered on a revenue neutral basis and in a manner which does not favor one competitor, or form of competition, over another. This can be accomplished through the removal of implicit subsidies from access rates with an accompanying rate rebalancing that would allow the RLECs to recover lost subsidies through a local rate increase and Universal Service Fund ("USF") support. QCC further proposes that Verizon's intrastate switched access rates are the appropriate rate level for all RLECs in Pennsylvania as well. Lowering access rates in this revenue neutral and competitively neutral manner will reduce existing arbitrage opportunities and encourage competition by putting all market participants on a level playing field. Given that no Federal Communications Commission ("FCC") action is imminent in the Unified Intercarrier Compensation Docket, it is time for the Commission to address the important access charge and universal service issues it identified as the focus of this investigation nearly five years ago.

II. INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME, TITLE AND ADDRESS.

A. My name is William R. Easton. I am employed by Qwest Corporation as Director – Wholesale Advocacy. My business address is Room 1505, 1600 7th Avenue, Seattle, WA, 98191.

Q. PLEASE EXPLAIN ON WHOSE BEHALF ARE YOU TESTIFYING TODAY AND THAT ENTITY'S RELATIONSHIP TO THE QWEST FAMILY OF COMPANIES.

A. I am testifying on behalf of Qwest Communications Company, LLC ("QCC"), an affiliate of Qwest Communications ("QC"), which is the former US West and Regional Bell Operating Company that provides local phone service in 14 states. Currently, QCC is an interexchange carrier and a competitive local exchange carrier providing service in states other than those states in which QC provides local phone service, including Pennsylvania. Qwest Communications International Inc. ("QCII") is the holding company of both QCC and QC. In my testimony, when I refer to "Qwest" I am referring to the collection of companies under the QCII umbrella that provide various telephony services.

Q. PLEASE REVIEW YOUR EDUCATION, WORK EXPERIENCE, AND PRESENT RESPONSIBILITIES.

A. I graduated from Stanford University in 1975, earning a Bachelor of Arts degree. In 1980, I received a Masters of Business Administration from the University of Washington. In addition, I am a Certified Management Accountant.

I began working for Pacific Northwest Bell in 1980 and have held a series of jobs in financial management with U S WEST, and now with Qwest, including staff positions in the Treasury and Network organizations. From 1996 through 1998, I was Director – Capital Recovery. In this role, I negotiated depreciation rates with state commission and FCC staffs and testified in various regulatory proceedings. From 1998 until 2001, I was a Director of Wholesale Finance, responsible for the management of Wholesale revenues. In this capacity, I worked closely with the Product Management organization on their product offerings and projections of revenue. In October of 2001, I moved from Wholesale Finance to the Wholesale Advocacy group, where I am currently responsible for advocacy related to Wholesale products and services, including switched access.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION?

A. No.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY AGENCIES IN OTHER STATES?

A. Yes. I have testified on various occasions before the telecommunications regulatory authorities in Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming.

III. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide recommendations on several of the issues raised with the Commission's re-opening of this investigation. These issues include: (i) whether intrastate access charges should be further reduced or rate structures modified in the RLECs' territories and (ii) how to accomplish revenue neutrality with such reductions.

Q. WHY ARE YOU FILING TESTIMONY ON BEHALF OF QCC IN THIS CASE?

A. QCC is the Qwest entity that provides communications services in Pennsylvania. As I noted earlier, QCC is a member of the Qwest family of companies that provides telephony services in general and, as a result, is both a major customer and major provider of the services involved in this case. It is this unique perspective that I and QCC bring to this docket.

Q. BEFORE ADDRESSING THE SPECIFIC ISSUES RAISED IN THE ORDER, COULD YOU PLEASE DISCUSS QCC'S OVERALL POLICY GOALS FOR SWITCHED ACCESS?

A. QCC has long advocated that the implicit subsidies embedded in the access rates paid by Interexchange Carriers ("IXCs") to LECs should be removed from access rates and made explicit in a revenue neutral manner. When I refer to "implicit subsidies," I am referring to the fact that local exchange rates have traditionally been subsidized by access charges which are well in excess of their costs. In its 1999 *Global Order*, the Commission stated its commitment to reduce implicit subsidy charges such as access charges that impede competition in the telecommunications market.[1] Nothing that has occurred in the intervening ten years has lessened the need to reduce implicit subsidies. QCC believes that access rates should be lowered on a revenue neutral basis and in a manner which does not favor one competitor, or form of competition, over another. This can be accomplished by providing for a rate rebalancing that would provide the LECs the opportunity to recover lost subsidies through a local rate increase and/or USF support. QCC further proposes that Verizon's switched access rates are the appropriate rate level for all LECs in Pennsylvania. QCC believes that lowering access rates on a revenue neutral and competitively neutral basis will reduce existing arbitrage opportunities and encourage competition by putting all market participants on a level playing field.

[1] *Re Nextlink Pennsylvania, Inc.*, Docket No. P-00991648; P-00991649, 93 Pa.P.U.C. 172 (1999) ("*Global Order*").

IV. ISSUES

Q. WHAT IS THE FIRST ISSUE THAT YOU WILL ADDRESS IN YOUR TESTIMONY?

A. Whether intrastate switched access charges should be further reduced or rate structures modified in the RLECs' territories.

Q. WHAT IS YOUR POSITION ON THIS ISSUE?

A. The RLEC intrastate switched access rates in Pennsylvania should mirror the Regional Bell Operating Company ("RBOC") rates, which in this case are those of Verizon Pennsylvania, Inc. ("Verizon"). Establishing a common basis for rates will reduce existing arbitrage opportunities and encourage competition by putting all market participants on a level playing field. As the term is used here, "arbitrage" in the communications industry means routing traffic in such a manner to take advantage of discrepancies in rates. Thus, the wide disparity in rates that exists today between Verizon and RLECs provides the perfect opportunities for arbitrage and leads to abuses such as "Traffic Pumping," wherein IXC traffic is deliberately routed to rural carriers with high access charges by third parties. The access charge revenues can then be profitably shared by the rural carrier and the third party. An example of Traffic Pumping is a recent case in Iowa where high rural company access rates led to a scheme to "pump" large volumes of traffic to rural phone numbers to generate high access billings.[2] These numbers are associated with calling services such as free conference calling or adult chat lines.

Q. DO YOU HAVE REASON TO BELIEVE THAT SUCH TRAFFIC PUMPING SCHEMES ARE OCCURRING IN PENNSYLVANIA TODAY?

A. Yes. Based on analysis of its terminating minutes of use, including terminating minutes to adult content services, QCC believes that at least two RLECs in Pennsylvania are engaged in Traffic Pumping. By reducing rural company access rates to the Verizon level, the Commission can remove the arbitrage opportunities which allow these kinds of schemes to exist.

Q. WHAT IS THE SECOND ISSUE THAT YOU WILL ADDRESS?

A. How to achieve revenue neutrality with reductions in RLEC intrastate access rates, including the impact of any such rate reductions on the PAUSF and RLEC local rates. For purposes of my testimony, "revenue neutral" means that revenues lost by the reduction in the rates of certain services may be offset by increases in rates for other services.

Q. WHAT IS YOUR POSITION ON THIS ISSUE?

A. Local rates and the PAUSF are the appropriate mechanisms to recover the revenue deficiencies resulting from reduced RLEC intrastate access rates, thereby accomplishing

---

[2] Qwest Communications Corporation v. Superior Telephone Company, Iowa Utilities Board Docket Number FCU-07-2.

the statutory requirement that any RLEC intrastate access charge reductions occur in a revenue neutral manner. Although it is my understanding that PAUSF-related issues such the form and use of the fund will be addressed in a subsequent rulemaking proceeding, it is also my understanding that the Commission in its order re-opening this investigation requested that the parties address the linkage between access charge reform and the PAUSF and local rates. To this end, I recommend that any RLEC intrastate switched access charge reductions be offset, first, by local rates up to a benchmark rate that, if exceeded, would then trigger PAUSF support to cover amounts in excess of the benchmark.

Q. HOW WOULD THE BENCHMARKS BE USED TO OFFSET ACCESS RATE REDUCTIONS?

A. Before RLECs are allowed to receive access replacement funds from the PAUSF, local rates should increase to Commission-set benchmark rates. If setting basic local exchange rates at the benchmark level allows the RLECs to recover its reduced intrastate access charges in a revenue neutral manner, there is no need for PAUSF support. However, if there remains a revenue deficiency after rates have been increased to the benchmark level, this deficiency should be addressed via funds from the PAUSF. This seems to be the most equitable way in which to offset lost access revenues, as it would ensure that the end user customers of carriers are not burdened with supporting other carrier's customers who are not being charged rates commensurate with either the costs of their service or the rates charged to other end users in the state for comparable service.

Q. WHAT SHOULD THOSE BENCHMARK RATES BE?

A. Qwest recommends that the residential benchmark rates be set at 125 percent of the average Pennsylvania RLEC residence rate and the business benchmark be set at 125 percent of the average Pennsylvania RLEC business basic exchange rates. Using a 125 percent figure will help limit the need for significant increases in the PAUSF, thereby striking an appropriate balance between local rate affordability and the need for PAUSF assistance. This benchmark approach would be in lieu of the current rate cap regime in Pennsylvania.

Q. WHAT IS THE THIRD ISSUE THAT YOU WILL ADDRESS?

A. The impact on rural intrastate access rates and/or rate structures from any further federal action on intercarrier compensation, access, and universal service issues.

Q. WHAT IS YOUR POSITION ON THIS ISSUE?

A. While the activities occurring at the FCC are important, they do not imminently impact the states and current intercarrier compensation rules. Nearly eight years have passed since its inception in 2001 and the FCC's Intercarrier Compensation Docket has yet to produce any definitive resolution of the matter. The most recent activity in the fall of 2008 considered a compromise solution that appeared to focus on a single uniform termination rate and a ten year transition plan. However, following the receipt of comments, the plan was removed from the FCC's December meeting agenda. With the recent change in the Executive Branch, whatever momentum may have existed at the FCC level appears to have dissipated and no definitive FCC action in this docket appears imminent. The continued lack of progress on these issues with the FCC means that there are no federal regulatory initiatives with which to coordinate, making this the right time for the Commission to address the intrastate access charges of rural carriers. I would note that, even if the FCC were to act quickly on intercarrier compensation at the federal level, the FCC decision would only address *interstate* access, as FCC preemption of the states on intrastate access charges is highly unlikely.

Q. WHAT IS THE FOURTH ISSUE THAT YOU WILL ADDRESS?

A. Whether further rural intrastate access charge reform is necessary in light of the elimination in Act 183 of the mandatory access reductions that were contained in the original Chapter 30 law in Act 183.

Q. WHAT IS YOUR POSITION ON THIS ISSUE?

A. The elimination of the mandatory access reductions in no way lessens the need to lower rural access rates. To begin, my read of Act 183, as a non-attorney, is that it authorizes further access charge reductions as long as the reductions are revenue neutral. If anything, the elimination of the mandatory access charge reductions makes the Commission action in this docket all the more important because of the need to reduce existing arbitrage opportunities and encourage competition by putting all market participants on a level playing field. Such a result cannot occur without Commission action.

VIII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. RLEC intrastate switched access rates in Pennsylvania should be lowered on a revenue neutral and competitively neutral basis, through local rate and PAUSF support. QCC proposes that Verizon's switched access rates are the appropriate rate level for all LECs in Pennsylvania, including the RLECs. Given that no FCC action is imminent in the Unified Intercarrier Compensation Docket, it is time for the Commission to act now on further RLEC intrastate access charge reform.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers and The Pennsylvania Universal Service Fund	:	**Docket No. I-00040105**
AT&T Communications of Pennsylvania, LLC Complainant	:	
v.	:	**Docket No. C-2009-2098380, et al.**
Armstrong Telephone Company - Pennsylvania, et al. Respondents	:	

RECEIVED
APR 20 2010
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

REBUTTAL TESTIMONY

OF

WILLIAM R. EASTON

QWEST COMMUNICATIONS COMPANY

QCC STATEMENT NO. 1-R

MARCH 10, 2010

Qwest Stmt. 1-R
I-00040105
C-2009-2098380
4-14-10
Harrisburg JS

INDEX OF TESTIMONY

I. INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME, TITLE AND ADDRESS.

A. My name is William R. Easton. I am employed by Qwest Corporation as Director – Wholesale Advocacy. My business address is Room 1505, 1600 7th Avenue, Seattle, WA, 98191.

Q. ARE YOU THE SAME WILLIAM R. EASTON WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond on behalf of Qwest Communications Company, LLC ("QCC") to specific issues raised in the January 20th testimony filed by Dr. Loube on behalf of the Office of Consumer Advocate ("OCA"), Mr. Wilson on behalf of the Office of Small Business Advocate ("OSBA"), Mr. Kubas on behalf of the Office of Trial Staff ("OTS") and Mr. Zingaretti on behalf of the Pennsylvania Telephone Association companies ("PTA"). My testimony will be organized by section, with separate sections devoted to discussing the issues raised by each party.

III. TESTIMONY OF OCA

Q. ON PAGE 3 OF HIS DIRECT TESTIMONY, DR. LOUBE ARGUES THAT THE LONG DISTANCE CARRIERS WISH TO BE RELIEVED OF THEIR OBLIGATION TO SUPPORT THE JOINT AND COMMON NETWORK COSTS THAT ARE A PART OF ACCESS CHARGES. IS THAT QCC'S OBJECTIVE IN THIS PROCEEDING?

A. No. As I noted in my direct testimony, the critical issue for QCC is to lower rural Local Exchange Carrier ("RLEC") access rates in a revenue-neutral and competitively-neutral manner to establish a level playing field for all participants, thus reducing existing arbitrage opportunities and encouraging competition.

Q. ON PAGE 10 OF HIS TESTIMONY, DR. LOUBE PROPOSES THAT RLEC ACCESS RATES BE SET EQUAL TO THEIR RESPECTIVE INTERSTATE RATES. DO YOU BELIEVE THAT THIS APPROACH ADDRESSES THE CRITICAL ISSUE OF REDUCING THOSE CHARGES IN A REVENUE AND COMPETITIVELY NEUTRAL MANNER?

A. No. While Dr. Loube's overall proposal may indeed reduce some access rates, it does not do so in a competitively-neutral manner because it will not level the playing field between all market participants. Just as there is great variability in intrastate switched access rates, there is also great variability in interstate switched access rates. It is QCC's experience that some PA RLECs have quite high interstate switched access rates. Because of the rural switched access rules at the FCC, small RLECs are allowed to charge much higher interstate access rates than larger Incumbent Local Exchange Carriers ("ILECs"). In fact, QCC found that there were RLECs in Iowa (where Traffic Pumping was rampant) charging as much as 13 cents per minute for *inter*state traffic. It is this variability, or disparity in rates, that gives rise to arbitrage opportunities and abuses such as the Traffic Pumping schemes that I discussed in my direct testimony. Thus, a rule that intrastate rates must not exceed interstate rates may have no beneficial effect on lowering intrastate switched access rates.

By contrast, QCC proposes that RLEC intrastate switched access rates mirror the intrastate switch access rates of the Regional Bell Operating Company ("RBOC"), which in this case is Verizon Pennsylvania. Setting rates at this level will reduce competitive distortion by eliminating the variability between RLEC and Verizon intrastate access rates. This places all carriers on a level playing field in terms of their access rates and greatly reduces the opportunities for abuses such as Traffic Pumping.

Q. ON PAGE 9 OF HIS TESTIMONY, DR. LOUBE ARGUES THAT, IF THE COMMISSION ORDERS A REDUCTION IN ACCESS RATES, IT SHOULD REQUIRE AN "EQUAL ACROSS-THE-BOARD REDUCTION IN TOLL RATES." WOULD SUCH A TOLL REDUCTION BE APPROPRIATE?

A. No. First, it is important to note that long-distance rates are not typically set on a state by state basis, meaning that there are no retail long distance rates that are unique to

Pennsylvania. Rather, long-distance rates are set on a national basis using a model that includes access costs for multiple jurisdictions. Second, the toll market in Pennsylvania is mature and highly competitive, a fact acknowledged with the designation under Pennsylvania law of interexchange services provided by interexchange carriers ("IXCs") as "competitive" and thus, not subject to the Commission's ratemaking jurisdiction.[1] In such a competitive market, mandating access charge reduction flow-through is unnecessary, given that long-distance rates tend to move towards the long-run incremental cost of providing service over time. Finally, I would point out that several years ago, when this Commission reduced Verizon North, Inc. intrastate access rates to the Verizon Pennsylvania, Inc. level, no flow-through reduction in toll rates was required.[2]

Q. ON PAGES 11-12 OF HIS DIRECT TESTIMONY, DR. LOUBE PROPOSES THE ELIMINATION OF THE CARRIER COMMON LINE CHARGE ("CCLC") TO BE REPLACED BY A PER-LINE PA UNIVERSAL SERVICE FUND ("USF") CHARGE. DOES QCC BELIEVE THAT THIS IS APPROPRIATE?

A. No. While QCC agrees that some reduction in the CCLC is warranted and that any reductions should be meted out in a revenue neutral manner, the proposal is not appropriate. The CCLC in Pennsylvania is a per-line charge, not a per-minute charge. Therefore, under Dr. Loube's proposal, the CCLC would simply be replaced by a corresponding per-line USF charge. This proposal would not result in any meaningful access reform, as the only thing

[1] *See* 66 Pa C.S. 3018(a).
[2] *AT&T Communications of Pennsylvania, LLC v. Verizon North, Inc. and Verizon Pennsylvania, Inc. et al.*, Docket Nos. C-20017195, et al. (Opinion and Order entered July 28, 2004).

that this proposal would really change is the name of the charge paid by the IXCs. I would also note that the Verizon access rates contain a CCLC charge. Therefore, consistent with QCC's proposal that RLEC intrastate access rates be set at the Verizon Pennsylvania level, any reduction in CCLC should only be to the Verizon CCLC level, and any reductions should first be recovered by the RLECs through local rate increases before invoking the USF.

Q. ON PAGE 13 OF HIS TESTIMONY, DR. LOUBE PROPOSES THAT RLEC RESIDENTIAL RATES BE BENCHMARKED TO 120% OF THE VERIZON PENNSYLVANIA LEVEL. PLEASE COMMENT.

A. As I discussed in my direct testimony, QCC agrees with the use of a benchmark approach to setting RLEC local rates. And, while QCC believes that its proposed 125% benchmark approach would provide a less significant increase in the USF compared to the OCA proposal, and thus, would strike a more appropriate balance between local rate affordability and the need for USF assistance, QCC would not object to a benchmark set at 120% of the Verzion Pennsylvania level. And, to the extent that either a 120% or 125% benchmark results in a particular RLEC rate exceeding the $18.00 cap on residential basic local exchange service, counsel informs me that the Commonwealth Court of Pennsylvania has recently affirmed the Commission's decision that this rate cap can be exceeded for such a purpose.[3]

---

[3] *Buffalo Valley Telephone Company, et al. v. Pa. Pub. Util. Comm'n*, __ A.2d __ (Pa. Cmwlth. 2010),

Q. ON PAGES 16 AND 17 OF HIS DIRECT TESTIMONY, DR. LOUBE PROPOSES EXPANDING USF CONTRIBUTORS TO INCLUDE "ANY SERVICE PROVIDER THAT USES THE PUBLIC SWITCHED TELEPHONE NETWORK." PLEASE COMMENT.

A. While QCC is generally supportive of the proposal to expand Pennsylvania USF contributors and believes that wireless carriers should be included as contributors, QCC believes that it would be premature at this time to include Voice over Internet Protocol ("VoIP") service providers as PA USF contributors. In its *Vonage Order*[4], the Federal Communications Commission ("FCC") preempted an order of the Minnesota Public Utilities Commission that applied Minnesota's traditional telephone company regulation to Vonage's VoIP service, finding that VoIP cannot be separated into interstate and intrastate communications for compliance without negating valid federal policies and rules. The FCC made clear that it was the responsibility of the FCC, not state commissions, to decide whether certain regulations apply to VoIP services.

Q. WHY IS IT IMPORTANT THAT THE COMMISSION REFRAIN FROM ASSESSING ITS UNIVERSAL SERVICE SURCHARGE ON INTERSTATE TELECOMMUNICATIONS SERVICES?

A. In addition to the state limitations regarding regulation of VoIP service established in the

[4] *See Vonage Holdings Corporation Petition for Declaratory Ruling Concerning an Order of the Minnesota Public Utilities Commission*, WC Docket No. 03-211, Memorandum Opinion and Order, 19 FCC Rcd 22404 (2004) (Vonage Order).

Vonage Order, federal statutory law (47 U.S.C. § 254(f)) requires that any State USF regulations must not be "inconsistent with the [FCC's] rules to preserve and advance universal service." That section permits states to require "telecommunications carrier[s] that provide intrastate telecommunications services" to contribute to state universal funds. However, any state USF regulations must "not rely on or burden Federal universal support mechanisms." Consequently, to the extent that Dr. Loube's recommendation on expanding PA USF contributors reaches providers of non-intrastate communications such as VoIP providers, it would appear to conflict with both the *Vonage Order* and federal statutory law.

