

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**DIRECT TESTIMONY OF DR. ROBERT LOUBE**

**ON BEHALF OF**  
**PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE**

**December 10, 2008**

**(Public Version)**

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**ROBERT LOUBE**

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I. Introduction and Summary

2 **Q: Please state your name and business address.**

3 **A:** My name is Robert Loube. My business address is 10601 Cavalier Drive,  
4 Silver Spring, Maryland 20901.

5 **Q: By whom are you employed and in what capacity?**

6 **A:** I am the Vice President of Rolka Loube Saltzer Associates.

7 **Q: Please provide us with information regarding your relevant**  
8 **experience.**

9 **A:** My consulting practice centers on providing expert advice to state  
10 agencies involved in telecommunications regulation. Prior to joining  
11 Rolka Loube Saltzer Associates, I worked for the Federal  
12 Communications Commission, the Public Service Commission for the  
13 District of Columbia, and the Indiana Utility Regulatory Commission. At  
14 those commissions, I worked on issues associated with universal service,  
15 incremental cost, rate design, competition and separations. My vita is  
16 attached to this testimony as Exhibit RL-1.

17 **Q: On whose behalf are testifying?**

18 **A:** I am testifying on behalf of the Pennsylvania Office of Consumer  
19 Advocate (“OCA”).

20 **Q: What is the purpose of your testimony?**

1    **A:**    The purpose of my testimony is to the address the following issues  
2            identified by the Pennsylvania Public Utility Commission (“Commission”)  
3            in its April 9, 2008 Order. First, I determine the appropriate benchmark  
4            for the rural incumbent local exchange carriers (“ILEC”) residential rate  
5            for basic local exchange service. Second, I examine whether Pennsylvania  
6            Universal Service Fund (“Pa USF”) support should be provided to rural  
7            ILECs in order to allow the rural ILECs to maintain residential rates that  
8            are no higher than the benchmark. As part of that examination, I also  
9            review whether such additional support should include previously banked  
10           revenue. Finally, I discuss the impact of providing additional support on  
11           competition and on the sustainability of providing the additional support.

12   **Q:**    **Please summarize your testimony?**

13   **A:**    My testimony begins with my recommendation that the appropriate  
14            residential benchmark should be equal to 120 percent of the Verizon PA  
15            weighted average residential rates. Such a benchmark would keep the rates  
16            paid by rural ILEC customers comparable to the rates paid by Verizon PA  
17            residential customers. A comparability standard for determining the  
18            reasonableness of rates is also used by the Federal Communications  
19            Commission (“FCC”) and other state commissions. However, because the  
20            current benchmark would be \$15.64, which is less than the current \$18.00  
21            residential cap, I recommend that the current \$18.00 cap be retained as long  
22            as the benchmark is less than \$18.00. I also recommend that, when the  
23            comparability standard allows rates to exceed \$18.00, any increases in the

1 benchmark above the \$18.00 cap should be constrained by an affordability  
2 standard. The details of the affordability standard are discussed in the  
3 testimony of OCA witness Roger Colton. I support my recommendation  
4 that the residential cap should not be increased at this time by examining  
5 the evidence regarding the incremental cost of basic exchange service. This  
6 evidence consists of the previously published results of cost estimates made  
7 using the FCC's Synthesis Model and results that I have generated using  
8 the Synthesis Model on data supplied to me by Embarq and Armstrong  
9 Telephone Company through discovery in this case. This data suggests that  
10 the rural ILEC incremental cost of basic exchange service is less than  
11 \$18.00 and, thus, residential rates are currently contributing to the support  
12 of the joint and common costs of the rural carriers.

13 Next, I recommend that the Pa USF should provide support to rural ILECs  
14 to offset rate increases that would have increased the residential rate above  
15 the current \$18.00. This recommendation should be applied not only to  
16 future rate increases but also to banked revenue. However, if the carrier  
17 has banked revenue rather than increased rates up to the \$18.00 cap, then  
18 the carrier should not receive additional support for those amounts.

19  
20 **II. The Appropriate Benchmark for the Rural ILEC Residential Rate**

21 **Q: The Commission's April 9, 2008 Order specifically provides that one**  
22 **of the reasons why this investigation is reopened is to address**  
23 **"whether the cap of \$18.00 on residential monthly service rates and**

1           **any corresponding cap on business monthly service rates should be**  
2           **raised.” What is your response to that question?**

3   **A:**     The \$18.00 rate cap should not be raised at this time but there are  
4           circumstances under which it should be raised in the future, as I discuss  
5           below. Those circumstances specifically pertain to the appropriate  
6           benchmark for the rural ILEC residential rate for basic local exchange  
7           service that is also the subject of this investigation.