Q. ON PAGE 45 OF HIS TESTIMONY, DR. LOUBE DISAGREES WITH QCC'S PROPOSAL TO HAVE RLEC ACCESS RATES MIRROR THE VERIZON ACCESS RATES, ARGUING THAT RATES SHOULD REFLECT THE RLECS COST OF SERVICE. DO YOU AGREE?

A. No. With the exception of loop costs, QCC does not believe that there are significant cost of service differences between carriers. Moreover, to the extent there are cost differences, such as with loop costs, they should be addressed first through basic exchange rates and then through the PA USF. This is a reasonable approach, given that the cost of the loop should be borne by the cost causer (the end user) with support from a USF for very high loop costs and not through a market-distorting subsidies imposed on long-distance carriers. By addressing loop costs in this way, Verizon's access rates are an appropriate benchmark for the RLECs.

Q. ON PAGES 45-46, DR. LOUBE ALSO ARGUES THAT THE ELIMINATION OF "THE RATE DIFFERENTIAL BETWEEN THE INTRASTATE AND INTERSTATE RATES FOR ANY GIVEN CARRIER AND AMONG CARRIERS IS DRAMATICALLY REDUCED AND THE INCENTIVE TO ENGAGE IN TRAFFIC PUMPING ACTIVITIES DECREASES." PLEASE COMMENT.

A. While I agree that eliminating the rate differential between inter- and intrastate rates for a given carrier will reduce arbitrage opportunities that may have encouraged carriers to have their traffic identified as interstate, the OCA proposal does nothing to address the arbitrage opportunities existing with the Pennsylvania RLEC intrastate access rates that have led to Traffic Pumping. In contrast, the QCC proposal appropriately addresses the disparity between the relevant carriers by requiring that RLEC access rates mirror the access rates of the RBOC, Verizon Pennsylvania.

Q. ON PAGE 46 OF HIS TESTIMONY, DR. LOUBE CRITICIZES THE QCC PROPOSAL TO USE A STATEWIDE AVERAGE APPROACH, ARGUING THAT EVERY TIME AN RLEC RATE CHANGES IN RESPONSE TO THE STATEWIDE AVERAGE, THE STATEWIDE RLEC AVERAGE THEN CHANGES, LEADING TO A CONSTANTLY MOVING TARGET. IS THIS REALLY A CONCERN?

A. No. Dr. Loube's conclusion is correct only if one assumes that rate rebalancing takes place on a continual basis. If one assumes that rates are rebalanced annually, or every three years, there is no such problem since at any given time there exists a fixed statewide average.

IV. TESTIMONY OF OSBA

Q. ON PAGES 13-14 OF HIS DIRECT TESTIMONY, MR. WILSON ARGUES THAT QCC'S PROPOSAL TO SET ALL RURAL CARRIER INTRASTATE ACCESS RATES AT THE LEVEL OF THE VERIZON INTRASTATE RATES IGNORES THE FACT THAT THE RURAL COMPANIES HAVE A DIFFERENT COST STRUCTURE. PLEASE COMMENT.

A. As I discussed previously, with the exception of loop costs, QCC does not believe that there are significant cost differences between carriers. To the extent there are cost differences, they should be addressed first through basic exchange rates and then through the PA USF.

Q. ON PAGE 22 OF HIS TESTIMONY, MR. WILSON ARGUES QCC IS ADVOCATING INCREASED PA USF FUNDING AS AN AUTOMATIC OFFSET ENTITLEMENT WHENEVER RURAL ILEC ACCESS RATES ARE REDUCED. IS THAT THE POSITION THAT QCC PROPOSED IN ITS NOVEMBER 30TH TESTIMONY?

A. No. Mr. Wilson apparently did not understand or is mischaracterizing the QCC position on this issue. QCC's position is based on an understanding that Pennsylvania law requires the Commission to provide a revenue-neutral offset to carriers in instances where the Commission prescribes access reductions. For this reason, QCC proposes a rate rebalancing that would provide the RLECs the opportunity to recover lost subsidies, first, through a local rate increase and, if necessary, through additional PA USF support. As I described this rate rebalancing in my November 30th testimony, QCC proposes that any RLEC switched access charge reductions be offset, first, by local rates up to a benchmark rate that, if exceeded, would then trigger PA USF support to cover amounts in excess of the benchmark. Before RLECs are allowed to receive access replacement funds from the PA USF, local rates should increase to Commission-set benchmark rates, which QCC proposes be set at 125% of the average RLEC Pennsylvania rates, with separate benchmarks for business and residential rates. If setting basic local exchange rates at the benchmark level allows the RLECs to fully recover its reduced intrastate access charges in a revenue-neutral manner, there would be no need for PA USF support. However, if there remains a revenue deficiency after rates have been increased to the benchmark level, this deficiency should be addressed via funds from the PA USF. This seems to be the most equitable way in which to offset lost access revenues, as it would ensure that the end-user customers are not burdened with supporting other carrier's customers who are not being charged rates commensurate with either the costs of their service or the rates charged for comparable service.

V. TESTIMONY OF OTS

Q. ON PAGE 6 OF HIS DIRECT TESTIMONY, MR. KUBAS ARGUES THAT THE IXCS IN THIS DOCKET SIMPLY WANT TO LOWER ACCESS CHARGES IN ORDER TO REDUCE COSTS AND INCREASE PROFITS. DO YOU AGREE WITH THIS ARGUMENT?

A. No. I disagree with Mr. Kubas' characterization of the IXCs' positions and believe that this Commission also is interested in the broader issues involved in this proceeding, having stated in its 1999 *Global Order* its commitment to reduce implicit subsidy charges such as access charges that impede competition in the telecommunications market.[5] The changes to the competitive landscape in the intervening years, including the growth in wireless and the introduction of VoIP service, which are forms of competition that do not operate under the same access rules, has made a reduction in access charges even more critical. In addition to the impediment to competition, the wide disparity in rates that exists today between Verizon and RLECs provides opportunities for arbitrage and leads to abuses such as Traffic Pumping, which I discussed in my direct testimony. Ultimately, this proceeding is about creating a level playing field for all telecommunications carriers in the state.

---

[5] *Re Nextlink Pennsylvania, Inc.*, Docket No. P-00991648; P-00991649, 93 Pa.P.U.C. 172 at 10 (1999) ("*Global Order*"); *Access Charge Investigation per Global Order of September 30, 1999, et al.* Docket Nos. M-00021596, et al. (Opinion and Order entered July 15, 2003).

Q. ON PAGE 27 OF HIS TESTIMONY, MR. KUBAS POINTS OUT THAT QCC HAS CHANGED ITS ADVOCACY FROM WHAT IT PROPOSED IN DOCKET NO. C-20027195, WHICH IS THE PROCEEDING ESTABLISHING PARITY BETWEEN INTRASTATE ACCESS CHARGES IN THE VERIZON NORTH, INC. AND VERIZON PENNSYLVANIA, INC. SERVICE TERRITORIES. PLEASE COMMENT.

A. It is true that at one time QCC had advocated for interstate parity both as an RBOC as well as an IXC. However, the blossoming of arbitrage situations such as the Traffic Pumping that I discussed in my direct testimony has led QCC to reconsider and refine that advocacy. By adopting a uniform intrastate rate that is in line with the Verizon rate, this arbitrage opportunity is reduced for intrastate traffic, which would not be the case if all the ~~CLEC~~ RLEC is required to do is lower their intrastate rate to a disproportionately high interstate rate.

Q. ON PAGE 27, MR. KUBAS STATES QCC IS RECOMMENDING THAT THE RLEC'S CCLC BE REDUCED TO THE VERIZON RATE OF $0.58. MR. KUBAS THEN CONVERTS THAT PER-LINE RATE TO A PER-MINUTE RATE THAT HE USES TO COMPARE TO THE PER-MINUTE INTRASTATE SWITCHED ACCESS RATES OF QCC'S ILEC AFFILIATE. WHAT IS YOUR RESPONSE?

A. Mr. Kubas' CCL analysis is flawed in a number of ways. Although Mr. Kubas is quick to cite the eight states where QCC's ILEC has a CCL charge, he makes no mention of the fact that six Qwest states have no CCL, including large states such as Arizona, Oregon and Washington, and makes no attempt to include these states in his analysis. Consequently, Mr. Kubas' analysis arbitrarily inflates the Qwest ILEC CCLC. Mr. Kubas also mistakenly claims on page 28 of his testimony that Verizon's CCL on a per-minute basis is less than Qwest's CCL in Minnesota. Page 6 of his exhibit, OTS No. 1 shows that Minnesota has an originating CCL rate of $.001896 and a terminating rate of $.011202. Apparently, Mr. Kubas has chosen to focus only on the higher terminating rate. Averaging the two together yields a rate of $ .006549 which is, in fact, less than the Verizon rate. Finally, on page 29, Mr. Kubas claims that Qwest charges more than $ 0.58 per line in six states. Leaving aside the fact that he again mistakenly includes Minnesota in his count of states, Mr. Kubas provides no basis for converting the per-minute of use CCL charges to a per-line basis as is used in Pennsylvania. Without knowing the volume of switched access minutes and line counts in each state, there is simply no way to convert a per-charge to a per-line charge. For these reasons, Mr. Kubas' analysis and the conclusions he draws from it are not meaningful.

VI. TESTIMONY OF PTA

Q. ON PAGE 16 OF HIS DIRECT TESTIMONY, MR. ZINGARETTI STATES THAT "AT&T, SPRINT, QWEST AND COMCAST ASSERT THAT THE NEW RATE SHOULD BE EQUAL TO THE INTERSTATE RATE IN ALL RESPECTS, INCLUDING COMPLETE ELIMINATION OF THE CARRIER CHARGE." HAS HE ACCURATELY CAPTURED THE QCC PROPOSAL?

A. No. As I described previously in this testimony and in my prior direct testimony, the QCC proposal is that RLEC intrastate switched access rates should mirror the intrastate switch access rates of the RBOC, which in this case is Verizon Pennsylvania. This proposal would apply to both the per-minute traffic-sensitive charges and the CCLC. As I also noted previously, the QCC proposal does not call for the complete elimination of the CCLC. Consistent with QCC's proposal that RLEC rates be set at the Verizon Pennsylvania level, any reduction in CCLC should only be to the Verizon CCLC level.

Q. MR. ZINGARETTI ALSO STATES ON PAGE 16 OF HIS TESTIMONY THAT PA USF SUPPORT HAS BEEN TARGETED FOR ELIMINATION BY THE IXCS. HAS QCC PROPOSED TO ELIMINATE USF SUPPORT?

A. No. As described previously, QCC proposes a rate rebalancing that would provide the RLECs the opportunity to recover lost subsidies through a local rate increase and, if necessary, PA USF support.

Q. ON PAGES 47-49 OF HIS TESTIMONY, MR. ZINGARETTI ARGUES THAT, RATHER THAN TAKING ACTION NOW ON ACCESS RATES, THIS COMMISSION SHOULD WAIT FOR THE FCC TO COMPLETE ITS INTERCARRIER COMPENSATION PROCEEDING. PLEASE COMMENT.

A. Mr. Zingaretti makes it sound as if we may see an FCC ruling on intercarrier compensation any day now. However, the reality is that since the Commission first stayed the RLEC access charge investigation in 2005, we are in the fifth year of "imminent FCC action." While Mr. Zingaretti may believe that "it is inevitable that additional action very likely will be taken in the very near future," this same claim has been made since the FCC first opened its Notice of Proposed Rulemaking on the issue back in 2001, and there is certainly no reason to believe it is any more accurate now than it ever has been. Nearly nine years have passed since its inception in 2001, and the FCC's Intercarrier Compensation Docket has yet to produce any definitive resolution of the matter. With the recent change in the leadership of the FCC, whatever momentum that may have existed appears to have dissipated, and no definitive FCC action in this docket appears imminent. The continued lack of progress on these issues with the FCC means that there are no federal regulatory initiatives with which to coordinate, making this the right time for the Commission to address the intrastate access charges of rural carriers. Further, it is important to note that even if the FCC were to act quickly on intercarrier compensation at the federal level, the FCC decision would only address *interstate* access, as FCC preemption of the states on intrastate access charges is highly unlikely.

VII. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers and The Pennsylvania Universal Service Fund	:	**Docket No. I-00040105**
AT&T Communications of Pennsylvania, LLC Complainant	:	
v.	:	**Docket No. C-2009-2098380, et al.**
Armstrong Telephone Company - Pennsylvania, et al. Respondents	:	

RECEIVED
APR 20 2010
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

SURREBUTTAL TESTIMONY

OF

WILLIAM R. EASTON

QWEST COMMUNICATIONS COMPANY

QCC STATEMENT NO. 1-SR

APRIL 1, 2010

Quest Stmt. 1-SR
I-00040105
C-2009-2098380
4-14-10
Harrisburg

INDEX OF TESTIMONY

I. INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME, TITLE AND ADDRESS.

A. My name is William R. Easton. I am employed by Qwest Corporation as Director – Wholesale Advocacy. My business address is Room 1505, 1600 7th Avenue, Seattle, WA, 98191.

Q. ARE YOU THE SAME WILLIAM R. EASTON WHO FILED DIRECT AND REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. Yes.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond on behalf of Qwest Communications Company, LLC ("QCC") to specific issues raised in the March 10th testimony filed by Mr. Nurse and Dr. Oyefusi on behalf of AT&T Communications of Pennsylvania ("AT&T").

III. TESTIMONY OF AT&T

Q. BEFORE DISCUSSING THE SPECIFICS OF THE AT&T TESTIMONY, COULD YOU PLEASE BRIEFLY DESCRIBE HOW THE ACCESS RATE PROPOSALS OF AT&T DIFFER FROM THE QCC PROPOSAL?

A. As I noted in both my direct and rebuttal testimony, QCC proposes that Verizon's intrastate switched access rates be adopted as the appropriate switched access rate level for all rural Local Exchange Carriers ("RLECs") in Pennsylvania. By contrast, AT&T (as well as the Office of Consumer Advocate) proposes that RLEC access rates be set to equal their respective interstate switched access rates.

Q. ON PAGE 49 OF ITS TESTIMONY AT&T STATES THAT IT IS ASKING THE COMMISSION TO "LEVEL THE PLAYING FIELD AND REMOVE REGULATORY PRICING DISTINCTIONS THAT GIVE SOME TYPES OF CARRIERS A COMPETITIVE ADVANTAGE OVER OTHERS." DOES THE AT&T SWITCHED ACCESS RATE PROPOSAL ACTUALLY ACCOMPLISH THIS OBJECTIVE?

A. No. Although it levels the playing field in the sense that all carriers in the state will mirror their interstate switched access rates for intrastate purposes, it does not remove the regulatory pricing distinctions that give some carriers a competitive advantage over other carriers. As I noted in my rebuttal testimony, just as there exists great variability in intrastate switched access rates, there is also great variability in interstate switched access rates. It is QCC's experience that some Pennsylvania RLECs have quite high interstate switched access rates relative to other carriers in the state. Thus, a rule that intrastate rates must not exceed interstate rates may have no beneficial effect on creating a level playing field for all carriers.

Q. ON PAGE 52 OF ITS TESTIMONY AT&T ARGUES THAT ITS SWITCHED ACCESS RATE PROPOSAL WILL REDUCE WASTEFUL ARBITRAGE ACTIVITIES. PLEASE COMMENT.

A. Since there are a number of different arbitrage schemes which are occurring in the industry today, it is important to be clear about which arbitrage activities are being addressed by a specific rate proposal. As I have used the term in my testimony, "arbitrage" in the communications industry means routing traffic in such a manner to take advantage of discrepancies in rates. One form of arbitrage, and apparently the form that AT&T is discussing, has to do with taking advantage of the differences between interstate and intrastate access rates by disguising the jurisdiction of the call to capitalize on the typically lower interstate switched access rates. It is the local exchange carriers who are harmed by this type of arbitrage. Another form of arbitrage, one which again harms local exchange carriers, is a scheme which capitalizes on the different rates for terminating local calls as opposed to long distance calls. By disguising the nature of the call to have it appear as if a long distance call is actually a local call, carriers can pay reciprocal compensation rates instead of the much higher switched access rates. Finally, there is a form of arbitrage which capitalizes on the high switched access rates charged by some local exchange carriers. In this form of arbitrage, unlike the previous two forms, it is the IXCs who are the targets. An example of this type of arbitrage is "traffic pumping." As I described it in my earlier testimony, in a traffic pumping scheme, IXC traffic is deliberately routed by third parties to rural carriers with high access charges. These third parties are known as Free Calling Service Companies ("FCSCs"), and they partner via confidential contracts with RLECs to take advantage of their high switched access rates. The access charge revenues paid by the IXCs can then be profitably shared by the rural carrier and its partner FCSC under the terms of the confidential contract. It is this third form of arbitrage that, given its recent experience in Iowa, QCC is particularly concerned with and which its rate proposal seeks to address. Establishing a common basis for rates (i.e. the Verizon intrastate switched access level) will reduce traffic pumping forms of arbitrage and encourage competition by putting all market participants on a level playing field.

Q. WHY IS QWEST MORE CONCERNED ABOUT TRAFFIC PUMPING THAN THE MISJURISDICTIONALIZING OF TRAFFIC?

A. To be clear, QCC is concerned about both of these forms of arbitrage but believes that there are already FCC rules which adequately address the jurisdictionalization issue, such as 47 CFR sec. 64.1601 which requires carriers, for purposes of caller id, to pass on the calling party number which is necessary information to appropriately identify the jurisdiction of the call. In addition, the issue of jurisdictionalizing traffic can be addressed in switched access tariffs which provide terms and conditions for originating and terminating switched access traffic. However, with the issue of traffic pumping, Qwest believes that some action is required from this Commission. From an intrastate perspective Qwest believes the most appropriate way to address the traffic pumping issue is to eliminate the exorbitant intrastate switched access rates charged by some RLECs. Qwest's rate proposal does just this by adopting a common switched access rate level for all carriers.

Q. AT&T HAS ARGUED IN ANOTHER PROCEEDING THAT ELIMINATING RATE VARIABILITY ON THE INTRASTATE SIDE WILL MERELY SHIFT TRAFFIC PUMPING TO THE INTERSTATE JURISDICTION. DO YOU BELIEVE THIS TO BE THE CASE?

A. It may, or may not be the case, but the fact is that this Commission only has responsibility for the intrastate jurisdiction and should therefore adopt whatever rules and policies are necessary to reduce intrastate arbitration schemes. To the extent adopting a common intrastate rate shifts arbitrage schemes to the interstate jurisdiction, it is the responsibility of the FCC to address the interstate aspects of the issue.

Q. THE FCC RECENTLY RELEASED A REPORT TITLED *CONNECTING AMERICA: THE NATIONAL BROADBAND PLAN*[1]. DOES THIS PROPOSAL HAVE ANY BEARING ON THIS PROCEEDING?

A. No, I do not believe so. Amongst other proposals, this report proposes that in the next two to four years intrastate switched access rates be brought to the interstate level, a proposal much like what AT&T is proposing here. However, first, it is important to note that the

[1] *Connecting America: The National Broadband Plan.* FCC Staff (March 17, 2010).

FCC's broadband report is just a report, it is not an order or even a Notice for Proposed Rulemaking ("NPRM"). It is my understanding that this report will lead to multiple NPRMs soliciting comments on the issues the report raises. Given the recent history of inaction on NPRMs at the FCC, such as the intercarrier compensation NPRM which was issued nearly 9 years ago, there are concerns related to when, and if, the proposals in the report will actually be enacted. Secondly, although the Broadband report proposes an initial step of moving intrastate switched access rates to interstate levels, ultimately the FCC proposes to transition all intercarrier compensation terminating rates to a uniform rate per carrier arguing that this "is an important step to eliminate inefficient economic behavior."[2] This ultimate step recognizes, as does the Qwest rate proposal in this proceeding, that variability in carrier rates needs to be addressed. Qwest believes that its rate proposal in this proceeding represents and appropriate step towards the more comprehensive intercarrier compensation reform envisioned by the FCC and respectfully requests that it be adopted by this Commission.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

---

[2] Id., p. 149.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers and The Pennsylvania Universal Service Fund	:	**Docket No. I-00040105**
AT&T Communications of Pennsylvania, LLC **Complainant**	:	
v.	:	**Docket No. C-2009-2098380, et al.**
Armstrong Telephone Company - Pennsylvania, et al. **Respondents**	:	

RECEIVED
APR 20 2010
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

REJOINDER TESTIMONY

OF

WILLIAM R. EASTON

QWEST COMMUNICATIONS COMPANY

QCC STATEMENT NO. 1-RJ

APRIL 8, 2010

Qwest Stmt. 1-RJ
I-00040105
C-2009-2098380
4-14-10
Harrisburg JS

INDEX OF TESTIMONY

I. INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME, TITLE AND ADDRESS.

A. My name is William R. Easton. I am employed by Qwest Corporation as Director – Wholesale Advocacy. My business address is Room 1505, 1600 7th Avenue, Seattle, WA, 98191.

Q. ARE YOU THE SAME WILLIAM R. EASTON WHO FILED DIRECT, REBUTTAL AND SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. Yes.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond on behalf of Qwest Communications Company, LLC ("QCC") to specific issues raised in the April 1st surrebuttal testimony filed by Mr. Nurse and Dr. Oyefusi on behalf of AT&T Communications of Pennsylvania ("AT&T") and Mr. Kubas on behalf of the Office of Trial Staff ("OTS").

III. TESTIMONY OF AT&T

Q. ON PAGE 15 OF ITS TESTIMONY AT&T EXPRESSES CONCERN THAT THE QCC PROPOSAL WILL CONTINUE TO CREATE ARBITRAGE OPPORTUNITIES DUE TO DIFFERENCES BETWEEN CARRIERS INTER AND INTRASTATE RATES. PLEASE COMMENT.

A. As I noted in my surrebuttal testimony, capitalizing on differences between inter and intrastate switched access rates is only one form of arbitrage that is occurring today. Although Qwest is concerned about this particular form of arbitrage, it believes that it can effectively be addressed through existing rules and tariff language. As I discussed in my previous testimony, QCC's rate proposal is designed to address forms of arbitrage, such as traffic pumping, which capitalize on the high switched access rates charged by some local exchange carriers. AT&T's proposal does nothing to address this type of arbitrage. In fact, the data in AT&T Panel Surrebuttal Attachment 2 makes clear that, under the AT&T proposal, there would continue to be a great disparity in switched access rates, with some carriers charging as little as $.0052 and others being allowed to charge as much as $.0467. This type of quantitative rate disparity enables arbitrage, including traffic pumping.

Q. ON PAGE 15 OF ITS TESTIMONY AT&T STATES THAT QCC'S PROPOSAL RESULTS IN HIGHER ADMINISTRATIVE COSTS AND INEFFICIENCY DUE TO THE NEED TO HAVE SEPARATE INTER AND INTRASTATE RATES. IS THIS A LEGITIMATE CONCERN?

A. No. If we were building a billing system from scratch, clearly it would be more efficient to have only one set of switched access rates, however, that is not the situation that we face here, where all carriers currently have systems in place which contain the logic to bill using separate inter and intrastate rates. As a result, there will not be any increase in administrative expenses associated with the Qwest proposal. While AT&T may argue that, under its proposal, administrative expenses may go down, it is unlikely that any carriers are actually going to reprogram their systems to eliminate the billing of separate inter and intrastate rates. A simpler solution would be to maintain the existing system logic, but use the same rates for inter and intrastate purposes. This is particularly true given that many carriers operate in multiple states and would need to maintain the existing logic for states where inter and intrastate switched access rates are not the same.

Q. ON PAGE 16 OF ITS TESTIMONY AT&T ARGUES THAT THE QCC PROPOSAL WOULD PRODUCE WINNERS AND LOSERS AMONG THE RLECS. ISN'T THIS TRUE OF THE AT&T PROPOSAL AS WELL?

A. Yes. This is clear when one looks at the data in AT&T's Panel Surrebuttal Attachment 2. To reach parity with FCC rates, some RLECs are going to have to reduce rates by a larger percentage than others, with one carrier increasing its rates (Armstrong North) and others reducing rates by as much as 668% (Citizens of Kecksburg). The real issue is not whether there are winners or losers, but whether the resulting rates are reasonable and address the existing arbitrage opportunities. QCC believes that its proposal places all carriers on a level playing field in terms of their access rates, the rates are reasonable and they greatly reduce the opportunities for abuses such as traffic pumping.

Q. ON PAGE 17 OF ITS TESTIMONY AT&T CRITICIZES THE QWEST PROPOSAL BECAUSE IT "TREATS ALL RLECS THE SAME, REGARDLESS OF SIZE AND REGARDLESS OF ANY COST DIFFERENCES REFLECTED IN THEIR INTERSTATE RATES." IS THIS A DRAWBACK OF THE QWEST PROPOSAL?

A. No, this is the strength of the QCC proposal which, as I just discussed, seeks to place all carriers on a level playing field. Qwest is not denying that there may be legitimate cost differences but believes that any such differences are more appropriately addressed first through basic exchange rates and then through the PA USF.

Q. AT&T ARGUES ON PAGE 18 THAT QCC IGNORES THE FACT THAT SUBSIDIES ALLOW RELECS TO CHARGE ARTIFICIALLY LOW RATES FOR LOCAL SERVICE. PLEASE COMMENT.

A. QCC believes that its proposal does in fact address the subsidies issue. The data in AT&T's Panel Surrebuttal Attachment 2 indicates that the QCC proposal would lower intrastate switched access rates for all but three of the RLECs. The QCC proposal further addresses the issue of realistic local rates through the use of a benchmark rate which must be met prior to receiving PAUSF funds. In fact, QCC believes that its proposal more fully addresses the issue of subsidies and places all carriers on an even playing field, a claim

AT&T cannot make given the huge variability in carrier switched access rates shown in AT&T's Panel Surrebuttal Attachment 2.

IV. TESTIMONY OF OTS

Q. MR. KUBAS AGAIN TAKES QCC TO TASK FOR ITS PROPOSAL TO LOWER THE RLEC CARRIER COMMON LINE CHARGE ("CCLC") TO THE VERIZON LEVEL, NOTING THAT QWEST'S ILEC AFFILLIATE HAS A HIGHER CCLC RATE IN SOME OF ITS STATES. BEFORE ADDRESSING MR. KUBAS'S SPECIFIC CRITICISMS, COULD YOU PLEASE COMMENT ON THE RELEVANCE OF THIS ISSUE TO THIS PROCEEDING.

A. I do not believe that this issue has any particular relevance to this proceeding. Commissions in each state follow their own rules and statutes and the telecommunications carriers operating in each state are bound by those rules. Different commissions in Qwest's 14 state ILEC territory have handled the issue of CCLC in different ways and Qwest has complied with these various commission rulings. How these other commissions have chosen to handle CCLC has no relevance to Qwest's proposal for CCLC in this proceeding.

Q. ON PAGE 8 OF HIS TESTIMONY, MR. KUBAS CONCEDES THAT THE AVERAGE CCLC RATE IN MINNESOTA IS LESS THAN THE VERIZON CCLC IN PENNSYLVANIA BUT ARGUES THAT "SINCE THE TERMINATING CCLC

IS HIGHER THAN VERIZON'S CCLC, THE CCLC IN MINNESOTA SHOULD BE CONSIDERED HIGHER THAN THE CCLC RATE VERIZON CHARGES IN PENNSYLVANIA." IS THIS A LOGICAL CONCLUSION?

A. No, no more so than concluding that since the originating CCLC in Minnesota is lower than the Verizon CCLC, the Minnesota CCLC should be considered to be lower than Verizon's CCLC. If Mr. Kubas is truly attempting to compare CCLC rates across states, he cannot simply ignore the originating CCLC because it is inconsistent with his argument.

Q. MR. KUBAS THEN GOES ON TO CRITICIZE YOUR TESTIMONY ON THIS ISSUE, ARGUING THAT RATHER THAN ADDRESSING THE FACT THAT QWEST HAS A HIGHER CCLC IN SEVERAL STATES, YOU HAVE CHOSEN TO QUIBBLE OVER ONE OR TWO STATES. DO YOU AGREE ?

A. No. The importance of focusing on the broader picture, rather than focusing on particular states is apparently one area Mr. Kubas and I can agree on. That is why I pointed out in my rebuttal testimony that, if you want to do a CCLC comparison with the Qwest states, it is important to look at all of the Qwest states in total, not just the states with a higher CCLC. Since Minnesota's average CCLC is less than the Verizon Pennsylvania CCLC, and since six Qwest states have no CCL, including large states such as Arizona, Oregon and Washington, arguably the overall Qwest CCLC level is lower than what Qwest is proposing in this proceeding,

V. CONCLUSION

Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers and the Pennsylvania Universal Service Fund	:	**Docket No. I-00040105**
AT&T Communications of Pennsylvania, LLC **Complainant** **v.** **Armstrong Telephone Company - Pennsylvania, et al.** **Respondents**	:	**Docket No. C-2009-2098380, et al.**

STATEMENT NO. 1.0

DIRECT TESTIMONY

OF

MICHAEL D. PELCOVITS

ON BEHALF OF

COMCAST PHONE OF PENNSYLVANIA, LLC and COMCAST BUSINESS COMMUNICATIONS, LLC

DATED: November 30, 2009

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Michael D. Pelcovits. I am a principal with the economic consulting firm of Microeconomic Consulting and Research Associates (MiCRA). My business address is 1155 Connecticut Avenue, N.W., Washington, D.C. 20036.

Q. PLEASE DESCRIBE YOUR QUALIFICATIONS AND EXPERIENCE AS THEY PERTAIN TO THIS PROCEEDING.

A. I received my Ph.D. in Economics from the Massachusetts Institute of Technology in 1976. After serving on the economics faculty of the University of Maryland and as a Senior Economist at the Civil Aeronautics Board, I have spent my entire career specializing in the economics of regulation and competition in the telecommunications industry.

From 1979 to 1981, I was a Senior Economist at the Federal Communications Commission, Office of Plans and Policy. From 1981 to 1988, I was a founding member and principal of the consulting firm Cornell, Pelcovits and Brenner. In 1988 I joined MCI Communications Corporation and remained with the Company following its merger with WorldCom, until 2002. I held positions of increased responsibility at MCI, and was appointed Vice President and Chief Economist of the corporation. In this position I was responsible for the economic analyses of policy and regulatory matters provided and presented by the

Corporation before federal, state, foreign, and international government agencies, legislative bodies and courts.

I have written a number of professional publications on economic and regulatory issues. I have also appeared and spoken frequently before government bodies, regulatory, industry, and academic forums. I have also testified over thirty times before state regulatory commissions. The details of my background are included in my attached curriculum vitae, as Attachment MDP-1.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THIS COMMISSION?

A. Yes. I testified in an earlier phase of Docket No. I-00040105 involving rate cap and universal service fund issues. I have also testified in Docket Nos. C-20027195, I-00030096, I-00030099 and R – 00049524.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A. I am testifying on behalf of Comcast Phone of Pennsylvania, LLC and Comcast Business Communications, LLC, (hereafter "Comcast").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address the issues set forth by the Pennsylvania Public Utility Commission ("Commission") in its Order entered August 5, 2009 in this docket,[1] and the Administrative Law Judge's Order Addressing Scope of Consolidated Proceedings dated September 15, 2009.[2] The Commission's Order removed the stay of the intrastate access charge portion of the investigation that had been in effect since August 30, 2005. The Commission explained that the longstanding delay by the FCC in resolving the national intercarrier compensation issues could no longer justify a delay in examining intrastate access charges in Pennsylvania. The Commission also consolidated this investigation at Docket No. I-00040105 with 96 complaints regarding excessive access charges, and ordered that the parties should address the linkages between any FCC ruling in its *Unified Intercarrier Compensation* proceeding, the intrastate access charge reform for rural ILECs, the Pennsylvania USF, and the potential effects on rates for basic local exchange services of rural ILECs.

The *Order Addressing Scope* elaborated and clarified the subjects that are to be considered in this proceeding. The specific issues in this Order that I will address in my testimony and the corresponding page reference in the order are listed below:

1. Whether intrastate access charges should be further reduced (p.14).
2. The impact on rural intrastate access charges of any further federal action on intercarrier compensation (p. 20).

[1] Docket No. I-00040105, *Order*, entered August 5, 2009(hereinafter *Order*).

[2] Docket No. I-00040105, and Docket No. C-2009-209830, et al, *Order Addressing Scope of Consolidated Proceedings* (September 15, 2009) (hereinafter *Order Addressing Scope*)

3. The linkages between access charge reductions and the Pa-USF or retail rate increases to recover access reductions (p. 18).
4. Intrastate access charge reform in view of the new Chapter 30 law (p. 22).

In the next section, I will explain the need for and importance of reducing intrastate access charges as soon as possible. In the following section, I will provide a recommendation on how the Commission should handle the Chapter 30 requirements for revenue neutrality.

II. CONSUMER AND COMPETITIVE HARM FROM EXCESSIVE INTRASTATE ACCESS CHARGES

Q. WHAT IS THE LEVEL OF INTRASTATE ACCESS CHARGES OF THE RURAL ILECS?

A. Intrastate switched access charges are composed of several different rate elements, including: local switching, local transport, tandem switching, and carrier common line. For most purposes it is reasonable to consider the "composite" rate, which is the average charge per minute for all of the rate elements. The composite intrastate switched access rates of the rural ILECs ("RLECs") range from **[BEGIN PROPRIETARY]** _____ **[END PROPRIETARY]** per minute to **[BEGIN PROPRIETARY]** ______ **[END**

PROPRIETARY] per minute.[3] The weighted average rate across all RLECs is **[BEGIN PROPRIETARY]** ___ **[END PROPRIETARY]** per minute.

Q. HOW DO THE RLECS' INTRASTATE ACCESS RATES COMPARE TO COST?

A. The cost of originating or terminating a switched access call is a minute fraction of these rates. According to evidence submitted by Sprint Nextel to the FCC, and cited in the FCC's Notice of Proposed Rulemaking on Intercarrier Compensation in November 2008, the national weighted average prices per minute for unbundled local switching was 0.058¢ and for common transport was 0.057¢.[4] These rates are based on a TELRIC standard, which includes allocation of fixed and common costs. The sum of these two components equals 0.115¢/minute, which is about **[BEGIN PROPRIETARY]** __________ **[END PROPRIETARY]** of the **[BEGIN PROPRIETARY]** ___ **[END PROPRIETARY]** average intrastate access charge of the rural ILECs. Sprint Nextel further observed that the rates for companies in the survey with a relatively

---

[3] Response by Pennsylvania Telephone Association to Interrogatory 1-24 of AT&T, October 9, 2009 (Attachment II hereto).

[4] *High Cost Universal Service Reform, et al.*, CC Docket Nos. 96-45, 99-200, 96-98, 01-92, 99-68, WC Docket Nos. 05-337, 03-109, 06-122, 04-36, Order on Remand and Report and Order and Further Notice of Proposed Rulemaking ¶ 254 (FCC 08-262 rel. Nov. 5, 2008) (hereinafter *High Cost Order*). The Sprint Nextel *ex parte* filing appears to exclude tandem switching, which according to the source document used by Sprint Nextel would add an additional 0.080¢ per minute to the cost of termination. *See* "A Survey of Unbundled Network Element Prices in the United States," Billy Jack Gregg, updated March 2006.

small number of lines was often lower than for companies with a large number of lines.

Q. HOW DO THE RLECS' INTRASTATE ACCESS CHARGES COMPARE TO OTHER RATES THAT COULD SERVE AS A BENCHMARK?

A. Intrastate switched access provides exactly the same network function as interstate switched access, yet for all but one RLEC, intrastate access charges are higher. As shown in the table below, intrastate access charges for all but one company are **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** than the interstate access charges. Indeed, for **[BEGIN PROPRIETARY]** ____________________ **[END PROPRIETARY]** intrastate access charges are at least twice the company's interstate charge, *i.e.*, more than **[BEGIN PROPRIETARY]** ______ **[END PROPRIETARY]** And the weighted average of intrastate access charges is **[BEGIN PROPRIETARY]** _______ **[END PROPRIETARY]** than the weighted average of interstate access charges. This demonstrates that intrastate access charges are excessive and provide significant subsidies, the need for which is not proven in today's environment.

Another useful benchmark for intrastate switched access rates is the "reciprocal compensation" rates, which apply to the termination of local exchange traffic. According to testimony filed in this case by AT&T witnesses Nurse and Oyefusi, the reciprocal compensation rates range between 0.07 cents and 0.28

cents per minute.[5] These rates are based on a TELRIC standard, as are the unbundled switching and transport rates. Therefore, I would expect them to be a much better measure of the cost of the network functions provided by intrastate switched access than interstate access charges, which are based off of historical average cost estimates.

---

[5] Panel Direct Testimony of E. Christopher Nurse and Dr. Ola A. Oyefusi, on behalf of AT&T Communications of Pennsylvania at 39 (July 2, 2009).

[BEGIN PROPRIETARY]

[END PROPRIETARY]

Q. WHAT DO YOU CONCLUDE ABOUT THE LEVEL OF THE RLECS' INTRASTATE ACCESS CHARGES BASED ON THESE MEASURES?

A. Based on any reasonable measure of cost or in relationship to rate benchmarks, the RLECs' intrastate access charges are much too high and must be reduced as soon as possible. This is especially true for terminating access charges, which impact other carriers' customers directly. (Originating access charges are correspondingly too high, but this "only" harms RLEC customers who would like to purchase long distance service from an independent carrier.) The historic practice of setting different rates for the exact same use of a local exchange network is not sustainable in the long run, and therefore over time, the RLECs' intrastate switched access charges, interstate access charges, and reciprocal compensation rates must be brought to the identical cost-based level. The right cost measure for call termination should be the long run incremental cost of usage, which is likely to be much lower than TELRIC, and be very close to zero.[6] As an alternative, all interconnection could evolve to a bill and keep regime, whereby carriers do not pay each other for terminating traffic from an agreed upon point of interconnection of the two networks. Under a bill and keep regime, each carrier would have to recover all of its costs from its own customers, and the incentive to engage in arbitrage schemes, as discussed later in my testimony, would be eliminated.

I understand that a flash-cut to an economically efficient interconnection regime is unlikely to be feasible in the short run. Therefore, the most beneficial first steps would be to reduce the terminating fees that are the most out-of-line with costs and with other charges for the exact same network function. A good

---

[6] *See generally High Cost Order* at ¶¶ 254-268.

step in this direction would be to adopt AT&T's proposal to reduce the RLECs' intrastate switched access rates to interstate levels. Although interstate access charges are well above cost, this disparity cannot be remedied by this Commission's actions. Nevertheless, unless and until the FCC acts on interstate access charges, this Commission can take action independently to remedy this egregious rate-to-cost disparity for almost all of the RLECs,

Q. **WHAT ARE THE BENEFITS OF REDUCING THE RLECS' INTRASTATE SWITCHED ACCESS CHARGES TO INTERSTATE LEVELS?**

A. There are three categories of benefits. First, reducing access charges will reduce the costs of the voice service providers that originate long distance calls, including other ILECs, CLECs, wireless carriers, and cable voice providers such as Comcast. It is not possible for these service providers to find an alternative to the RLECs' terminating access charges, and thus they must pay whatever rate an RLEC can charge lawfully. These high costs are then passed on as a hidden tax to the residential and business customers of the voice providers in the state of Pennsylvania. Consequently, if the Commission were to order a RLEC to reduce its intrastate access charges, this would reduce the costs of the other service providers and thereby put pressure on prices in the markets that they serve.

The second category of benefits would be a result of reducing the costs of actual and potential competitors in the geographic markets served by the RLECs. As in the more general case just described, the cost of terminating traffic to the

RLECs cannot be avoided by any other service provider – whether such carrier serves the same geographic area or another area in the State. Therefore, to the extent that the RLECs are permitted to assess excessive access charges on their direct competitors, RLECs enjoy an artificial competitive advantage which will reduce the intensity of competition to the detriment of the public that resides in their home markets.

The third category of benefits would result from the decreased incentive for companies to expend resources to find away to avoid paying these excessive access charges. Some of this behavior may be perfectly lawful (such as setting up voice private networks that use special access), but it is nonetheless wasteful and economically inefficient, if it would not occur were the access charges set at cost. Other behavior is potentially in violation of tariffs or interconnection agreements, such as misreporting intrastate calls as interstate or local, and is costly to the firms that engaged in these practices if they route traffic inefficiently. Also, it is costly to the RLECs that pursue legal remedies to collect higher intrastate access charges. Finally, above-cost intrastate access charges will also encourage carriers to expend efforts to stimulate incoming intrastate calling. For example, some ILECs have engaged in what is termed "traffic pumping" by encouraging conference calling, chat rooms or adult services that generate high volumes of incoming traffic. The common feature of all of this behavior is that scarce resources are being used to take advantage of artificial rate distinctions and rate levels.

III. THE NEED FOR LOCAL RATE INCREASES TO OFFSET ACCESS REDUCTIONS

Q. WOULD A REDUCTION IN INTRASTATE SWITCHED ACCESS RATES NEED TO BE ACCOMANIED BY AN INCREASE IN LOCAL RATES?

A. From a policy standpoint, there is no reason that local rates need to be increased to offset reductions in access charges. The traditional model of rate-of-return regulation, whereby the rates of regulated services were adjusted simultaneously and together to yield an overall "revenue requirement," no longer applies to most, if not all, of the RLECs. First of all, none of the RLECs are rate of return regulated, so there is no formal rate setting process whereby all regulated rates are set simultaneously to yield a revenue requirement. Second, most – if not all – of the RLECs have diversified into many unregulated services that provide a substantial and growing percentage of their revenue and profits. Since these services are provided over many of the same facilities and use many of the same resources as the regulated telecommunications services, it makes even less sense to require an offsetting local rate increase designed to neutralize the effect of access charge reductions.

Q. EVEN IF THERE IS NO POLICY IMPERATIVE TO OFFSET REDUCTIONS IN ACCESS CHARGES, ISN'T THERE A STATUTORY REQUIREMENT FOR REVENUE NEUTRALITY?

A. Yes. There is a Pennsylvania statutory requirement that states: "the Commission may not require a local exchange telecommunications company to reduce access rates except on a revenue-neutral basis."[7] The Commission noted the linkage between this provision and the other issues in this proceeding in its July 2009 Order. ALJ Melillo also referred to the need to conform her decision to this statutory requirement in her *Order Addressing Scope.*

Therefore, there is clearly a statutory framework that governs the decision making in this proceeding. I will not seek to provide a legal analysis of these statutory requirements. Nevertheless, there are significant marketplace changes and economic considerations that should influence how the Commission determines to meet these requirements.