8   **Q:**     **What do you think the appropriate benchmark for the rural ILEC**  
9           **residential basic local service rate should be?**

10 **A:**     The benchmark for the Rural ILEC residential rate in Pennsylvania should  
11           be based on the principles of comparability and affordability. It should  
12           also acknowledge the existing \$18.00 rate benchmark. With regard to  
13           comparability, a reasonable Pennsylvania benchmark should be tied to  
14           Verizon PA’s rates. Verizon PA’s rural rates should be considered  
15           because rural ILEC customers should not be charged rates that are  
16           substantially higher than neighbors living in rural Verizon rate zones. At  
17           the same time, Verizon’s urban rates should be considered because the  
18           Telecommunications Act of 1996 established as a general ratemaking  
19           standard that rural rates should be comparable to urban rates. Similarly,  
20           Pennsylvania law requires that customers pay only reasonable charges for  
21           protected services.<sup>1</sup> After reviewing the findings of the FCC and other

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<sup>1</sup> 66 Pa.C.S. § 3011(3).

1 states, I am recommending that the rural residential rates should be no  
2 higher than 120 percent of the Verizon PA's weighted residential rate.  
3 Therefore, based on the comparability standard, the Rural ILEC residential  
4 benchmark would be \$15.64, which is 120 percent of the weighted  
5 average of Verizon PA's current residential rates. However, as long as the  
6 comparability principle generates a rate less than \$18.00, the existing  
7 \$18.00 rate benchmark should remain in place. On the other hand, if the  
8 comparability principle generates a rate that exceeds the current \$18.00  
9 benchmark then changes in the Rural ILEC residential rate benchmark  
10 should also reflect concerns regarding the affordability of basic local  
11 service at that time. OCA witness Roger Colton will address affordability  
12 concerns and recommend a basis for establishing a constraint on potential  
13 increases to the benchmark in the future.

14 **Q: How did you calculate the Rural ILEC residential benchmark based**  
15 **on Verizon PA's rates?**

16 **A.** I calculated the benchmark based on Verizon PA's current rates and retail  
17 residential customer counts. Determining this benchmark is complicated  
18 by the fact that Verizon has rates for four cells, and each rural cell has  
19 three rate groups. Moreover, Verizon's response to an OCA data request  
20 did not contain residential lines by rural rate group because Verizon stated  
21 that: "The data requested is not available; the data provided below is

1 similar to that requested.”<sup>2</sup> Given the data that I received, I was required  
2 to make an assumption about the distribution of customers in the three rate  
3 groups by cell. I assumed that the lines were evenly distributed across the  
4 rate groups. Based on that assumption, I calculated the weighted Verizon  
5 PA’s residential rate to be \$13.03.<sup>3</sup> Multiplying the weighted average by  
6 120 percent generates the Rural ILEC residential benchmark of \$15.64.

7 **Q: Should the Commission adopt the comparability benchmark as the**  
8 **Rural ILEC residential rate benchmark in this proceeding?**

9 **A:** Because the average of the comparability benchmark is below the current  
10 \$18.00, the Commission should not adopt that average as the Rural ILEC  
11 residential rate benchmark. Instead, the Commission should retain the  
12 \$18.00 Rural ILEC residential rate benchmark as long as the average of  
13 the comparability benchmark is less than \$18.00. Lowering the \$18.00  
14 benchmark at this point would put unnecessary strain on the Pa USF at  
15 this time. Once the average of the comparability benchmark reaches  
16 \$18.00 then the Rural ILEC residential rate benchmark may increase to the  
17 extent increases in the benchmark rate are affordable.

18 **Q. Can you please provide an example of how the benchmark you**  
19 **propose would be applied to the rural carriers’ rates?**

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<sup>2</sup> Verizon’s Response to OCA Set 1, Interrogatory No. 2.

<sup>3</sup> The calculation of the weighted average is shown in proprietary Exhibit RL-2. The exhibit is proprietary because Verizon provided the OCA the residential retail lines counts on a proprietary basis.

1 A: The benchmark will remain at \$18.00 as long as Verizon's weighted  
2 average rate is at or below \$15.00 (i.e., \$15.00 x 120% equals \$18.00).  
3 Given the approximate 50 cents per year per line increase that Verizon has  
4 received over the past four years (see Exhibit RL-3), if that trend  
5 continues, the benchmark will likely remain at \$18.00 for approximately  
6 four years. Once Verizon's weighted average rate exceeds \$15.00, the  
7 \$18.00 rural ILEC benchmark should be adjusted upward, as long as it  
8 continues to meet the affordability standard set forth in Mr. Colton's  
9 testimony.