Q. WHAT ARE THESE MARKETPLACE CHANGES THAT SHOULD AFFECT HOW THE COMMISSION WILL MEET SECTION 3017?

A. The major change, which I mentioned early, is the increase in ILEC revenues from unregulated services provided to their local exchange customers. Moreover, many of these services are sold in bundles along with regulated local exchange services. This evolution in the relationship between the RLECs and their customers, at a minimum introduces enormous complexity into the revenue neutrality issue.

[7] 66 Pa. C.S. §§ 3017.

Q. WHAT IS THE EVIDENCE CONCERNING THE IMPORTANCE OF UNREGULATED SERVICES TO THE RLECS?

A. I reviewed this evidence in the testimony I filed in Docket No. I-00040105 on December 10, 2008.[8] In that testimony, I pointed to the large share of RLEC access lines served by mid-sized companies, some of which are major national corporations. I also reviewed the financial reports of Windstream and determined that unregulated (or lightly regulated long distance) services contribute a very large share to Windstream's overall revenues and financial strength.

The latest data from Windstream demonstrates the continued growth and importance of these unregulated services. (The data provided by James Appleby of Sprint confirms that the same trends are occurring for other large RLECs.[9]) For Windstream, residential broadband penetration has reached approximately 53 percent of primary residential lines.[10] Windstream has also increased subscriptions to digital television, reaching an 18% penetration of primary residential customers.[11] Windstream has also emphasized the importance of service bundling stating: "To combat competitive pressures, the Company

---

[8] Statement No. 1.0, Direct Testimony of Michael D. Pelcovits on behalf of Comcast Phone of Pennsylvania, LLC and Comcast Business Communications, LLC, December 10, 2008.

[9] Corrected Main Testimony of James A. Appleby on Behalf of Sprint Communications Company, L.P. et al., July 2, 2009.

[10] Windstream Corporation, Form 10Q, for the quarterly period ended September 30, 2009, at 30 (Attachment III).

[11] Thomson StreetEvents, WIN – Q3 2009 Windstream Communications Earnings Conference Call, November 9, 2009, at 3 (Attachment IV).

continues to emphasize its bundled products and services. Our residential customers can bundle local voice, high-speed Internet, long distance and video services."[12]

Subsequent to several acquisitions, there is now – or will soon be – even greater concentration in the hands of a small number of mid-sized to large-sized corporations. In terms of the total access revenues (and the possible need to neutralize these effects), the larger RLECs drive the totals. The reduction in access revenues that would result from setting intrastate access charges at the same level as interstate access charges is equal to about $88.3 million annually. Of this total, the large, nationwide RLECs (*e.g.*, Embarq {now "CenturyLink"}, Windstream, Frontier, TDS, Citizens) are responsible for [BEGIN PROPRIETARY] _______ [END PROPRIETARY] annually, as shown in the table below. This means that the Commission's decision on how to handle the revenue neutrality issue will have the greatest dollar impact on companies that are moving farther and farther from the traditional model of regulated local exchange companies.

[BEGIN PROPRIETARY]

[12] Attachment III at 30.

[END PROPRIETARY]

Q. HOW DOES THE DIVERSIFICATION OF THE RLECS INTO UNREGULATED ACTIVITIES AFFECT A REQUIREMENT TO OFFSET THE REDUCTION IN ACCESS CHARGES?

A. This depends on how the Commission interprets the statute. Certainly from the standpoint of the statutory goal of promoting competition and ensuring that rates are reasonable and nondiscriminatory,[13] the fact that the RLECs collect substantial revenues from unregulated services should be highly relevant to the question of whether a revenue offset is needed at all. If access revenues fall, but revenues from unregulated services increase concurrently, then there should be no need to increase local rates, and certainly no need for an increase in universal service subsidies – if that were the route chosen to achieve "revenue neutrality."

[13] 66 Pa. CSA §3011.

This also raises another difficult question that the Commission must address, which is whether the "revenue offset" must be the result of a specific Commission action (such as an allowed increase in local rates), or whether an offset can spring up on its own – for example, by an increase in demand and revenues from other regulated (*e.g.*, call features) or unregulated services.

I would recommend on policy grounds that the Commission avoid mandating a dollar-for-dollar revenue offset for access charge reductions, assuming that there is legal support for this action. The paradigm of revenue neutrality no longer fits the regulatory regime or marketplace setting facing the RLECs. Instead, I recommend that the Commission decouple the regulation of intercarrier compensation (including access charges) from the rate regulation of local rates. Indeed, as competition continues to evolve in Pennsylvania markets, it will be possible to remove most regulations on the RLECs' local rates and services.

Q. IF THE COMMISSION DETERMINES THAT IT MUST ALLOW THE RLECS TO INCREASE LOCAL RATES TO OFFSET ACCESS CHARGE REDUCTIONS, WHAT WILL BE THE EFFECT ON THE MARKET?

A. The testimony of Mr. Nurse and Dr. Oyefusi provides an estimate that local rates would need to increase by $5.31 per month on average for the PTA carriers.[14] I

[14] Nurse and Oyefusi Testimony at 55.

have not tried to duplicate their result, but I would like to point out that for bundled service customers any increase in local rates is unlikely to have much, if any, effect on their monthly bill from the RLEC. The reason is that the stated prices (or revenue division) for the bundle are not relevant (or even visible) to the customer. Even if the price of one component (*e.g.*, local telephone service) were to increase, this would have no effect on the price of the bundle, which is constrained by competition, not regulation. As long as the level of competition (or competitors' costs) are unaffected by the increase in the local rate, there would be no reason for the price of the bundle to change. Rather, the RLEC would simply restate the price of other components of the bundle to offset the nominal increase in local rates.

Q. WHAT WOULD YOU RECOMMEND TO THE COMMISSION IF AN INCREASE IN LOCAL RATES WERE UNACCEPTABLE FOR SOCIAL POLICY REASONS?

A. If a Commission-approved increase in local rates were too high for some RLEC, or for some customers of an RLEC, then it would be necessary to subsidize these local rates. Unless and until a need for subsidies is clearly demonstrated, there is no reason to open the lid on the Pa-USF. It is possible that the Commission may not find it necessary to permit an increase in local rates beyond a socially acceptable level.

In the event that a reduction in intrastate access charges results in the need for a subsidy, then the Commission should not immediately increase the size of the Pa-USF. Rather, it should investigate whether the current Pa-USF is indeed targeting funds to communities and customers that actually need a subsidy. Based on the analysis I provided in my prior testimony on the Pa-USF, I believe that much of the Pa-USF is being paid to large RLECs that have experienced substantial growth in revenue from new services. Rather than increase the subsidy burden borne by general ratepayers to offset the largest increases in local rates, it would make much more sense to take the existing Pa-USF and re-target it to the most rural and least developed parts of the State.

IV. SUMMARY AND CONCLUSION

Q. PLEASE BRIEFLY SUMMARIZE YOUR TESTIMONY.

A. Intrastate switched access rates are excessive in relationship to cost and to the rates charged for identical uses of the same network function, such as interstate switched access. I recommend that the Commission reduce the rural ILECs' intrastate access rates to the same level as each companies' interstate access rates. This will benefit consumers, control distortions to the competitive process, and reduce the incentive for costly and inefficient rate arbitrage.

The vast majority of the revenue savings from bringing intrastate rates into parity with intrastate rates would come from the ratepayers of the large, national RLEC conglomerates. These firms have diversified into many unregulated services that they provide to their local exchange customers, which yields significant new revenues. It is highly questionable whether these companies need any subsidy from above-cost access charges or a separate universal service fund to maintain local rates at affordable levels. However, even if a rate rebalancing were to cause hardships to some subscribers, it should be possible to retarget funds from the existing Pa-USF to alleviate this rate impact.

Q. DOES THAT CONCLUDE YOUR TESTIMONY AT THIS TIME?

A. Yes, it does.

ATTACHMENT 1

MiCRA *Microeconomic Consulting & Research Associates, Inc.*

MICHAEL D. PELCOVITS

PRINCIPAL
Microeconomic Consulting & Research Associates, Inc. (MiCRA)
1155 Connecticut Avenue, N.W., Suite 900
Washington, D.C. 20036

Phone: (202) 467-2513 | mp@micradc.com | Fax: (202) 296-5694

CURRICULUM VITÆ
(September 2009)

EDUCATION

Massachusetts Institute of Technology, Ph.D. (Economics), 1976
University of Rochester, B.A. (Economics), *summa cum laude*, 1972

EMPLOYMENT

MiCRA
Principal: October 2002 – Present

MCI Communications (WorldCom, subsequent to its acquisition of MCI)
Vice President and Chief Economist: 1998 - 2002
Executive Director: 1996 – 1998
Director: 1992 – 1996
Senior Policy Adviser: 1988 – 1992

Cornell, Pelcovits & Brenner Economists Inc
Vice President and Treasurer: 1982 – 1988

Owen, Cornell, Greenhalgh & Myslinski Economists Inc.
Senior Economist: 1981 – 1982

Federal Communications Commission, Office of Plans and Policy
Senior Economist: 1979 – 1981

Civil Aeronautics Board, Bureau of International Aviation
Industry Economist: 1978 – 1979

University of Maryland, College Park, Department of Economics
Assistant Professor: 1976 – 1978

ACADEMIC AWARDS

National Science Foundation Graduate Fellowship, 1972 – 1975
Phi Beta Kappa, 1972
Isaac Sherman Graduate Fellowship, 1972 (University of Rochester)
John Dows Mairs Prize in Economics, 1971 (University of Rochester)

PUBLICATIONS

"Long Distance Telecommunications" in Diana L. Moss, editor, Network Access, Regulation and Antitrust, (Routledge), 2005.

"The WorldCom-Sprint Merger" in John Kwoka, Jr. and Lawrence J. White, editors, The Antitrust Revolution, The Role of Economics, 4th Edition (Oxford University Press), 2003.

"Economics of the Internet," (with Vinton Cerf), in Gary Madden and Scott Savage, editors, The International Handbook On Emerging Telecommunications Networks (Edward Elgar), 2003.

"Application of Real Options Theory to TELRIC Models: Real Trouble or Red Herring" in James Alleman and Eli Noam, editors, The New Investment Theory of Real Options and its Implications for Telecommunications Economics, (The Netherlands, Kluwer Academic Publishers, 1999).

"The Promise of Internet Access over Cable TV: Should the government force open access requirements?" (with Richard Whitt), CCH Power and Telecom Law, Vol. 2, No. 7, November/December 1999.

"Toward Competition in Phone Service: A Legacy of Regulatory Failure," (with Nina W. Cornell and Steven R. Brenner), Regulation, July/August 1983.

"Access Charges, Costs, and Subsidies: The Effect of Long Distance Competition on Local Rates," (with Nina W. Cornell), in Eli Noam, editor, Telecommunications Regulation Today and Tomorrow, (New York: Harcourt Brace Jovanovich, 1983).

"The Equivalence of Quotas and Buffer Stocks as Alternative Stabilization Policies," Journal of International Economics, May 1979.

"Revised Estimates U.S. Tax Revenue (with Jagdish Bhagwati), in Bhagwati and Partington editors, Taxing the Brain Drain, (North Holland, 1976).

"Quotas Versus Tariffs," Journal of International Economics, November, 1976.

OTHER PROFESSIONAL ACTIVITIES

Speaker and Panelist (selected examples):

National Association of Regulatory Utility Commissioners, 120th Annual Convention, "USF and ICC Reform; what did the FCC do," November 19, 2008

Southeastern Association of Regulatory Utility Commissioners, Annual Meeting, "Intercarrier Compensation Reform," June 2, 2008

New England Conference of Public Utility Commissioners, 61st Annual Symposium, Plenary Session: "The FairPoint Verizon Acquisition, Universal Service Reform and Broadband Deployment in New England – Where Are We Today," May 5, 2008

Spring VON Exposition, "Competition Policy," March 17, 2008

National Association of Regulatory Utility Commissioners, Winter Meeting, "Interconnection and Interoperability in a VOIP World," February 19, 2008

Advanced Workshop in Regulation and Competition, Center for Research in Regulated Industries, Rutgers Business School, "Open Access Policies, Net Neutrality and Incentives for Innovation in the Telecommunications," June 29, 2006

Guest lecturer in graduate and undergraduate courses at:

University of Chicago Law School
Columbia University, Graduate School of Business
New York University, Stern School of Business
Georgetown University, McDonnough School of Business
George Washington University
Johns Hopkins University
University of Maryland
American University
Northeastern University

RECENT TESTIMONIES (2003 to present)

U.S. DISTRICT COURT

In The United States District Court for The District of Colorado, Civil Action No. 03-F-2084 (CBS), QWEST CORPORATION, Plaintiff, v. AT&T CORP, Defendant. (Deposition taken; case settled)

LONDON COURT OF INTERNATIONAL ARBITRATION

In the Matter of an Arbitration Between: France Mobile Telecom Mobile Satellite SA, Stratos Wireless Inc, Telenor Satellite Services AS Claimants - and – Inmarsat Global Limited Respondents, LCIA Arbitrations No. 6767, 6768, and 6769.

COPYRIGHT ROYALTY BOARD

In the Matter of Digital Performance Right in Sound Recordings and Ephemeral Records, Docket No. 2005-1 CRB DTRA

In the Matter of Digital Performance Right in Sound Recordings and Ephemeral Recordings for a New Subscription Service, Docket No. 2005-5 CRB DTNSRA

In the Matter of Adjustment of Rates and Terms for Preexisting Subscription Service and Satellite Digital Audio Radio Services, Docket No. 2006-1 CRB DSTRA

STATE LEGISLATIVE COMMITTEE HEARINGS

State of Michigan, House Energy and Technology Committee, HB 4257, July 14, 2009-09-25

State of Delaware, House Telecommunication, Internet & Technology Committee, HB 417, June 3, 2008

State of Missouri, Joint Senate Commerce and Environment and House Special Committee on Utilities, 94th General Assembly, September 12, 2007

State of Missouri, Commerce and Environment Committee, 94th General Assembly, Senate Bill No. 552, March 15, 2007

State of Missouri, Special Committee on Utilities, 94th General Assembly, House Bill No. 1033, March 14, 2007

STATE UTILITY COMMISSIONS

State of Connecticut, Department of Public Utility Control, DPUC Investigation into the Southern New England Telephone Company's Cost of Service Re: Reciprocal Compensation and Docket No. 08-12-04, Petition of Youghiogheny Communications-Northeast, et al.

Commonwealth of Massachusetts, Department of Telecommunications and Cable, D.T.C. 07-9, Petition of Verizon New England, Inc., et al, for Investigation under Chapter 159, Section 14, of the Intrastate Access Rates of Competitive Local Exchange Carriers.

State of California, Public Utilities Commission, Order Instituting Rulemaking into the Review of the California High Cost Fund B Program, Rulemaking 06-06-028, (Declaration).

State of New Hampshire, Public Utility Commission, Joint Petition of Verizon New England Inc., and FairPoint Communications, Inc. Transfer of New Hampshire Assts of Verizon New England, Inc. et. al., Docket No. DT 07-011

State of Vermont, Public Service Board, Joint Petition of Verizon New England, Inc., d/b/a Verizon Vermont, Certain Affiliates Thereof and FairPoint Communications, Inc. for approval of asset transfer, acquisition of control by merger and associated transactions, Docket No. 7270

State of Connecticut, Department of Public Utility Control, DPUC Investigation of Intrastate Access Charges, Docket No. 02-05-17.

State of Connecticut, Department of Public Utility Control, Application of Southern New England Telephone Company for Approval to Reclassify Certain Private Line Services from Noncompetitive to Competitive Category, Docket No. 03-02-17.

Pennsylvania Public Utility Commission, AT&T Communications of Pennsylvania, Inc. v. Verizon North, Inc. Docket Number C-20027195.

Pennsylvania Public Utility Commission, Investigation into the Obligations of Incumbent Local Exchange Carriers to Unbundle Network Elements, Docket No. I-00030099.

Pennsylvania Public Utility Commission, Generic Investigation in re: Impact On Local Carrier Compensation if A Competitive Local Exchange Carrier Defines Local Calling Areas Differently Than the Incumbent Local Exchange Carrier's Local Calling Areas but Consistent With Established Commission Precedent, Docket No. I - 00030096.

Pennsylvania Public Utility Commission v. Verizon Pennsylvania Inc. Tariff No. 216 Revisions Regarding Four Line Carve Out, Docket No. R – 00049524; Pennsylvania Public Utility Commission v. Verizon Pennsylvania Tariff No. 216 Revisions Regarding Switching, Transport and Platform for High Capacity Loop, Docket No. R – 00049525.

FCC DECLARATIONS

In the Matters of Petition of Verizon New England for Forbearance Pursuant to 47 U.S.C. § 160(c) in Rhode Island, WC Docket No. 08-24 and Petition of Verizon Telephone Companies for Forbearance Pursuant to 47 U.S.C. § 160(c) in Cox's Service Territory in the Virginia Beach Metropolitan Statistical Area, WC Docket No. 08-49

In the Matter of Implementation of Section 224 of the Act; Amendment of the Commission's Rules and Policies Governing Pole Attachments, WC Docket 07-245

In the Matter of Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities, CG Docket No. 03-123

In the Matter of Amendments of Parts 1, 21, 73, and 101 of The Commission's Rules to Facilitate the Provision of Fixed and Mobile Broadband Access, Educational and Other Advanced Services in the 2150-2162 and 2500-2690 MHz Bands, WT Docket No. 03-66

In the Matter of Tyco Telecommunications, VSNL Telecommunications, et al, Application for Transfer of Control of Cable Landing Licenses, Petition to Deny of Crest Communications Corporation

In the Matter of Review of the Commission's Rule Regarding the Pricing of Unbundled Network Elements and the Resale of Service by Incumbent Local Exchange Carriers

In the Matter of AT&T Corp. Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates for Interstate Special Access Services

In the Matter of Unbundled Access to Network Elements, Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers

In the Matter of Appropriate Framework for Broadband Access to the Internet over Wireline Facilities

Center for Communications Management Information, Econobill Corporation, and On Line Marketing, Inc., Complainants, v. AT&T Corporation, Defendant

SELECTED CONSULTING ASSIGNMENTS

Telecommunications Industry

Prepared FCC declaration for Sorenson Communications concerning the rate methodology for reimbursing Video Relay Service providers

Prepared FCC declaration for the Wireless Communications Association International analyzing the impact of limits on spectrum leases in the Educational Broadcasting Service bands on investment in wireless infrastructure

Prepared expert reports for the Infocomm Development Authority of Singapore on access to submarine cable landing stations and regulation of local leased line circuits

Prepared and presented an analysis of the market for termination of calling on mobile phones to Ofcom, the independent regulator and competition authority for the UK communications industries

Hired to provide expert analysis of liability and damage issues in Civil Action No. 5:03-CV-229: *Z-Tel Communications Inc.* v. *SBC Communications Inc. et al*; In the United States District Court for the Eastern District of Texas, Texarkana Division (case settled)

Other Industries

Analyzed the market for satellite radio services (XM and Sirius) and recommended rates for the compulsory license fee for digital audio transmission of sound recordings

Analyzed the market for Internet music services and recommended rates for the compulsory license fee for digital audio transmission of sound recordings.

Hired by a rural electric power company to develop a damage model for a case involving the failure of a lessee to properly maintain and utilize a coal-powered electric power plant (case settled)

Analysis of economic benefits and tax revenues from the construction and operations of a hotel and villa complex in the British Virgin Islands

ATTACHMENT 2

CONFIDENTIAL

FILED UNDER SEAL

ATTACHMENT 3

WINDSTREAM CORPORATION
FORM 10-Q
PART I – FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Basis of Presentation

The following is a discussion and analysis of the historical results of operations and financial condition of Windstream Corporation ("Windstream", "we", or the "Company"). Windstream was formed on July 17, 2006 through the spin off from Alltel Corporation, which has subsequently merged with Verizon Communications Inc. ("Alltel"), of its wireline telecommunications division and the immediate merger with and into Valor Communications Group, Inc. ("Valor"). This discussion should be read in conjunction with the unaudited consolidated financial statements, including the notes thereto, for the interim periods ended September 30, 2009 and 2008 and Windstream's Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission ("SEC") on February 19, 2009.

In the first quarter of 2009, the Company reorganized its operations to integrate the sales and administrative functions of the product distribution segment into its wireline operations. As a result of this change, the chief operating decision maker no longer reviews the financial statements of the product distribution operations on a stand alone basis, and the Company operates as a single reporting segment. As required by the authoritative guidance for segment presentation, segment results of operations have been retrospectively adjusted to reflect a single segment presentation for all periods presented. As such, separate segment reporting is no longer required, and thus not included. Additionally, certain amounts previously reported have been reclassified to conform to the current year presentation of the consolidated financial statements. These changes and reclassifications did not impact net income.

Management believes that the assumptions underlying the Company's financial statements are reasonable. These financial statements, however, may not be necessarily indicative of future results of operations, financial position or cash flows. Certain statements set forth below under this caption constitute forward-looking statements. See "Forward-Looking Statements" at the end of this discussion for additional factors relating to such statements, and see "Risk Factors" in Item 1A of Part II herein and in Windstream's Annual Report on Form 10-K, for a discussion of certain risk factors applicable to our business, financial condition, business trends and results of operations.

EXECUTIVE SUMMARY

Windstream is a customer-focused telecommunications company that provides phone, high-speed Internet and digital television services. The Company also offers a wide range of IP-based voice and data services and advanced phone systems and equipment to businesses and government agencies. The Company has approximately 2.9 million customers primarily located in rural areas in 16 states. Our strategy is to enhance the value of these customer relationships by providing one-stop shopping for all of our customer's communications needs and delivering superior customer service. Among the highlights in the third quarter of 2009:

- The Company added approximately 25,900 high-speed Internet services customers, increasing its high-speed Internet customer base to 1,050,500. Additionally, the Company lost approximately 26,800 access lines. Access lines declined 5.2 percent during the twelve months ended September 30, 2009.

- Revenues and sales decreased $59.8 million, as compared to the third quarter of 2008, primarily due to the decline in access lines, declines in product sales associated with the disposition of the out of territory product distribution operations during the third quarter of 2009, and general declines in product sales to business customers. Partially offsetting these decreases were increases attributable to growth in high-speed Internet customers as discussed above. Operating income decreased $45.2 million primarily due to the increase in pension expense, the impact of continued access line losses and the amortization of franchise rights.

- The Company generated cash flows from operations of approximately $740.0 million for the nine months ended September 30, 2009. Cash flows from operations were used to fund capital expenditures of $206.8 million, to pay $328.6 million in dividends to shareholders and to repay $150.0 million in debt outstanding under the revolving line of credit. Additionally, the Company repurchased 1.1 million of its common shares at a cost of $10.7 million during the third quarter of 2009. As of September 30, 2009, the Company had $156.2 million in remaining capacity under the $400.0 million stock repurchase program announced in February 2008, which expires at the end of 2009.

During the remainder of 2009, the Company will continue to face significant challenges resulting from competition in the telecommunications industry. In addressing competition, the Company will continue to focus its efforts on improving customer service, increasing high-speed Internet penetration and expanding its service offerings and distribution channels.

Business Trends

The following is a discussion of trends affecting Windstream's operations:

- *Access line losses*: Wireline voice and switched access revenues are expected to continue to be adversely impacted by future declines in access lines due to competition in the telecommunications industry from cable television providers, wireless communications providers, and providers using other emerging technologies. As of September 30, 2009, all of the Company's access lines had wireless competition and approximately 63 percent of the Company's access lines had fixed line voice competition, which represented an increase in fixed line competition of approximately 3 percent from September 30, 2008. Residential lines decreased 5.4 percent during the twelve months ended September 30, 2009, primarily due to the effects of competition and weakness in the general economic environment, which we believe has accelerated line losses by limiting consumer purchasing power causing some households to migrate exclusively to wireless voice service. During the same period, business lines decreased 4.9 percent due to competitive pressures, the migration of services to larger circuits with enhanced functionality representing lost access lines but not a lost customer relationship, and weakness in the general economic environment. We believe weakness in the economic environment has caused some businesses to close or reduce staff, which has had a corresponding impact on the demand for business access lines. Continued weakness in the general economic environment may contribute to further acceleration of line losses.

- *Product bundles*: To combat competitive pressures, the Company continues to emphasize its bundled products and services. Our residential customers can bundle local voice, high-speed Internet, long distance and video services. These bundles provide customers with one convenient location to obtain all their communications and entertainment needs, a convenient billing solution and bundle discounts. Operating trends for access lines and high-speed Internet customers were favorably impacted during the third quarter of 2009 by the Company's latest bundle promotion, which offers a price for life guarantee and package discount on its local telephone, unlimited national calling and high-speed Internet bundle.

  In addition, during the second quarter of 2009, we began offering bundle discounts to businesses that choose to bundle their voice, high-speed Internet and long distance services with Windstream. We believe that product bundles positively impact our customer retention, and the associated discounts provide our customers the best value for their communications and entertainment dollar.

- *High-speed Internet*: Growth in high-speed Internet sales, together with the continued migration to higher speeds, are expected to continue to offset some of the revenue declines from the unfavorable access line trends discussed above. During the nine months ended September 30, 2009, the Company added approximately 71,700 high-speed Internet customers. As of September 30, 2009, the Company had 1,050,500 high-speed Internet customers, which represents an approximate 9 percent increase from September 30, 2008. As of September 30, 2009, Windstream provided high-speed Internet service to 36 percent of total access lines in service, and 53 percent of primary residential access lines in service. As of September 30, 2009, approximately 75 percent of total access lines had high-speed Internet competition primarily from cable service providers, which is relatively unchanged from September 30, 2008. We expect the pace of high-speed Internet customer growth to slow as the number of households without high-speed Internet service continues to shrink. Competitive expansions, primarily from cable facilities, into our service areas are expected to slow in 2009, but we could experience some increased competition from high-speed Internet offerings of wireless competitors.

- *Business data and special access:* Wireline revenues and sales are expected to be favorably impacted by growth in next generation data services provided to business customers. As the data needs of our business customers continue to grow, our virtual local area network, virtual private network and data service revenues are expected to grow. Likewise, due to continued trends toward increasing data traffic, we expect growth in special access revenues from the provisioning of circuits to wireless and other carriers. However, weakness in the general economic environment may have the effect of suppressing near term growth in these revenues.

- *Operational efficiencies*: We continue to evaluate our operating structure to identify opportunities for increased operational efficiency and effectiveness. Among other things, this involves evaluating opportunities for task automation, network efficiency and the balancing of our workforce based on the current needs of our customers. As part of this effort, the Company announced a work force reduction in the third quarter of 2009. In conjunction therewith, we expect to incur restructuring charges of approximately $9.0 million, of which $7.5 million was recognized in the third quarter. The Company expects to realize annual savings approximating $20.0 million following the completion of the workforce reduction in the fourth quarter of 2009. In addition, operating expenses have been favorably impacted during 2009 by the work force reduction announced in the fourth quarter of 2008.

- *Pension expenses and funding*: During the nine months ended September 30, 2009, the fair market value of Windstream's pension plan assets have increased 9.8 percent from approximately $654.0 million to $718.3 million. This increase is primarily attributable to a 20.5 percent, or $133.9 million, increase in the market value of assets held and contributions of $2.5 million, partially offset by routine benefit payments of $37.3 million, lump sum distributions of $32.1 million and administrative expenses. The Company does not expect to be required to make any further contributions in 2009 or 2010. In 2008, the fair market value of the Company's pension investments declined 34.7 percent from approximately $1,001.0 million to $654.0 million, due to declines in the market value of assets held as well as benefit payments. As a result, pension expense has increased by approximately $70.0 million for the nine months ended September 30, 2009 as compared to the same period in 2008.

  The amount and timing of future contributions will depend on various factors including the finalization of funding regulations, future investment performance, changes in future discount rates and changes in demographics of the population participating in the Company's qualified pension plan.

We expect the combined impact of the items noted above to result in lower revenues and operating income during 2009. However, these trends may be materially impacted, favorably or unfavorably, by changes in the overall economic environment.

STRATEGIC TRANSACTIONS

Pending Transactions

On November 2, 2009, Windstream entered into a definitive agreement to acquire all of the issued and outstanding shares of common stock of NuVox, Inc. ("NuVox"), a privately held competitive local exchange carrier based in Greenville, South Carolina, in a transaction valued at approximately $643.0 million. Under the terms of the agreement, Windstream expects to issue approximately 18.7 million fixed shares of common stock valued at approximately $183.0 million and pay approximately $280.0 million in cash as part of the transaction. Windstream will assume estimated net debt of $180.0 million and intends to finance the acquisition with existing cash on hand and borrowings available under the Company's revolving line of credit. The acquisition will add approximately 90,000 business customers in complementary markets in 16 states across the southeast and midwest, significantly advancing Windstream's strategy to increase high-speed Internet and business revenues. The acquisition is expected to close in the first half of 2010, subject to certain conditions including the necessary approvals from federal and state regulators and NuVox shareholders.

On May 10, 2009 the Company entered into a definitive agreement to acquire all of the outstanding shares of common stock of D&E Communications, Inc. ("D&E") in a transaction valued at approximately $350.0 million as of September 30, 2009. Under the terms of the agreement, D&E shareholders will receive 0.650 shares of Windstream common stock and $5.00 in cash per each share of D&E common stock. As of September 30, 2009, D&E had outstanding approximately 14.4 million shares of common stock and approximately $180.8 million of long-term debt, including current maturities. Including the early extinguishment of debt, cash consideration to be paid at closing was estimated to be approximately $256.0 million as of September 30, 2009. The acquisition of D&E will significantly increase Windstream's presence in Pennsylvania. As of September 30, 2009, D&E had approximately 114,000 incumbent local exchange carrier access lines, 47,000 competitive local exchange carrier access lines and about 46,000 high-speed Internet customers in central Pennsylvania. In addition, we expect this acquisition to generate significant opportunities for operating efficiencies with contiguous Windstream markets. The acquisition is expected to close on November 10, 2009.

On September 8, 2009 the Company entered into a definitive agreement to acquire Lexcom, Inc., ("Lexcom") based in Lexington, North Carolina, for approximately $141.0 million in cash, net of working capital to be acquired. The acquisition will increase Windstream's presence in North Carolina. As of September 30, 2009, Lexcom had approximately 23,000 ILEC access lines, 9,000 high-speed Internet customers and 12,000 cable television customers in North Carolina. In addition, we expect this acquisition to generate opportunities for operating efficiencies with contiguous Windstream markets. The acquisition has received Lexcom shareholder approval and is expected to close in the fourth quarter of 2009, subject to certain conditions including the necessary approvals from federal regulators.

Dispositions

On August 21, 2009, Windstream completed the sale of its out of territory product distribution operations to Walker and Associates of North Carolina, Inc. ("Walker") for approximately $5.3 million in total consideration. The out of territory product distribution operations primarily consisted of product inventory with a carrying value of $4.9 million and customer relationships outside of Windstream's telecommunications operating territories. These operations were not central to the Company's strategic goals in its core communications business. Product revenues from these operations totaled $8.2 million and $38.5 million during the three and nine month periods ended September 30, 2009, respectively, with related cost of products sold of $7.6 million and $34.3 million for the same periods in 2009. In conjunction with this transaction, Windstream recognized a gain of $0.4 million in other income, net in its consolidated statements of income for the three and nine month periods ended September 30, 2009.

On November 21, 2008, Windstream completed the sale of its wireless business to AT&T Mobility II, LLC for approximately $56.7 million. The completion of this transaction resulted in the divestiture of approximately 52,000 wireless customers, spectrum licenses and cell sites covering a four-county area of North Carolina with a population of approximately 450,000, and six retail locations. The operating results of the wireless business have been separately presented as discontinued operations in the accompanying unaudited interim consolidated statements of income (see Note 3).

ATTACHMENT 4

FINAL TRANSCRIPT

Thomson StreetEvents

WIN - Q3 2009 Windstream Communications Earnings Conference Call

Event Date/Time: Nov. 09. 2009 / 1:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Rob Clancy
Windstream Corporation - SVP & Treasurer

Jeff Gardner
Windstream Corporation - President & CEO

Tony Thomas
Windstream Corporation - CFO

Brent Whittington
Windstream Corporation - EVP & COO

CONFERENCE CALL PARTICIPANTS

Simon Flannery
Morgan Stanley - Analyst

Michael Rollins
Citigroup - Analyst

Michael Nelson
Soleil Securities - Analyst

Mike McCormack
JPMorgan - Analyst

Batya Levi
UBS - Analyst

Donna Jaegers
DA Davidson - Analyst

David Sharret
Barclays Capital - Analyst

Jason Frazier
Raymond James - Analyst

Dave Coleman
RBC Capital Markets - Analyst

David Barden
Banc of America - Analyst

PRESENTATION

Operator

Good morning. My name is Cynthia and I will be your conference operator today. At this time I would like to welcome everyone to the Windstream Corporation third quarter earnings release conference call. All line have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

I would like to turn today's call over to Rob Clancy, Senior Vice President and Treasurer. Please go ahead, sir.

Rob Clancy - *Windstream Corporation - SVP & Treasurer*

Thank you, Cynthia, and good morning, everyone. We appreciate you joining us this morning. Today's conference call was preceded by our third quarter 2009 earnings release, which has been distributed on the news wires and is available from the investor relations section of our website. Today's conference call should be considered together with our earnings release and related financial information. Today's discussion will include certain forward-looking statements, particularly as they pertain to guidance, other outlooks on our business. Please review the Safe Harbor language found in our press release and in our SEC filings, which describe factors that could cause our actual results to differ materially from those projected by us in our forward-looking statements.

Today's discussion will also include certain non-GAAP financial measures, again we refer you to the IR section of our website where we have posted our earnings release and supplemental materials, which contain information, reconciliations for any non-GAAP financial measures. In August Windstream completed the sale of our external supply business. As a reminder, this business was expected to generate approximately $75 million in annual revenues and have virtually no affect on OIBDA in 2009. To assist investors, we have revised our pro forma results from current businesses to exclude the results from the external supply business. In addition our pro forma results from current businesses includes CT Communications while excluding our former publishing and wireless businesses for all periods. We will make references to these pro forma results from current businesses, including the year-over-year comparisons during our call.

Participating in our call this morning are — Jeff Gardner, Windstream President and Chief Executive Officer; Brent Whittington, Windstream Executive Vice President and Chief Operating Officer; and Tony Thomas, Windstream Chief Financial Officer. At the end of the call we will take a few questions. With that here is Jeff Gardner.

Jeff Gardner - *Windstream Corporation - President & CEO*

Thank you, Rob, and good morning, everyone. First let me begin by highlighting a couple of changes we made to our senior leadership team in the quarter. Brent Whittington, formerly Chief Financial Officer was named Chief Operating Officer and now overseas all of the operating and customer facing functions of the business. Tony Thomas, formerly Controller, was named Chief Financial Officer. These changes enhance our efforts to transform this business by sharpening our focus and coordination on sales and service and provide a more efficient reporting structure. This morning I will make a few comments about our results for the quarter and provide an update on our strategic initiatives. Brent will then discuss our operating results and Tony will review our financial performance. Overall, I am very pleased with Windstream's performance during the third quarter.

We remain focused on improving our operating trends and continue to demonstrate that we can sustain our cash flows despite the top-line pressures we are experiencing. Operationally, our marketing efforts and promotions resonated very well, resulting in solid broadband customer growth and the lowest absolute access line since we formed the Company in 2006. Turning to the strategic front, we continue to pursue activities that improve our financial profile going forward. Last week, we announced the acquisition of NuVox, a leading regional CLEC provider operating in 16 states across the southeast and Midwest. NuVox is a well run Company that has been growing revenues and improving margins and they are a great geographical fit for Windstream, with operations in attractive tier two and tier three cities adjacent to many of our ILEC properties.

This transaction significantly advances our strategy to grow broadband and business revenues, which is important given the growth prospects in these areas. In fact, on a pro forma basis our broadband and business revenues will now account for more than half of our total revenues, which should position us well going forward. Importantly, this transaction is free cash flow accretive in year one, as we expect to realize roughly $30 million in annual operating and capital expense savings. We expect this transaction to close in the first half of 2010 and at this time plan to finance the cash portion of the deal with cash on hand and revolver borrowing. Finally, this transaction allows us to maintain flexibility and a solid balance sheet as the deal will be leverage neutral to slightly deleveraging. Also during the third quarter, we announced the acquisition of Lexcom Communication, which is a nice strategic fit being adjacent to our Windstream properties in North Carolina. We expect Lexcom to close by the end of the year.

And again, this deal is free cash flow accretive in year one, as we expect to realize roughly $5 million in annual operating and capital expenditure savings. Last week, the Pennsylvania PUC approved our transaction with D&E Communications and we expect this deal to close tomorrow. We recently took advantage of very good credit market and raised $400 million in a note offering to fund the cash needs for both the D&E and Lexcom deals. We also amended and extended our credit facility, which resulted in a significant portion of our bank debt maturities getting extended for two years, which provides us greater flexibility in the future. Going forward, we believe the -- this industry will benefit from further consolidation. As we consider strategic opportunities, we will stay focused on well run businesses, with quality networks that are well positioned competitively and allow us to leverage our operating model across a broader footprint to create value for our shareholders.

We will remain disciplined in evaluating potential opportunities and continue to pursue activities that are free cash flow accretive and that don't significantly change the risk profile of our business. Turning to our share repurchase program. We repurchased 1.1 million shares for $11 million in the third quarter and an additional 7.8 million shares for $78 million that settled in early October. Collectively, we repurchased 8.9 million shares at an average price of $9.95. At this point we have roughly $80 million remaining under the current $400 million share repurchase authorization. And our completion of this program will depend on a variety of factors, including other strategic opportunities, as well as our overall liquidity needs. With dividends and share repurchases, Windstream has returned $560 million to shareholders this year. From a regulatory perspective, regarding net neutrality, we support and follow the FCC's existing internet policy statement and believe that if new rules are developed, it is important that those rules apply equally to all content and service providers regardless of technology.

That said, we recognize that significant innovation and investment that we have all experienced under the FCC's existing principle and agree with those concerned that additional government intervention could disrupt future investment and innovation. We are encouraged by the approach the FCC is taking to formulate our nation's high speed internet access plan. We believe that the existing intercarrier compensation mechanisms and the universal service programs must be reformed as a part of this plan to achieve more widespread availability and adoption in sparsely populated rural areas. We are actively participating in the FCC's fact gathering process and have offered reasonable comprehensive solutions that would allow the FCC to achieve its goal. Finally, with regards to the broadband stimulus plan, we elected not to participate in the first round of funding due to the ambiguity and overly restrictive rules that were included in the application process.

We are working with the related agencies to improve the overall structure going forward and will decide whether to participate in the second round of funding at the appropriate time. Now, let me turn the call over to Brent to discuss our operational results.

Brent Whittington - *Windstream Corporation - EVP & COO*

Thank you, Jeff, and good morning everyone. This quarter we added approximately 26,000 new broadband customers, bringing our total customer base to 1.050 million, an increase of 9% year-over-year. Our overall broadband penetration is now at 36% of total access lines. And residential broadband penetration is approximately 53% of primary residential lines. During the quarter, we offered a price for life promotion, which bundled high speed internet, local voice, unlimited long distance and other features for a fixed price for the customer life. The value and stability of this promotion was well received by customers and resulted in both improved broadband and access line trends. In addition, we are continuing to roll out new services such as ESPN 360, which allows customers to watch certain sporting events on demand using their internet connection.

We also are focused on selling complimentary internet services to improve customer ARPU and increase the value of our broadband services to our customers. This quarter, we added 11,000 digital TV customers, bringing our total customer base to approximately 323,000 or 18% penetration of our primary residential customers. This service offering continues to be a very important component of our overall bundling strategy. Access lines declined by approximately 27,000 during the quarter, resulting in a decline in total access lines of 5.2% year-over-year. This year-over-year loss rate improved 30 basis points sequentially and, as Jeff mentioned, was the lowest absolute line loss since we formed the Company. While business line losses were in line with recent trends, we saw significant improvements in residential line losses, driven by our price for life promotion, as well as continued focus on our distribution and retention efforts.

In total, non-pay disconnects also declined year-over-year. Sequentially, access line losses improved by almost 14,000 units, driven by fewer residential voluntary disconnects tied to our promotional efforts and by fewer non-pay disconnects. We ended the quarter with 1.9 million long distance customers, representing 66% penetration of total access lines. While we experienced disconnect during the quarter, we continued to increase the penetration of long distance packages, which is now roughly 40% of our residential base versus 32% last year. Within our business channel, from a revenue perspective, we are continuing to see year-over-year declines in voice and long distance revenues, as well as product sales, due to customers managing expenses more aggressively and delaying purchasing decisions.

While we expect the economic environment to continue to affect business sales throughout the rest of this year, we do believe that demand will return as the economy improves. We continue to invest in our network to deliver next generation data services and expand IP availability and have recently reorganized our marketing and customer service departments to improve the focus on sales and service delivery to our business customers. All of our initiatives within the business channel are designed to better position us competitively and to capitalize on revenue opportunities in the future. We announced a reduction in force late in the quarter as part of our on going expense management initiatives. That said, we have been aggressive throughout the year to implement initiatives designed to improve efficiency across the organization, including installing GPS systems in our fleet and investing in new sales management systems.

We are confident in our ability to further improve our cost structure, while continuing to enhance service levels, which have improved consistently over the past year. From an integration perspective, we have been actively working on D&E for many months and the overall integration is proceeding as planned. We expect to have D&E fully integrated, including the billing system conversion, within the next few months, which will result in us realizing the expected synergies very quickly. Also, due to the relatively small size, we plan to complete much of the integration on Lexcom in the coming months, including the conversion of corporate systems. We will convert the Lexcom customers to our billing platform during 2010. With respect to NuVox, we plan to migrate to our corporate systems, but will likely maintain their billing platform for our combined CLEC operations, making the instigation process fairly straightforward.

Given our experience and track record, I'm confident that our teams can successfully integrate these businesses, particularly given the timing in which all these activities will be staged. Now we turn the call over to Tony to discuss our financial results.