10 **Q: Is the principle of comparability used in other jurisdictions as a**  
11 **guideline for establishing rates or for providing universal service fund**  
12 **support to carriers?**

13 A: Yes. The FCC is required to use the principle of rate comparability in  
14 designing the federal universal service fund, and other states have used  
15 comparability in determining rates and state universal funding as well.

16 **Q: Please explain how the FCC is required to use the principle of**  
17 **comparability in designing the federal universal service fund.**

18 A: The FCC must design the federal universal service fund based on six  
19 explicit principles and it may add additional principles to the six listed if it  
20 finds that the additional principles are in the public interest.<sup>4</sup> The third

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<sup>4</sup> 47 U.S.C §254(b).

1 principle states, in part, that “consumers... in rural, insular, and high cost  
2 areas should have access to telecommunications and information services  
3 ... at rates that are reasonably comparable to rates charged for similar  
4 services in urban areas.”<sup>5</sup>

5 **Q: Has the FCC been able to determine the meaning of reasonably**  
6 **comparable rates?**

7 **A:** The FCC has twice attempted to establish criteria for reasonably  
8 comparable rates.<sup>6</sup> In both instances, these criteria were remanded back to  
9 the Commission by the US Court of Appeals for the 10<sup>th</sup> Circuit.<sup>7</sup> In the  
10 FCC’s first attempt, the FCC found that it would provide support to the  
11 non-rural carriers in a state if a state’s forward-looking cost is greater than  
12 135 percent of the national average forward-looking cost of all non-rural  
13 carriers.<sup>8</sup> In the FCC’s second attempt, the FCC found that rates would be  
14 comparable if the rates in a particular state were within two standard  
15 deviations of the national average rate.<sup>9</sup>

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<sup>5</sup> 47 U.S.C. §254(b)(3).

<sup>6</sup> In the Matter of the Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Ninth Report and Order, FCC 99-306, released November 2, 1999, (Ninth Report and Order); Order on Remand, 18 FCC Rcd 22559 (2003) (Order on Remand).

<sup>7</sup> Qwest Corp v FCC, 258 F. 3d 1191 (10<sup>th</sup> Cir. 2003); Qwest v. FCC, 398 F.3d 1222 (10<sup>th</sup> Cir. 2005).

<sup>8</sup> Ninth Report and Order, Order, ¶ 10.

<sup>9</sup> 9<sup>th</sup> Order on Remand, ¶38.

1 **Q: If the FCC constructs a comparability criterion that is acceptable to**  
2 **the Courts would Pennsylvania be bound by the FCC's criterion?**

3 **A:** While I cannot provide a legal opinion on this issue, it appears to me that  
4 Pennsylvania would not be bound by the FCC's criterion because various  
5 states have established their own criteria and used those criteria in  
6 conjunction with their state universal service funds. I will note, however,  
7 that the FCC is currently examining universal service issues within the  
8 context of its intercarrier compensation proceeding.<sup>10</sup> Action from the  
9 FCC is expected in that proceeding soon.

10 **Q: What other states have established a comparability standard for**  
11 **determining rates or implementing a state universal service fund?**

12 **A:** Maine, New Hampshire, Wyoming, Nebraska, and California use a  
13 comparability or rate benchmark to determine rates or implement their  
14 state universal service funds.

15 **Q: Please discuss how Maine uses a comparability standard to determine**  
16 **rates or implement its state universal service fund.**

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<sup>10</sup> In the Matter of High-Cost Universal Service Support, Intercarrier Compensation for ISP-Bound Traffic, WC Docket No. 05-337, CC Docket No. 99-68, Order on Remand and Report and Order and Further Notice of Proposed Rulemaking, FCC 08-262, released November 5, 2008, (Further Notice).

1    **A:**    In order to be eligible for Maine universal service funding, a rural carrier  
2            must adopt Verizon Maine’s basic local exchange rates.<sup>11</sup> Upon adopting  
3            the Verizon Maine rates, the rural carrier is eligible to receive funding  
4            such that it is able to earn a reasonable return on its rate base.<sup>12</sup>

5    **Q:**    **Please discuss how New Hampshire uses a comparability standard to**  
6            **determine rates or implement its state universal service fund.**

7    **A:**    In New Hampshire, when a rural carrier applies for an alternative  
8            regulation plan, the plan limits the maximum basic local exchange rate  
9            such that the rural carrier’s rate cannot exceed the comparable rates  
10           charged by the largest ILEC operating in the state.<sup>13</sup> The New Hampshire  
11           Public Utilities Commission recently approved a petition by several rural  
12           carriers that was consistent with the requirement that the rural carriers  
13           cannot exceed the rates of the largest ILEC operating in New Hampshire.<sup>14</sup>

14   **Q:**    **Please discuss how Wyoming uses a comparability standard to**  
15            **determine rates or implement its state universal service fund.**

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<sup>11</sup> Given the recent sale of the Verizon Maine service territory to FairPoint, this criterion is equal to the FairPoint non-rural service territory (the successor of the Verizon service territory). At the present time, Maine’s universal service fund may not have been adjusted to reflect the new ownership status of the former Verizon service territory; see also, Maine Public Utility Commission, Chapter 288.

<sup>12</sup> *Id.*

<sup>13</sup> New Hampshire RSA, Title XXXIV, Public Utilities, Chapter 374, 374:3-b, III(b).

<sup>14</sup> New Hampshire Public Utilities Commission, Kearsage Telephone Co., Wiltion Telephone Co., Hollis Telephone Co. and Merrimack County Telephone Co., Petitions for Approval of Alternative Form of Regulation, DT 07-027, Order Regarding Joint Settlement Agreement, Order No. 24.852, April 23, 2008.

1 A: The Wyoming state universal service fund provides rate support such that  
2 no customer bill is greater than 130 percent of the state-wide average  
3 rate.<sup>15</sup>

4 Q: **Please discuss how Nebraska uses a comparability standard to**  
5 **determine rates or implement its state universal service fund.**

6 A: The Nebraska Commission decreases a carrier's universal service support  
7 if the carrier has failed to increase its local residential and business rates to  
8 the local rate rebalancing targets. "The reduction shall equal the revenue  
9 foregone by not rebalancing rates by the full amount required by this  
10 Order."<sup>16</sup> The Order established the local rate rebalancing targets at  
11 \$17.50 for residential basic local exchange service and \$27.50 for single  
12 line business basic local exchange service.<sup>17</sup> Due to the magnitude of the  
13 required rate changes, each carrier was required to follow a transition plan.  
14 Each plan sets out how rates would be increased over a multi-year  
15 period.<sup>18</sup> The Nebraska Commission revised the residential rate

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<sup>15</sup> 2007 Annual Telecommunications Report, Wyoming Public Service Commission, page 37.

<sup>16</sup> In the Matter of the Application of the Nebraska Public Service Commission, on its own motion seeking to conduct an investigation into intrastate access charge reform, Application NO. C-1628, Order, entered: January 13, 1999.

<sup>17</sup> Id., page 5.

<sup>18</sup> Id., page 3.

1 benchmark in 2006, increasing the benchmark to \$19.95. At that time, the  
2 Nebraska Commission noted that the average urban rate was \$17.95.<sup>19</sup>

3 **Q: Please discuss how California uses a comparability standard to**  
4 **determine rates or implement its state universal service fund.**

5 **A:** The California Public Utilities Commission sponsors two high cost  
6 universal service funds. The California High Cost Fund –A (CHCF-A) is  
7 limited to the 17 small rural carriers, the California High Cost Fund –B  
8 (CHCF-B) supports the Pacific Telephone Company and mid-sized  
9 carriers. The CHCF-A provides the difference between the rural carrier’s  
10 revenue and revenue requirement. The revenue requirement has been  
11 recently calculated using a 10 percent cost of capital. A carrier’s rate  
12 design is evaluated based on a benchmark of a local rate equal to 150  
13 percent of the California urban rate. The carrier’s support is the difference  
14 between the revenue and requirement for any revenue requirement needs  
15 that cannot be met by increasing the local rate to 150 percent of the  
16 California urban rate. In addition, CHCF-A reduces this support over a six  
17 year period, where support levels are 100 percent of the support  
18 requirements for three years, then decreases to 80 percent in year four, 50  
19 percent in year five and 0 percent in year six. The process of decreasing  
20 support percentages is re-established each time a carrier files a general rate

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<sup>19</sup> In the Matter of the Nebraska Public Service Commission, on its own motion, to make adjustments to the universal service fund mechanism established in NUSF-26, Application No. NUSF-50, Order, December 19, 2006, ¶¶ 22, 31-34.