Tony Thomas - *Windstream Corporation - CFO*

Thank you, Brent, and good morning, everyone. For the third quarter, on a GAAP basis, Windstream achieved consolidated revenue of $734 million, operating income of $225 million, and $0.18 of diluted earnings per share. Our GAAP results include the following items, which lowered EPS by roughly $0.06 and affect the year-over-year comparisons -- $15 million in aftertax non-cash pension expense; $5 million in aftertax restructuring charges related to the reduction in force that Brent mentioned; $5 million in aftertax non-cash amortization expense of our franchise rights; and a $1 million in aftertax merger and integration costs. Let me turn to our pro forma results from current businesses. For the quarter Windstream achieved revenues of $726 million, a decrease of 6% year-over-year. Specifically, voice revenues declined by $21 million year-over-year or 7%, driven by fewer access lines.

Long distance revenue declined by $3 million year-over-year, as growth in long distance packages was offset by declines in usage based revenue streams. Data and special access revenues increased $11 million or 6%, due to continued growth in high speed internet customers and next generation data products. Switched access in USF revenues declined $17 million year-over-year or 12%, driven by a number of factors. Within switched access revenues declined by $11 million year-over-year related to fewer access lines and decreased usage. Within USF revenues declined $6 million dollars year-over-year, a result of lower state USF receipts and a $2 million benefit from cost study true-ups received the last year. Miscellaneous revenues declined by $6 million year-over-year, of which roughly $2 million was related to the termination of certain network management services we provided to Alltel, with the remainder resulting from lower fees and service charges.

Total product sales was down $9 million year-over-year, driven by fewer business sales, which appear to be economically driven as businesses postpone buying decisions. Sequentially, revenue declined $9 million, primarily due to the continued reduction of voice and long distance revenues related to fewer access lines and minutes of use. From an overall revenue perspective, we have been focused on bundling products and services to both our residential and business customer base to help sustain the recurring service revenue streams. Importantly, the year-over-year revenue declines in residential and business service revenues are less than 3%. The vast majority of the revenue pressure we are experiencing is coming from the wholesale segment due to reductions in switched access and USF. We are successfully diversifying our revenue base and increasing our focus on broadband and business revenues, which offer growth opportunities going forward.

In fact, on a pro forma basis for D&E, Lexcom and NuVox, broadband and business revenues will comprise 52% of the total revenues, while residential and wholesale will make up 30% and 18% respectively. Let me turn to expenses, which exclude depreciation and amortization. This quarter expenses were lower by $7 million year-over-year, even with the incremental $23 million of non-cash pension expense and a $7.5 million of restructuring expense related to the reduction in force we announced at the end of the quarter. Excluding the non-cash pension restructuring costs, expenses declined $36 million or 10% year-over-year, which is a testament to our ability to control costs. Cost of services decreased by $3 million year-over-year, due primarily to expense management initiatives, which were mostly offset by an incremental [$19] million of non-cash pension expense and $4 million increase in bad debt expense.

Cost of products sold declined $12 million year-over-year, due primarily to fewer business product sales during the quarter. Within SG&A expenses increased by $2 million or 2% year-over-year, the result of $4 million in incremental non-cash pension expense, which was partially offset by expense management initiatives. Sequentially, total expenses, excluding depreciation and amortization, increased approximately $9 million, primarily driven by the $7.5 million restructuring charges. Cost of services was higher by $3 million, due to seasonal increases in contract labor and overtime. SG&A declined by $2 million due to the overall expense management initiatives. For the quarter, OIBDA was $360 million, a decrease of 10% to year-over-year. Excluding the non-cash pension expenses and restructuring expense, OIBDA was $391 million, a decline of 2.5% year-over-year and our OIBDA margin was nearly 53.8% versus 51.9% last year. Operating income for the quarter was $227 million.

For the quarter we spent $67 million in capital expenditures and generated $170 million – $175 million in free cash flow, which benefited from the acceleration of certain tax benefits. Year-to-date we have generated $535 million of free cash flow equating to $1.23 in free cash flow per share, an increase of 7% year-over-year. As Jeff mentioned, during the quarter we opportunistically took advantage of very good credit markets to raise $400 million, which will fund the D&E and Lexcom deals, allowing us to preserve our cash revolver borrowings, which we now expect to use for the NuVox transaction. In addition, we amended and extended our credit facility, enabling us to extend a substantial portion of our bank debt maturities by two years. This further strengthens our financial position and flexibility going forward by better spreading our debt maturities.

Before giving affect to the recent debt proceeds, we ended the quarter with $290 million in cash and almost $500 million in revolver capacity and our net leverage ratio was 3.2 times. In summary, we are pleased with our results from the third quarter, our team is doing an outstanding job delivering on operational goals, while managing expenses and making improvements to our cost structure, which is resulting in solid cash flows. In addition, we were able to execute on various strategic initiatives this quarter that further improves the financial position of Windstream. With that we will now take a few of your questions. Cynthia, please review the instructions and open the call to questions, thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Simon Flannery with Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

Thanks very much. Good morning. Jeff, I wonder if you could give us more color on the NuVox acquisition. A little bit of a departure from you going on the CLEC route. Obviously you have talked about diversifying your revenue stream here, but perhaps you can tell us a little bit more about the Company and how this sort of came to pass and going forward is there an ability now, you've done a lot of deals in a short period of time, to do more deals or are we going to take a pause here. Actually be looking for deals more in the CLEC or RLEC. Thanks.

Jeff Gardner - *Windstream Corporation - President & CEO*

Thank you, Simon, and good morning. Simon, with respect to NuVox, there are many things that attract us to that -- to that transaction, mostly the business revenue that Tony referenced in his remarks. As we look at this business evolving, broadband and business revenue show better long-term characteristics of growth and, I think, are the right place to be. We really haven't changed our acquisition strategy, as we've always looked for well run companies. The management team at NuVox has delivered improving revenue and OIBDA even in this environment. The geographic fit is very unique with respect to NuVox and Windstream. They were in many of the same states that we are in today.

They focus on tier two and tier three cities. So as you contemplate our model, which is much based on the fact that we are in rural areas that are less competitive, these too are markets where we think we can be successful for a long period of time. And importantly, the other thing that made this transaction unique was its financial characteristics. We were able to drive free cash flow accretion in year one. That's been fundamentally important and something that we put at the very top of our list as we look at transactions. In addition, we were able to do this transaction the way that maintained our balance sheet and strategic flexibility from a capital structure perspective, as it was slightly deleveraging. So all of those things, I think, made -- made it a quite unique transaction for us. We have been looking at CLECs for sometime and it was difficult for a number of months to find an accretive deal that fit our operating and financial model.

NuVox was absolutely the right deal for us to execute. In terms of have we changed our focus going forward on acquisition I would say no. We are going to continue to focus on deals that are free cash flow accretive that we think fit the strategic model that we ba -- built here at Windstream, which buying well run businesses, focus mostly in rural second and third tier markets. So I don't think that has -- that has changed going forward. And then with respect to our ability to do deals in the future. I think Brent walked through some very important points related to the acquisitions. We feel very comfortable with our ability to integrate these acquisitions. D&E is closing tomorrow. We've been very hard at work on the integration plan there. In the next few months that -- that business will be fully integrated. Lexcom is a very small transaction. We never take those for granted, but with respect to integrating it we don't see any particularly challenging issues there. That should be very routine for us.

And then finally, I think importantly on the NuVox side, because another thing that attracted us to this transaction is that they have very good back office systems for the CLEC business. We are already in the CLEC business today and it's very likely that we will continue to use their billing system and much of their back office function as it relates to CLEC. So that just takes a lot of pressure off any integration there. So we don't feel at all that we need to sit back. And with respect to tragic opportunities, sometimes you've got to react when the opportunity is there. So we will remain open and disciplined with respect to the future.

Simon Flannery - *Morgan Stanley - Analyst*

Great, thanks.

Jeff Gardner - *Windstream Corporation - President & CEO*

You're welcome. Cynthia, is there another question?

Operator

Your next question comes from the line of Michael Rollins with Citigroup.

Michael Rollins - *Citigroup - Analyst*

Hi, good morning. Was wondering if you could talk a little bit more about the regulatory side. What is your sense of timing in terms of where you could see some possible reform for intercarrier comp and USF and if you could give a little more details of how you are looking at what you think would be sort of an idea outcome from that process. Thanks.

Jeff Gardner - *Windstream Corporation - President & CEO*

Well, Michael, I think that what is going on now with respect to the national inter – national internet policy and shaping broadband policy for the entire country is a unique opportunity for us in telecom. And what we have been working very hard with, with others in our space, working across the industry, is to provide a road map to deal with both intercarrier comp reform and a USF mechanism more focused on the administrations goal of moving broadband to rural America. And so we are hopeful that we can get some traction around that process over the next couple of months. We have been working very hard on that. And I think that's very positive not only for all the players in our space, as it gives clarity to the intercarrier comp rules and really USF looks more like a program to incent broadband buildout than it does today. I think those are very good goals and constructs from which to push this forward. So we are trying to do this in the near-term, working very hard with our peers in the industry and I think that will be very positive, not only for the RLECs, but for all the people in the telecom space.

Michael Rollins - *Citigroup - Analyst*

And if I could just follow-up. You mentioned in your prepared comments that, I believe it is, business revenue is now over 50% pro forma of the total revenue. Can you give us your outlook for how you see the economy working out in your regions in terms of pace to recovery and maybe sort of the amplitude of – of change in performance for your operations as the economy does recover. Thanks.

Tony Thomas - *Windstream Corporation - CFO*

Hi, Michael, it's Tony. In the remarks we said, just to clarify, it's broadband and business now comprise 50% of our revenues. The legacy Windstream overall has roughly over $1 billion of revenues tied to small and medium businesses and enterprises. And as we look into the – the crystal ball in terms of the outlook, obviously the economy will recover in terms of the macroeconomic environment and the puts and take there. What we are really focused on here at Windstream is getting prepared for that turnaround.

Brent eluded to that we restructure our marketing and service delivery organizations so that we will be very well positioned to -- to capture those benefits when the economy does start to recover. Ultimately, as we look, and I made references to this in our prepared remarks, our business service revenues are down less than 3% year-over-year. So we have felt the pressure, but in the overall economy probably not the same pressures that have been felt by the larger telecom players. We think we are well positioned today and we will be better positioned going forward, especially with NuVox has an asset within the Windstream family.

Michael Rollins - *Citigroup - Analyst*

Great, thanks very much.

Operator

Your next question comes from the line of Michael Nelson with Soleil Securities.

Michael Nelson - *Soleil Securities - Analyst*

Hi, thanks a lot for taking the questions and congrats on a solid question. I have a question regarding the nice improvement in access line decline. I'm wondering if you -- if you think the strongest headwinds are behind you and if you saw or did anything differently. Like was -- was it better bundlingly, any changes to the cable competition. I guess, what was the impact of the price for life promotion and any changes to the housing markets or business development in your markets. Thanks.

Brent Whittington - *Windstream Corporation - EVP & COO*

Michael, this is -- this is, Brent. So in terms of changes from competition, no, we didn't really see any major real changes there in terms of promotion by our competitors or new entrance. We saw maybe 50,000 incremental access lines and experienced some competition this quarter. The biggest thing that we did differently is, frankly, our marketing department came up with a concept that really resonated with customers, drove a much stronger gross ads sequentially and prior year -- versus prior year, really around this price for life campaign, trying to capture on a concept that really resonated with customers, because the cable competition has a history of increasing rates in a big, big way every single year.

That promotion, coupled with a no contract approach, is something the customers find very appealing and that's worked very well. That's really the single biggest thing we've done differently. Secondly, just the efforts we've made over the last couple of years around distribution across our business are really beginning to payoff. And we continue to see big improvements in our door-to-door distribution specifically. Excellent results in our retail stores and some other segments as well. So feel great about what we've accomplished there.

Michael Nelson - *Soleil Securities - Analyst*

So the price for life really had a pos -- a positive impact on both access lines and broadband growth during the quarter, I take it.

Brent Whittington - *Windstream Corporation - EVP & COO*

Absolutely. Absolutely. And that price for life is really bundling an access line with the broadband product. So it is complimentary to both of those.

Michael Nelson - *Soleil Securities - Analyst*

And I take it that's something that you've promoted across your entire distribution network, the local agent network, the retail stores (multiple speakers).

Brent Whittington - *Windstream Corporation - EVP & COO*

You got it, every single channel.

Michael Nelson - *Soleil Securities - Analyst*

Great, thanks a lot.

Brent Whittington - *Windstream Corporation - EVP & COO*

You're welcome.

Operator

Your next question comes from the line of David Barden with Banc of America.

David Barden - *Banc of America - Analyst*

Hi, guys, thanks a lot. Couple if I could. Just following up on the last question. Do you guys feel that – that this is kind of a trajectory changer for the business. It's something you are going to continue. If you could talk about how that promotion kind of maybe impacted the margin performance this quarter, say, relative to last quarter. And then the second question would be you guys have been kind of seen in the press to be potentially involved in the FairPoint bankruptcy, either by buying debt or getting involved in some way else, wondering if you could comment on that. And then if I could a last one, which would be, Jeff, I think you talked about being cognizant of the risk profile of Windstream. When you talk about risk, what to you mean by that? Do you mean being in urban markets or do you mean being exposed to 12% line loss, what does that mean exactly, thanks.

Brent Whittington - *Windstream Corporation - EVP & COO*

So, David, this is Brent. I will take the first one in terms of that promotion and that trajectory change. Way too early to call that a change. Certainly we like the trends that we saw in the quarter. Promotions sometimes are short lived and you have to continue to keep those fresh in the marketplace and so we will continue to make changes as necessary. But, I mean, it's still very competitive. We had -- had good results this quarter and we will try to build on that, but too early to call that a long-term trajectory change for sure. But we like the momentum that we've got. And then kind of another point that Tony mentioned, as the economy begins to improve on the business side, we continue to see a little more pressure on access lines than we have historically. Again, mainly due just to – to fewer business startups and then access lines being trimmed by customers as they are looking to reduce costs. So as economic recovery picks up there, we think some of our results on the business access line side should follow as well.

Jeff Gardner - *Windstream Corporation - President & CEO*

As – as it relates to our question on FairPoint, we – our policy is long standing not to make comments on any specific acquisitions, so I will not do that. However I will just restate our acquisition policy and -- and that this -- this really ties, David, to your next question for me and that is, that we have consistently been focused on well run assets and in markets where we think we can make a difference and drive [change]. And that gets to the risk profile. So when we look at the risk profile it does mean – it does relate to urban markets and we've tried to do deals in markets where we think we can be successful, where our model works. Our model works best in tier two and tier three cities.

That's what we have been focused on as we've done our acquisitions, that's very consistent with NuVox. And the other thing as it relates to integration risk, I'd say, in terms of our risk profile, so everything that we are doing to date, I think, we can do, maintain capital structure, improve our dividend payout ratio, which is very important to our investors, and do that in a way that doesn't represent huge integration risks. Nothing in front of us today is particularly concerning. We've done deals like this for a long period of time and so from a risk profile perspective, I think our access – acquisition path is one that our investors are very comfortable with. We have been very consistent both in the kinds of acquisitions that we pursued and the integration approach that we have taken.

David Barden - *Banc of America - Analyst*

Okay, guys, I appreciate that, thanks.

Jeff Gardner - *Windstream Corporation - President & CEO*

Thanks, David.

Operator

Your next question comes from the line of Mike McCormack with JPMorgan.

Mike McCormack - *JPMorgan - Analyst*

Hi, guys, thanks. You guys made a couple of comments about the product sales and decision making within business customers, can you just give us a sense for whether or not the business decision making is getting fast or slower, it's getting worse or better. And then secondly, on line loss, can you identify any specific geographies that might be better or worse than others. Thanks.

Brent Whittington - *Windstream Corporation - EVP & COO*

Mike, this is Brent. I'll take that. In terms of businesses, we are not going to comment on four quarter just yet. But I'd tell you that really overall in third quarter we continue to see trends similar to what we've seen through the first two quarters of this year. So year-to-date things have been fairly flat on the business side. Probably too early to call a recover, yet, in Q4, but we will keep our eye out in terms of what 2010 looks like, but we are optimistic there. In terms of the line loss, your second question, could you just repeat that just to make sure I heard that component of it.

Mike McCormack - *JPMorgan - Analyst*

Yes, just trying to get a sense for whether or not there are specific geographies that are doing better than others in the line loss.

Brent Whittington - *Windstream Corporation - EVP & COO*

No. I mean, I'd -- some of our kind of larger markets have historically continued to be the areas where we've seen the most pressure, but I tell you overall much of our business is facing competition. The real differences in dynamics are between residential and business. We didn't see any major change in competition geographically, say than in some of our Pennsylvania markets where Comcast launched this quarter and we saw some uptick slightly just because of that. No other major changes, Mike.

Mike McCormack - *JPMorgan - Analyst*

And when you are looking out over the next several quarters, what do you anticipate as far as cable footprint increases go.

Brent Whittington - *Windstream Corporation - EVP & COO*

Continue to be modest, really. Again, I mentioned around 50,000 incremental kind of customers that face competition this quarter, we don't see a material change in that over the coming quarters.

Mike McCormack - *JPMorgan - Analyst*

Great, thanks guys.

Brent Whittington - *Windstream Corporation - EVP & COO*

You're welcome.

Operator

Your next question comes from the line of Batya Levi with UBS.

Batya Levi - *UBS - Analyst*

Thanks a lot. Had a couple questions on NuVox transaction. Can you provide some color on how revenue growth has been trending for them in the last couple of quarters and who do they mainly compete with, have they been taking share. And looks like on the margin side they do have somewhat lower margins than their peers. How do you think about it when it's integrated within your core business. And finally I was -- wanted to ask if you could give us a sense for the OpEx mix of the $30 million synergy target and how long it -- how long do you think it will take you to realize that. Thank you.

Jeff Gardner - *Windstream Corporation - President & CEO*

Okay. With respect to NuVox, they have done very well. Over the last couple of years driving up their revenue each year, they've been a very aggressive competitor. They're -- they're combeting -- competing for these 11 to 500 line accounts very aggressively and so they've been -- they are competing against the incumbent, obviously, but the other CLECs in some of these markets and they've been doing very, very well. What really impressed us about that management team is they have a unique culture of sales management that's aggressive and one that we think offers some benefits to our own sales organization as well.

In terms of margins, they've steadily improved their margins. Yes, the margins are lower than they are in the incumbent telephone business, but these guys have been -- they were -- been very focused, just like we are, on cash flow generation. And so that was very attractive to us. This -- this history of disciplined -- being disciplined on the sales process and watching expenses has really allowed them to improve their margins each and every year over the last few years. With respect to how they compare to their peers, I think that's too specific to get in to. They are a very well run business today.

Brent Whittington - *Windstream Corporation - EVP & COO*

The synergies, Batya, on that component, out of the $30 million, roughly half of that is in corporate and kind of back office personnel. The incremental synergies we expect in -- In that component we'll get fairly quickly. The incremental amounts really tie more to some network synergies, LD cost, revenue synergies and some things of that nature we expect to see overtime as we get that asset integrated into the business.

Batya Levi - *UBS - Analyst*

Would the CapEx components be small.

Brent Whittington - *Windstream Corporation - EVP & COO*

CapEx in that business will not be a huge amount, Batya, 10% to 15% max of that total number.

Tony Thomas - *Windstream Corporation - CFO*

The vast majority will be OpEx savings.

Batya Levi - *UBS - Analyst*

And finally, I don't know if you want to talk this, but where do you think your dividend payout will be pro forma for that transaction.

Jeff Gardner - *Windstream Corporation - President & CEO*

Well, we haven't provided consistent guidance, but for -- there is a consistent theme with D&E, Lexcom and NuVox. And when we say they are all cash flow accretive, it -- it goes on to say that our dividend payout ratio is improving as we do these deals.

Batya Levi - *UBS - Analyst*

Okay, thanks.

Jeff Gardner - *Windstream Corporation - President & CEO*

Which is great news for our investors.

Operator

Your next question comes from the line of Donna Jaegers with DA Davidson.

Donna Jaegers - *DA Davidson - Analyst*

Hi, guys, good quarter. Just a follow-up on NuVox. It -- you make it sound like management is going to stay on there. So I just wanted to understand, you recently hired a guy that was heading up PayTech's southeast region, what's his role going to be in the organization and just confirm that you expect management to stay on at NuVox.

Brent Whittington - *Windstream Corporation - EVP & COO*

Donna, this is Brent. We have yet to make the call on exactly who all at NuVox will remain. So, a little early to call that. But, I mean, long-term, certainly John Leech, the gentleman you referenced that we hired recently, we expect to lead our overall business sales organization, but the exact management structure we expect to have long-term is yet to be determined. But there will be some key players at NuVox today that will certainly be there long-term, but we have got to work on the integration effort as we develop kind of that path going forward.

Donna Jaegers - *DA Davidson - Analyst*

Okay, thanks, Brent.

Brent Whittington - *Windstream Corporation - EVP & COO*

You're welcome, thank you, Donna.

Operator

Your next question comes from the line of David Sharret with Barclays Capital.

David Sharret - *Barclays Capital - Analyst*

Good morning. Just wanted to just ask, with some of the acquisitions you have done recently, obviously, you haven't really moved the needle on leverage yet, but just as you move forward, just wanted to just affirm your view and target around leverage and then also just ask pro forma for this deal, you've -- the NuVox deal you talked about using cash and also some dipping into the revolver as well, kind of your thoughts on minimum liquidity as you – as you talked before about wanting to have – preserving your flexibility. Thanks.

Tony Thomas - *Windstream Corporation - CFO*

David, this is tony. I will – I will speak to the leverage. In terms of leverage, we are– we are comfortable around the range where we are at. We kind of – we remain committed to that as we looked at these deals we are doing these deals. As Jeff alluded to, there is a theme. These – the theme has been ultimately these deals have been slightly deleveraging to leverage neutral. Ultimately, we are comfortable with the – the range of leverage we have today and as we look towards future acquisitions, we are mindful of our -- of our credit ratings and ultimately our need to keep leverage kind of in the same range it is, at 3.2 times. And ultimately, we have plenty of room underneath the revolver and plenty of cash available even after NuVox. So in terms of additional capacity, we are in good shape there as well, David.

David Sharret - *Barclays Capital - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of Jason Frazier with Raymond James.

Jason Frazier - *Raymond James - Analyst*

Hi, good morning. Just going back to NuVox for a second. Is there any way you can talk a little bit more about the revenue trajectory and the revenue, just components. Any leftover revenue from residential or single line business. And secondly, just talking about that data special access, this is the first time we have seen a sequential decline in a couple of quarters now. I just wonder if you could talk about what is driving that. Thanks.

Jeff Gardner - *Windstream Corporation - President & CEO*

Okay, I will take the first part. And again, on the top-line NuVox has been steadily improving their top-line revenue. They've done a nice job there, even in a difficult environment.

Tony Thomas - *Windstream Corporation - CFO*

In terms of the data and special access trends. We had $1 million of kind of a nonrecurring item in the second quarter and the promotion that Brent eluded to, price for life, really did not get initiated until mid August. So the economic and financial benefits from those access lines and broadband customers aren't really going to materialize until the fourth quarter. And then I expect you will see our traditional trajectory on data and special access.

Jeff Gardner - *Windstream Corporation - President & CEO*

And then as it relates to NuVox, I failed to mention that they have no, virtually no residential exposure. It's a -- it's a business enterprise model, 100% focused there.

Jason Frazier - *Raymond James - Analyst*

Terrific, thank you very much.

Jeff Gardner - *Windstream Corporation - President & CEO*

You're welcome.

Rob Clancy - *Windstream Corporation - SVP & Treasurer*

Cynthia, we have time for one more question.

Operator

Your final question today comes from the line of Dave Coleman with RBC Capital Markets.

Dave Coleman - *RBC Capital Markets - Analyst*

Great, thanks a lot. Just going back to the price for life offer. Brent, I believe you mentioned that it came out mid-quarter, can you talk about what the trend for broadband and access lines were before and after that promotion.

Brent Whittington - *Windstream Corporation - EVP & COO*

Dave, Brent here, and -- but it came out really in probably mid-August, but it wasn't supported from a mass market's advertising standpoint until the September kind of timeframe and our trends certainly accelerated in a big way after that. Part of that though was the promotion related and then the other part was the seasonal kind of uptick we generally expect around the back to school timeframe, which was, again, part of the logic around the timing of that launch. So nice uptick for sure that helped with the sequential increase and year-over-year increase we saw in gross adds on the residential side.

Dave Coleman - *RBC Capital Markets - Analyst*

Great, thanks a lot.

Brent Whittington - *Windstream Corporation - EVP & COO*

You're welcome.

Rob Clancy - *Windstream Corporation - SVP & Treasurer*

We would like to thank you folks for joining us morning. We appreciate your interest and support. Mary Michaels and I will be available for additional questions throughout the day.

Operator

Ladies and gentlemen, this concludes today's conference, you may now disconnect

---

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of the Statement No. 1.0, Direct Testimony of Michael D. Pelcovitz On Behalf of Comcast Phone of Pennsylvania LLC and Comcast Business Communications, LLC on the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 154.

Bradford M. Stern, Esq.
Rothfelder Stern LLC
625 Central Avenue
Westfield NJ 07090
mcrothfelder@rothfelderstern.com

Suzan D. Paiva, Esq.
Verizon
1717 Arch Street
Philadelphia, PA 19103
suzan.d.paiva@verizon.com

Zsuzsanna E. Benedek, Esq.
240 North Third Street, Suite 201
Harrisburg, PA 17101
sue.benedek@centurylink.com

Christopher M. Arfaa, Esq.
150 N Radnor Chester Road
Suite F-200
Radnor, PA 19087-5254
carfaa@arfaalaw.com

Joel H. Cheskis, Esq.
Office of Consumer Advoce
555 Walnut Street
5th Floor Forum Place
Harrisburg, PA 17101-1923
jcheskis@paoca.or

Steven C. Gray, Esq.
Office of Small Business Advocate
Suite 1102, Comerce Building
300 North Second Street
Harrisburg, PA 17101
sgray@state.pa.us

Norman J. Kennard, Esq.
Thomas, Long, Niesen & Kennard
212 Locust Street – Suite 500
Harrisburg, PA 17109
nkennard@thomaslonglaw.com

Michelle Painter, Esq.
13017 Dunhill Drive
Fairfax, VA 22030
painterlawfirm@verizon.net

Pamela C. Polacek, Esq.
Barry A. Naum, Esq.
McNees, Wallace & Nurick LLC
100 Pine Street
Harrisburg, PA 17108-1166
ppolacek@mwn.com
bnaum@mwn.com

John F. Povalaitis, Esq.
Michael Totino, Esq.
Ryan Russell Ogden & Seltzer PC
800 North Third Street, Suite 1010
Harrisburg, PA 17102-2025
JPovilaitis@RyanRussell.com
MTotino@RyanRussell.com

Hon. Kandace F. Mellilo
Administrative Law Judge
Pennsylvania Public Utility Commission
400 North Street, Keystone Building
Harrisburg, PA 17105-3265
kmellilo@state.pa.us

Benjamin Aron, Esq.
Sprint Nextel Corporation
2001 Edmund Halley Drive, 2nd Floor
Reston, Virginia 20191
Benjamin.aron@sprint.com

Allison C. Kaster, Esq.
Adeolu A. Bakare, Esq.
Office of Trial Staff
400 North Street, Second Floor
Harrisburg, Pennsylvania 17120
akaster@state.pa.us

Garnet Hanley, Esq.
T-Mobile
401 9th Street, N.W., Suite 550
Washington, DC 20004
garnet.hanley@t-mobile.com

Dr. Robert Loube
Rolka Loube Saltzer Associates
10601 Cavalier Drive
Silver Spring, Maryland 20901
bobloube@earthlink.net

John C. Dodge

November 30, 2009

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers and the Pennsylvania Universal Service Fund	:	Docket No. I-00040105
AT&T Communications of Pennsylvania, LLC Complainant	:	
v.	:	Docket No. C-2009-2098380, et al.
Armstrong Telephone Company - Pennsylvania, et al. Respondents	:	

PUBLIC

STATEMENT NO. 1.0R

REBUTTAL TESTIMONY

OF

MICHAEL D. PELCOVITS

ON BEHALF OF

COMCAST PHONE OF PENNSYLVANIA, LLC and COMCAST BUSINESS COMMUNICATIONS, LLC

DATED: March 10, 2010

RECEIVED
APR 20 2010
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Comcast Stmt. 1.0R
I-00040105
C-2009-2098380
4-14-10
Harrisburg JS

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Michael D. Pelcovits. I am a principal with the economic consulting firm of Microeconomic Consulting and Research Associates (MiCRA). My business address is 1155 Connecticut Avenue, N.W., Washington, D.C. 20036.

Q. DID YOU FILE DIRECT TESIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony on behalf of on behalf of Comcast Phone of Pennsylvania, LLC and Comcast Business Communications, LLC, (hereafter "Comcast") on November 30, 2009.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to respond to several assertions and arguments made by witnesses testifying on behalf of the Pennsylvania Telephone Association ("PTA") and CenturyLink. I will refer to these parties collectively as the RLECs. I will also respond to the mischaracterization and misinterpretation of my testimony by Dr. Wilson (on behalf of the Office of Small Business Advocate ("OSBA")) and Dr. Loube (on behalf of the Office of Consumer Advocate ("OCA")). My testimony is organized according to the subject matter raised by these witnesses:

1. The RLECs' claim that high access charges must be maintained to enable the RLECs to maintain affordable local rates in the high-cost rural areas that they serve.
2. The RLECs' claim that this case is principally about transferring money from the RLECs (and their customers) to the largest long distance and wireless companies.
3. The RLECs' (and OSBA's) claim that the carriers receiving a reduction in access charges will not pass through their lower costs to their customers.
4. Dr. Wilson's and Dr. Loube's claims that long run incremental cost should not be the basis for setting switched access charges.

II. USE OF EXCESSIVE ACCESS CHARGES TO SUBSIDIZE LOCAL EXCHANGE SERVICE IN RURAL AREAS

Q. WHAT REASON DO THE RLEC WITNESSES GIVE FOR MAINTAINING SUCH HIGH INTRASTATE SWITCHED ACCESS CHARGES?

A. The RLEC witnesses argue that high access charges provide implicit subsidies to help cover the high cost of serving rural areas. Absent a replacement of lost access revenues with an increase in explicit subsidies, they say that their local rates would have to increase to unacceptable and unsustainable levels. Mr. Zingaretti, testifying for PTA, further elaborates that the cost incurred by the PTA companies of providing universal service is driven primarily by the very rural nature of the areas they serve.[1] He states that "the major driver of cost is the overall rural nature of the area served by a local exchange carrier," as measured by population density.[2] He then compares the average density of the areas served by the small companies (30.5 lines/square mile), the larger RLECs (49.4 lines/square mile), and Verizon (193.2 customers/square mile), and concludes that "this reliable indicator of higher cost of service is not influenced by the overall size of the company or its corporate affiliations."[3] This justifies, according to PTA and CenturyLink, a continuation of subsidies flowing from the large carriers, serving mostly dense areas, to the smaller companies serving the less dense areas.

Q. DO YOU AGREE THAT THE COST OF SERVING A GEOGRAPHIC AREA IS DRIVEN BY DENSITY?

A. Yes. I agree that line density or customer density is a very important cost driver. I disagree, however, with the RLECs' claim that above-cost access charges can be explained or justified by cross-subsidization of local rates in the highest-cost rural

---

[1] PTA Statement No. 1.0, Docket C-2009-2098386, *et al*, Prepared Direct Testimony of Gary M. Zingaretti on behalf of the Pennsylvania Telephone Association Companies (filed Jan. 20, 2010) (hereinafter "Zingaretti Direct") at 26, *et seq*.

[2] *Id.* at 28.

[3] *Id.* at 28-9.

areas. Indeed, while a properly-designed USF subsidy mechanism would likely be targeted at customers in the lowest density areas of the State, the actual cross-subsidy built into existing intrastate switched access charges does not appear to be targeted in this manner. As I will demonstrate below, there is little correlation between the density of the area served by an RLEC and its dependence on above-cost switched access rates to "support" reasonable local exchange rates. My analysis of the data provided by the RLECs on density and access cross subsidies demonstrates that the entire logic of the RLECs' position does not hold together. The RLECs' paradigm cannot be sustained, and their protestations about the dangers of bringing intrastate access rates into parity with interstate rates should be rejected by the Commission.

Q. WHAT ANALYSIS DID YOU PERFORM OF THE RELATIONSHIP BETWEEN ACCESS CROSS SUBSIDIES AND THE DENSITY OF AN RLEC'S SERVING AREA?

A. I analyzed and combined two data sets provided by Mr. Zingaretti. The first data set provides the impact on local rates for each of the PTA companies from a "flash cut" to parity with interstate rates.[4] This data set provides the rate increase per line needed to fully offset the loss in access revenue caused by bringing

[4] Zingaretti Direct at PTA Exhibit GMZ-13.

intrastate rates into parity with interstate rates. It also provides the level of 1-R rates that would be necessary following the flash-cut to parity. The second data set provides the line density of each of the PTA companies, measured as the number of lines per square mile.[5] Mr. Zingaretti used this information to calculate and compare the line density of the PTA companies to Verizon.

I analyzed these data to explore the relationship between the density of an RLEC and the impact of a flash cut to parity on local rates. I conducted regression analyses using a variety of specifications, all of which failed to turn up any systematic relationship between these two variables.[6]

Q. PLEASE EXPLAIN THE STATISTICAL ANALYSIS THAT YOU PERFORMED.

A. I considered two different measures of the impact on local rates of a reduction in access charges to parity. The first measure is the rate increase per line; the second measure is the actual level of the "flash cut" 1-R rates. One or both of these measures should pick up the effect of a reduction in the access "cross subsidy" on

---

[5] Zingaretti Direct at PTA Exhibit GMZ-14.

[6] I also performed the same analysis using the flash cut 1-R rates that would result from setting the RLECs' rates equal to Verizon's intrastate rate, *i.e.*, the Verizon proposal in this case. The results of the analysis were similar to those from the proposal to require parity between each RLEC's interstate and intrastate switched access charges.

an RLEC's customers. The first measure, the rate increase per line, should capture the size of the existing cross-subsidy from access charges relative to the petitioner's proposal of a flash cut to interstate parity. The second measure, the level of 1-R rates following a flash cut to parity, should reflect the relative importance of the existing access cross-subsidy in maintaining local rates at the current benchmark, $18/month, across all of the PTA companies. The advantage of this second measure is that will adjust for differences in local rates among the RLECs, which are now being cross-subsidized by access charges.

Q. WHAT ARE RESULTS OF YOUR STATISTICAL ANALYSIS?

A. The first result I will present is a simple correlation coefficient between either measure of the cross-subsidy and line density. A correlation coefficient measures whether two variables tend to move together (either in the same direction or in the opposite direction). The correlation coefficient ranges from minus one to plus one, and the closer the coefficient lies to either 1.0 or to -1.0, the more the two variables are said to be correlated – i.e. when one varies the other will too. A correlation coefficient of zero means that the two variables move independently.

As shown in the table below, the correlation coefficient between density (or in the alternative, the log of density) and either measure of cross-subsidy is nearly zero.[7] One would expect that the correlation coefficient would be highly negative (much closer to negative 1.0), reflecting the supposed relationship between low density and the need for a larger subsidy. The results of this simple statistical test imply that the cross-subsidy provided by access charges is not related to the density (and cost) of the serving area of the RLEC.

[BEGIN CONFIDENTIAL]

[7] Throughout this analysis, I considered whether using the logarithm of density would have any significant effect on the results. (This could be true if the relationship between density and the access cross-subsidy was non-linear.) There was no significant difference between results using levels versus logarithms of density.

[END CONFIDENTIAL]

I also conducted a number of other regression analyses to test the hypothesis that low density would be responsible for a larger historic subsidy. I included other variables, such as the number of lines served by the RLEC, and also removed some of the outlying observations. (I include several of these regression results in Appendix I.) None of these changes to the specification of the regression altered the results in any meaningful way.

Q. WHAT DO YOU CONCLUDE FROM THIS ANALYSIS OF THE DATA PROVIDED BY MR. ZINGARETTI?

A. The data show unequivocally that the excessive intrastate switched access charges are not being used to provide a targeted cross-subsidy to the RLECs serving the highest cost areas of Pennsylvania. Rather, the amount of the cross-subsidy going to each RLEC (on a per-line basis) is quite random in relationship to density, which according to PTA is the key cost driver for its member companies. Other factors must be responsible for the size of the access charge subsidy, yet the RLECs do not appear to feature these factors in their testimonies. The conclusion

I draw is that these other unexplained factors do not provide a good policy justification for maintaining high access charges.'

III. PUBLIC POLICY RATIONALE FOR LOWERING ACCESS CHARGES

Q. WHAT CLAIM HAVE THE RLECS MADE ABOUT THE MOTIVATION OF THE OTHER CARRIERS FOR SEEKING ACCESS CHARGE REDUCTIONS?

A. Mr. Zingaretti (on behalf of PTA) claims that the strategy and goal of the carriers seeking access reductions is to increase their profits at the expense of rural customers and carriers. Specifically, he states that the proponents of access reductions have "offered no support that reductions to their expenses are in the public interest" or would benefit Pennsylvania consumers.[8] He also states that that "this entire proceeding is a calculated event, which if successful, would transfer tens of millions of dollars from local service providers and their customers to the largest long distance and wireless carriers in the country."[9]

[8] Zingaretti Direct at 4.

[9] *Id.* at 5.

Q. DO YOU AGEE WITH THE RLECS' CHARACTERIZATION OF THE PRIVATE AND PUBLIC GAINS FROM ACCESS REDUCTIONS?

A. No. I believe that Mr. Zingaretti is posing a false dichotomy between the interests of the proponents of access reductions and the public interest. This case concerns RLEC access charges that are substantially greater than these same companies' charges for identical call functionality (*i.e.*, local and interstate call termination), and even more out of line with the rates charged by other companies. It is imperative from a public policy standpoint that these rates be reduced to align more closely with cost and the rates for other types of call termination. (As I stated in my direct testimony, the key policy issue is the rates for terminating traffic, which have a much greater impact on the market than originating access charges.) Failure to set the rates for the terminating access bottleneck service at (or close to) cost harms consumers and distorts market behavior and the development of competition in rural areas.

The proponents of access charge reform have every reason to seek reductions in the call termination fees, which are totally beyond their control (due to the terminating access bottleneck). This will benefit the originating carriers, as it will increase their ability to control costs, and reduce arbitrary and artificial distinctions in the cost of call termination. This does not mean, however, that access charge rate-setting is a zero-sum game, whereby any gain from access reductions will have an equal and offsetting loss to the public from some other rate increases. Consumers benefit when prices are aligned with cost, rather than being set by a carrier with substantial market power.

Q. HOW ARE CONSUMERS AFFECTED BY EXCESSIVE ACCESS CHARGES?

A. Terminating access charges are a cost of doing business of the calling party's voice service provider. Excessive access charges, therefore, translate into an increased cost of doing business for the calling party's service provider. In a competitive market, these costs will be passed through to consumers in higher prices for calls – either in per minute rates or in higher monthly flat charges.

Contrary to the RLEC witnesses' assertions, however, this is not a zero sum game. When prices are not aligned with cost, consumers will make decisions based on false information, and either use too little or too much of a service, relative to the economically-efficient level of output. This is true for the RLECs' customers, as well as companies such as Verizon, AT&T, Sprint, and Comcast. For example, a rural customer may choose landline over wireless service, because of false price signals, even though he or she would prefer wireless service if prices were set at cost. Finally, if broader public policy goals are at jeopardy when prices are set at cost, it is far more effective to address these problems with an explicit subsidy program, which would provide targeted funds to achieve well-defined social objectives and not become a "make whole" mechanism to replace lost access revenues.

Q. HOW IS COMPETITION AFFECTED BY EXCESSIVE ACCESS CHARGES?

A. Competition will be affected most directly when direct competitors to the RLECs are unable to recover equivalent terminating access revenues from serving the same type of customer, either because of legal restrictions or internal business practices that would be costly to alter in order to copy the RLECs' distorted pricing practices. The wireless carriers fall under the category of potential direct competitors to the RLECs that are barred legally from charging terminating access charges. Other facilities-based voice service providers, such as Comcast, may not face a legal barrier to matching the RLECs' access charges, and may even do so when using an RLEC tandem. When Comcast uses only its own facilities to terminate traffic, however, it has chosen to avoid the billing disputes and the arbitrage activities that these excessive terminating rates engender. Finally, it is important to note that even if a RLECs' competitor charges identical per minute terminating access rates, competition could still be distorted by factors such as the relative amounts of inbound to outbound calling of each carrier's customers. Markets will perform much more efficiently and consumers will benefit more if these idiosyncratic and artificial incentives are eliminated by bringing access charges and other intercarrier compensation rates to cost-based levels or by adopting a bill and keep regime.

IV. PASS-THROUGH OF ACCESS CHARGE REDUCTIONS

Q. WHAT POSITIONS HAVE THE RLEC AND OSBA WITNESSES TAKEN ON WHETHER THE ACCESS REDUCTIONS WILL BE PASSED THROUGH TO CONSUMERS?

A. Several witnesses claim that the interexchange carriers will not flow through some or all of reduced access charges. Mr. Zingaretti claims that historically the interexchange carriers ("IXCs") have actually increased long distance rates when access rates were declining or stable.[10] Mr. Bosnick says that IXCs have not demonstrated that prior access reductions were passed through.[11] Mr. Lindsey and Mr. Harper claim that since long distance is part of a bundle, no decline is possible in the implicit "free" price of toll within the bundle.[12] Dr. Wilson also

---

[10] Zingaretti Direct at 5.

[11] CenturyLink Statement No. 3.0, Docket C-2009-2098386, *et al*, Direct Testimony of David F. Bosnick on behalf of The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink (filed Jan. 20, 2010) at 16.

[12] CenturyLink Statement No. 1.0, Docket C-2009-2098386, *et al*, Panel Direct Testimony of Jeffrey L. Lindsey and Mark D. Harper on behalf of The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink (filed Jan. 20, 2010) at 27.

states that toll carriers would likely profit by passing through less than the full amount of access charges to their toll customers.[13]

Q. WHAT IS YOUR OPINION OF THE CLAIMS MADE BY THESE OTHER WITNESSES ABOUT THE PASS-THROUGH OF ACCESS CHARGE REDUCTIONS?

A. The pass-through issue is a red herring, *i.e.*, an effort intended to divert attention from the real problem at hand. Pass-through is an irrelevant issue and should not be factored into this proceeding, because the toll market and the market for bundles are workably competitive and the toll carriers' rates are constrained to cost-based levels. Hence, if the cost of providing toll service falls due to a decrease in access charges, then the toll rates will flow through the benefits of the access charge reduction to consumers.

The only logical alternative to this proposition is that the toll market is not competitive, such that toll carriers can retain a substantial portion of cost reductions. In other words, if the toll carriers have significant market power then consumers are being overcharged now and will be overcharged even more after access rates are reduced. But if the Commission were to adhere to such a view, it

[13] OSBA Statement No. 1, Docket C-2009-2098386, *et al*, Direct Testimony of John W. Wilson on behalf of the Pennsylvania Office of Small Business Advocate, (filed Jan. 20, 2010) (hereinafter "Wilson Direct") at 14.

would be logical to attack the problem directly by regulating the rates charged by these companies.

The simple truth of the matter is that the toll carriers[14] face competition, which, although not perfect textbook competition, is sufficient to insure that consumers benefit from cost reductions and that regulation of the toll carriers' retail rates would be wasteful and costly.

I also dispute the RLECs' claim that the toll carriers have not passed through access reductions in the past. I have not analyzed the issue in Pennsylvania, but base my opinion on my expertise in analyzing the pass-through issue raised at the Federal Communications Commission ("FCC"). The simple truth is that pass-through cannot be measured without extensive empirical work, in order to adjust for factors such as, changes in rate structure or creation of new rate plans and changes in other costs.[15] Also, pass-through cannot be analyzed without data on revenues and quantities of each toll carrier over a sufficient period of time. Simply put, a serious pass-through analysis cannot be done

[14] I use the term toll carriers in response to the way the RLECs present the issue. In reality the carriers that pay terminating access charges to the RLECs will be wireless and wireline carriers serving customers throughout the State.

[15] For a discussion on pass-through in telecommunications *see* T. Randolph Beard, et al, *The flow through of cost changes in competitive telecommunications: Theory and evidence, in* EMPIRICAL ECONOMICS 30:1-19 (2005).

without abundant data and sophisticated economic tools. Otherwise, the results are likely to be misleading.

Finally, there is another "wrinkle" that makes a pass-through analysis even harder to undertake. If the purpose of the analysis is to test whether the toll carriers are acting competitively, then it is not sufficient to test whether access charge reductions are passed-though on a dollar-for-dollar basis. Rather, it is necessary to analyze the shape of the demand curve and the supply elasticity, because in a competitive market pass-through can be greater or less than 100% depending on these factors. Indeed, there is a large and sophisticated body of literature on the pass-through issue (much of it related to tax incidence), which bears on the matter.[16]

For these reasons, I recommend that the Commission adhere to its current policy to treat the toll market (and the bundled service market) as competitive, and accept the logical policy judgment that access cost reductions will be passed through to consumers and provide significant benefits to consumers.

[16] For a recent survey of the literature on tax incidence theory *see* Don Fullerton and Gilbert E. Metcalf, *Tax Incidence*, *in* HANDBOOK OF PUBLIC ECONOMICS, VOLUME IV (Alan J. Auerbach and Martin Feldstein eds., 2002).

V. APPRORIATE COST STANDARDS FOR ACCESS CHARGES

Q. IN YOUR DIRECT TESTIMONY IN THIS CASE, WHAT COST STANDARD DID YOU PROPOSE FOR SETTING ACCESS CHARGES?

A. I proposed that the reasonableness of access charges should be judged relative to the long run incremental cost ("LRIC") of providing the service. LRIC is the standard measure used to assess the impact of rates on efficiency and consumer welfare. Since the evidence is quite clear that the LRIC of switched access is very close to, if not equal to, zero, there can be no cost justification for current levels of the RLECs' intrastate switched access charges.

Q. WHAT CRITICISMS HAVE DR. WILSON AND DR. LOUBE LEVELED AGAINST YOUR POSITION ON USING LONG RUN INCREMENTAL COST AS THE BASIS FOR SETTING SWITCHED ACCESS CHARGES?

A. Dr. Wilson states that my "assertions … are entirely unencumbered by fact. The undeniable facts in this case are that local access exchange facilities are, as described above, very costly and that they are required and designed for toll service as well as for local service."[17] He goes on to say that where related uses share facilities, "it is a sham to single out one of those uses as the cost-causer or

---

[17] Wilson Direct at 9.

as the zero cost incremental user. That is simply a self-serving contrivance in the pursuit of a free ride."[18]

Dr. Loube presents a much more reasoned argument, stating that if the prices for all services are set at long run incremental cost, the carrier will be unable to recover its total cost.[19] Dr. Loube is correct, and at no point did I state or mean to imply that all prices of the ILECs can be set at LRIC. My answers below will attempt to clarify the policy rationale for setting access charges (and all intercarrier compensation rates) no higher than LRIC.

Q. HOW DO YOU RESPOND TO DR. WILSON'S CRITICISM OF YOUR POSITION?

A. Dr. Wilson mischaracterizes my testimony and then presents an illogical and anachronistic position on intercarrier compensation. To begin with, it is interesting to note, in response to his unrestrained accusation that my position "is unencumbered by fact" and that it is a "sham" and "self-serving contrivance" to exclude toll carriers from responsibility for recovering a portion of the joint and

---

[18] *Id.*

[19] OCA Statement No. 1, Docket C-2009-2098386, *et al*, Direct Testimony of Dr. Robert Loube on behalf of the Pennsylvania Office of Consumer Advocate, (filed Jan. 20, 2010) at 42.

common cost, that the FCC has recently made nearly identical points as I have about the pricing of intercarrier charges in relationship to cost.[20]

The FCC proposed in 2008 to change the cost standard for intercarrier compensation to "the traditional economic definition of incremental cost," which would exclude any portion of common cost,[21] including the cost of the loop. Elaborating on this point, the FCC stated that:

> under the traditional economic definition, the incremental cost of call termination would be determined by estimating the stand alone cost of a network, which incorporates all existing services except call termination … and then subtracting this amount from a comparable estimate of the total cost of providing all the same existing services, including call termination. As should be obvious, the incremental cost of call termination under the traditional economic definition should be significantly lower than that calculated under a TELRIC [Total Element Long Run Incremental Cost] methodology.[22]

The FCC then reviewed evidence on the long run incremental cost of call termination, which suggests that $0.00058 as a very generous upper bound for the LRIC of switching.

---

[20] *High-Cost Universal Service Support,* WC Dockets No. 05-337 & CC Dockets No. 96-98, *et al.*, Order on Remand and Report and Order and Further Notice of Proposed Rulemaking (rel. Nov. 5, 2008) (FCC 08-262), at Appendix C, ¶¶ 231-263.

[21] *Id.*, ¶246.

[22] *Id.*, ¶246

I am not presenting this FCC document, however, to propose a specific estimate of LRIC. Rather, I wish to clarify that the LRIC standard for judging call termination rates is not an extreme or outlandish methodology, but rather the conventional wisdom, from which Dr. Wilson deviates without considering the implications for the marketplace. Dr. Wilson's proposal to allocate joint and common cost across different services is not supported by economic theory and would be harmful to the development of competition.

Q. WHAT ARE DR. WILSON'S MAIN ARGUMENTS FOR INCLUDING JOINT AND COMMON COST WITHIN THE COST OF TOLL OR ACCESS SERVICE?

A. Dr. Wilson argues that since toll carriers need and use local access facilities, they should be required to "support" the costs of these facilities.[23] He states that it would be "unfair" to not require toll carriers to recover their "fair share" of these joint and common costs.[24] He elaborates further by claiming that since the market for toll has become competitive and has "sorted itself out" as the major toll

---

[23] Wilson Direct at 12.

[24] *Id.* at 7 ("Any additional reduction in ILEC access charges would essentially push all, or virtually all, of the cost of these facilities onto local exchange ratepayers. This would be unfair to residential local exchange ratepayers . . . .").

carriers have been merged into ILECs, there is even more reason to shift costs onto the toll carriers.[25]

Q. WHAT IS YOUR OPINION OF DR. WILSON POSITION ABOUT THE "FAIRNESS" OF ALLOCATING JOINT AND COMMON COSTS TO TOLL CARRIERS?

A. A criterion of "fairness" for rate setting does not provide much policy guidance to the Commission. This is especially true now that markets are open to competition, since a conflict between a particular definition of fairness and marketplace forces is likely to be won by the market. If toll service were to be allocated a portion of the loop cost, which is not incremental to usage, competition will undermine this arbitrary cost allocation. This is what led the FCC to shift recovery of loop cost (and other joint and common cost) to the end user. While it may have been "unfair" to burden low volume end users with a larger share of the cost of the network, it was not possible to continue to recover large shares of these costs from larger volume customers.

Dr. Wilson's pursuit of some Platonic ideal of fairness is even more futile in today's world of bundled service offerings. As he has admitted, the large

[25] *Id.* at 10.

stand-alone long distance companies have vanished, due to mergers with the local companies and the entry of the former Regional Bell Operating Companies into long distance markets. This means that allocation of costs between originating local and long distance usage (or between fixed and per-minute charges) is meaningless. Most originating access is provided by the local carrier to itself, which means that the formal structure and level of access charges will be irrelevant to the pricing decision. Hence, the "fairness" of the rate structure faced by most telephone subscribers will be driven almost entirely by the individual bundled service providers, subject to marketplace discipline. Dr. Wilson may not like the outcome of this competitive interaction, but it is powerful enough to crush his concept of a fair cost allocation.

Q. SHOULD TERMINATING ACCESS CHARGES BE ALLOCATED A PORTION OF JOINT AND COMMON COST?

A. Absolutely not. The attempt to "tax" terminating traffic to subsidize some local carriers is contrary to good policy and to well-established Federal law and policy. To explain this point, I will distinguish between two different issues. The first is whether different types of terminating traffic should be taxed at different rates. The second is whether terminating traffic should be taxed at all to provide a profit stream to the terminating carrier.

Discrimination in the price of terminating traffic is a bad idea. It is inefficient and encourages "arbitrage" to evade the non-cost-based rate discrimination. This policy has been explained in great depth by the FCC in its various intercarrier compensation proceedings, and has been accepted by the vast majority of commenting parties. If this principle is adopted, it should solve Dr. Wilson's concern about "fairness," because there will be no explicit allocation of common cost among "local" and "toll" traffic. All terminating traffic will pay the same rate. A separate question remains, however, as to whether one carrier should help pay another carrier's common costs. This is the second issue that I defined above, namely whether there should be tax on terminating traffic.

Q. SHOULD ONE CARRIER CONTRIBUTE TO ANOTHER CARRIER'S JOINT AND COMMON COSTS?

A. No. From a policy standpoint this can lead to inefficient behavior and distort competition. Some CLECs, for example, have argued that they should be able to charge higher call termination rates than a competing ILEC serving the same geographic area, in order to offset their higher costs of doing business. I see no reason, however, why a carrier should be able to impose the costs of its own inefficiency on other carriers. Similarly, there is no reason for an RLEC to tax other carriers' customers to offset its purported higher costs of doing business. If it is not acceptable, from a policy standpoint, to recover this RLEC's costs from its own customers, then a broadly-based universal service fund should come to the rescue. This would enable greater regulatory control of the size of the subsidy, and also if the subsidy were portable, it would facilitate competition in this rural area. It would be counterproductive, however, to offset reductions in access revenue with a dollar-for-dollar increase in the Pennsylvania USF. This would constitute corporate welfare and would obviate the public policy benefit from targeting subsidies to the highest cost geographic areas and limiting the size of the subsidy to the minimum necessary to achieve social objectives.

From a practical standpoint, Congress and the FCC have answered this question by setting local transport and termination rates (i.e. reciprocal compensation rates) at TELRIC, which exclude almost all joint and common costs. And if the FCC forces these rates to LRIC, it will remove additional fixed costs from terminating rates. This means that so long as this Commission adheres to a policy of setting non-discriminatory termination rates, it will have to squeeze out any amounts above LRIC (or TELRIC) from intrastate access rates. The only pertinent question is when this will happen, not if it will happen.

Q. WHAT ABOUT DR. LOUBE'S POINT?

A. I agree with Dr. Loube that it may not feasible for an ILEC to set all prices at LRIC. Some prices will have to be set above LRIC to enable the carrier to recover all of its costs. The question of whether terminating traffic should pay more than LRIC is a legitimate and crucial question, which I have answered in the negative above.

VI. SUMMARY AND CONCLUSION

Q. PLEASE BRIEFLY SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. The RLECs' excessive access charges cannot be justified by the supposed need to cross subsidize local rates in high cost areas. The subsidies implicit in access charges are not correlated to line density, which is the RLECs' own proxy for cost. Excessive access charges also cannot be justified as an efficient or "fair" mechanism to recover the common costs of the telephone network. It is neither efficient nor sustainable to recover an ILEC's costs from levies on terminating carriers, especially when the "tax" on termination falls disproportionately on only one type of usage – intrastate toll.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY AT THIS TIME?

A. Yes, it does.

CONFIDENTIAL

CERTIFICATE OF SERVICE

I, John C. Dodge, hereby certify that I have this day caused to be served a copy of the foregoing document upon the persons listed below by the means indicated in accordance with the requirements of 52 Pa. Code § 1.54:

First Class Mail

Michelle Painter, Esquire
13017 Dunhill Drive
Fairfax, VA 22030

Joel H. Cheskis, Esquire
Darryl Lawrence, Esquire
Office of Consumer Advocate
555 Walnut Street
5th Floor Forum Place
Harrisburg PA 17101-1923

Steven C. Gray, Esquire
Office of Small Business Advocate
300 North 2nd Street,. Suite 1102
Commerce Building
Harrisburg, PA 17101

Allison Kaster, Esquire
Adeolu A. Bakare, Esquire
Office of Trial Staff
PA Public Utility Commission
Post Office Box 3265
Harrisburg, PA 17105-3265

Pamela C. Polacek, Esquire
Barry A. Naum, Esquire
McNees Wallace & Nurick, LLC
Post Office Box 1166
Harrisburg, PA 17108-1166

Renardo L. Hicks, Esquire
Michael A. Gruin, Esquire
Stevens & Lee
16th Floor, 17th North 2nd Street
Harrisburg, PA 17101

Bradford M. Stern, Esquire
Rothfelder Stern LLC
625 Central Avenue
Westfield NJ 07090

Suzan D. Paiva Esquire
Verizon
1717 Arch Street
Philadelphia, PA 19103

Benjamin J. Aron, Esquire
Sprint Nextel Corporation/Govt. Affairs
2001 Edmund Halley Drive, Room 208
Reston, VA 20191

Zsuzsanna E. Benedek, Esquire
The United Telephone Co. of PA LLC
d/b/a CenturyLink
240 North Third Street, Suite 201
Harrisburg, PA 17101

Garnet Hanley, Esquire
T-Mobile
401 9th Street, NW, Suite 550
Washington, DC 20004

Norman J. Kennard, Esquire
THOMAS, LONG, NIESEN & KENNARD
212 Locust Street, Suite 500
P.O. Box 9500
Harrisburg, PA 17108-9500

John F. Povilaitis, Esquire
Matthew A. Totino, Esquire
Ryan, Russell, Ogden & Seltzer P.C.
800 North Third Street, Suite 101
Harrisburg, PA 17102-2025

Christopher M. Arfaa Esquire
150 N Radnor Chester Road
Suite F-200
Radnor. PA 19087-5254

Demetrios G. Metropoulos, Esquire
Mayer Brown
71 West South Wacker Drve
Chicago, Illinois 60606

Dr. Robert Loube
Rolka Loube Saltzer Associates
10601 Cavalier Drive
Silver Spring, Maryland 20901

Dated: March 10, 2010

John C. Dodge

DWT 13741524v1 0106080-000001

RESPONSE OF AT&T COMMUNICATIONS OF PENNSYLVANIA, LLC., TCG NEW JERSEY, INC. AND TCG PITTSBURGH TO INTERROGATORIES OF PENNSYLVANIA TELEPHONE ASSOCIATION DATED DECEMBER 15, 2009, Docket Nos.: I-00040105 and C-2009-2098380 *et al.*

31. Re Direct Testimony at 42. Please provide all source documents and information relied upon to support the conclusion that AT&T and/or its affiliates will realize "stimulated demand" for its IXC services if intrastate access charges are reduced.

RESPONSE (SPONSORED BY E. CHRISTOPHER NURSE AND DR. OLA OYEFUSI):

Lower prices lead to increased quantity demanded, based on the elementary and indisputable proposition of a downward sloping demand curve.

PTA Cross Exhibit No. 2

PTA Cross-Ex. 1
I-00040105
C-2009-2098380
4-14-10
Harrisburg JS

Investigation Regarding Intrastate Access Charges and
IntraLATA Toll Rates of Rural Carriers and
The Pennsylvania Universal Service Fund, Docket No. I-00040105

AT&T Communications of Pennsylvania, LLC, *et al.*
v. Armstrong Telephone Company - Pennsylvania, *et al.*
Docket No. C-2009-2098380, *et al.*

Interrogatories of ATT - Set V
Answers of the Pennsylvania Telephone Association

Person Answering: Gary Zingaretti

AT&T-PTA-5-10: Referencing page 29, lines 3-4 of PTA's January 20, 2010 testimony, please provide the following information:

(a) Define the term "carrier of last resort obligations" as used there, and provide reference to the specific order, rule, or statute which imposes each such "obligation" uniquely on the incumbent carrier.

(b) Are the purported carrier of last resort obligations uniquely intrastate obligations or is some portion of these obligations assignable to the interstate jurisdiction?

(c) Identify the exact "carrier of last resort obligations" of each PTA member, the annual cost of each such obligation, the total cost of such obligations in Pennsylvania; and the amount of funding that intrastate switched access revenues presently contribute to those obligations.

(d) Provide all documentation to support the responses to parts (a)-(c) above.

Response: I am not a lawyer. Consequently in my answer I provide my lay understanding of carrier of last resort (COLR) obligations as it has evolved on both the state and federal side, which may or may not include all possible statutory or regulatory citations to support the imposition of the COLR obligation on incumbents as distinguished from other carriers.

In my lay understanding, carrier of last resort obligations refers to the incumbents' obligation to serve any customer within their certificated service territories upon request. Prior to the introduction of competition, telecommunications services were provided by incumbents only subject to monopoly regulation. This included the PA PUC's grant of exclusive service franchises in exchange for the incumbent's obligation to provide service ubiquitously throughout that franchised service territory. Because of this history of exclusive

PTA CROSS EXHIBIT 4

PTA Cross-Ex. 4
I-00040105
C-2009-2098380
4-14-10
Harrisburg JS

franchising, an express statutory obligation to provide COLR voice service was unnecessary. The original Chapter 30 COLR broadband obligations are imposed by the Commission solely on the incumbents. Act 183, through the definition of "local exchange telecommunications company," referred only to incumbents. In the Telecommunications Act of 1996 (TCA-96), ETC status was applied to all existing incumbent rural carriers as the providers of last resort in their study areas, while newly certificated competitive carriers were subject to ETC status only if they sought universal service support and the state commission found that designation of an additional ETC for an area served by a rural telephone company was in the public interest.

Also, see PTA Exhibit JJL-6 in the proceeding before ALJ Colwell. With respect to the cost of the COLR obligation, please see my testimony beginning at page 29, line 16, and the responses to AT&T-PTA-1-8, 9, and 10 in the proceeding before ALJ Colwell.

Schwab Stock Screener Results

Results generated on Apr. 12, 2010

Criteria Set #1 for Companies 1-9

Symbol	Company Name	Dividend Yield	Dividend Payout Ratio (MRQ)	Index
1. FTR	Frontier Communications	13.4%	2.63	S&P 500
2. VZ	Verizon Communications	6.3%	1.47	S&P 500, DJIA
3. WIN	Windstream Corp	9.1%	1.31	S&P 500
4. RAI	Reynolds American	6.6%	1.09	S&P 500
5. POM	Pepco Holdings	6.3%	1.02	S&P 500
6. PGN	Progress Energy	6.3%	0.91	S&P 500
7. MO	Altria Group	6.7%	0.90	S&P 500
8. CTL	CenturyTel Inc	8.1%	0.89	S&P 500
9. T	AT&T Inc	6.4%	0.79	S&P 500, DJIA

Screen Criteria

Dividend Yield: **6.0% >**

Dividend Payout Ratio (MRQ): **60% >**

Index: **S&P 500**

RECEIVED
APR 2 0 2010
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

PTA Cross-Ex. 5
I-00040105
C-2004-2094380
4-14-10
Harrisburg JJ

[1]Price data is frequently updated but is delayed up to 20 minutes. "Price" shown reflects the last sale or trade price reported to the exchanges. Price data used in the Stock Screener is from the previous day's closing price. If you wish to place a trade order, please check real time quotes for more recent information. [2]The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard and Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Schwab. As part of that license, the export and printing of GICS information is limited to 250 companies. * = Check news on this stock.

charles SCHWAB