1 case. Thus, each carrier has incentive to file a rate case on a regular basis,  
2 unless it cannot earn more than the allowed rate without any universal  
3 service support.<sup>20</sup>

4 Support under CHCF-B equals the difference between the forward-looking  
5 cost of service and a benchmark. The difference was calculated for every  
6 Census Block Group served by the carrier. Support is equal to the number  
7 of lines times the difference between the forward-looking cost and  
8 benchmark for each census block group and then summed across all block  
9 groups served. Originally, the benchmark was the lesser of the state  
10 average cost or the carrier's local rate. The state average forward-looking  
11 cost was \$20.35. Thus, if the local rate was \$14.00, the benchmark was  
12 \$20.35, but if the local rate was \$24.00, the benchmark increased to  
13 \$24.00. In this instance, the local rate is the sum of the rate for basic  
14 exchange service and the Subscriber Line Charge.<sup>21</sup> Recently the  
15 benchmark was increased to \$36.00.<sup>22</sup> The new benchmark is based on  
16 the national average expenditure on telephone service. Those  
17 expenditures include not only expenditures for basic local service but also  
18 expenditures related to the Subscriber Line Charge and vertical services.

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<sup>20</sup> Public Utilities Commission of the State of California, Resolution T-17122, January 10, 2008.

<sup>21</sup> California Public Utilities Commission, Decision N0. 96-10-066, Rulemaking No. 95-01-020 (Filed January 24, 1995), Investigation No. 95-01-021 (File January 24, 1995), released October 25, 1996.

<sup>22</sup> Before the Public Utilities Commission of the State of California, Order Instituting Rulemaking into the Review of the California High Cost Fund B Program, Decision 07-09-020, September 6, 2007.

1 **Q: What is your conclusion with regard to whether or not the \$18.00 cap**  
2 **on residential basic local exchange service should be raised?**

3 **A:** The cap should not be raised at this time and it should only be raised once  
4 the Verizon weighted average rate exceeds \$15.00. This would create a  
5 120% comparability standard that is consistent with federal and state law  
6 and actions of other states.

7

8 III. Economic Cost Studies and the Rate Benchmark

9 **Q: Please summarize your testimony with regard to using economic costs**  
10 **studies to provide necessary information for the establishment of the**  
11 **appropriate benchmark?**

12 **A:** The Commission's April 9, 2008 Order specifically allows parties to  
13 submit economic cost studies as part of this proceeding. In this section of  
14 my testimony, I will show, in support of my recommendation above, that  
15 the appropriate cost study to use to establish a benchmark is an  
16 incremental cost study. Second, I will discuss the use of the FCC  
17 Synthesis Model as a way to determine the incremental cost of a service.  
18 Third, I will discuss previously published results of the FCC Synthesis  
19 Model and possible problems with those results. Fourth, I will discuss  
20 how I have attempted to revise the FCC Synthesis Model inputs in an  
21 effort to avoid previous problems with the model. Finally, I will compare

1 the new results of the FCC Synthesis Model to the previously published  
2 results and my proposed benchmark.

3 **Q: Why is it appropriate to consider an incremental cost study in**  
4 **evaluating a residential rate benchmark?**

5 One test of a residential rate benchmark is that the benchmark is set at a  
6 subsidy-free level. A generally accepted definition of a subsidy is that a  
7 service is subsidized if its price is less than incremental cost and the  
8 service pays a subsidy if its price is above the stand-alone cost.<sup>23</sup> An  
9 economic cost study can be used to estimate the incremental cost of a  
10 service and, thus, the study provides information related to whether the  
11 benchmark is subsidy-free.

12 While the economic principles are straight forward, constructing a model  
13 that measures the incremental cost of a service can be difficult. Such a  
14 model must combine a significant amount of input data with engineering  
15 and economic knowledge. Moreover, the estimate generated by a model is  
16 based on the assumptions that allow certain costs to be counted and do not  
17 allow other costs to be counted as an incremental cost of a particular  
18 service.

19 For example, incremental cost is measured by forward-looking costs rather  
20 than embedded costs. Forward-looking costs are based on using the most

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<sup>23</sup> G.R. Faulhaber, 1975, Cross-subsidization: pricing in public enterprise, *American Economic Review* 65, 966-977.

1 efficient technology currently available combined in the lowest cost  
2 network configuration and are based on using the current prices for each  
3 input purchased. Embedded costs are based on an existing set of  
4 technologies that had been deployed over time and are based on the prices  
5 that existed at the time the technologies were deployed.

6 **Q: How does an economic model estimate the cost of the network that**  
7 **provides telephone services?**

8 **A:** Most economic models of telephone costs start with the investment inputs  
9 required to build the telephone network that can meet the total demand for  
10 the current services that use the network. The investment cost is  
11 transformed into a monthly cost of service using a rate of return on the  
12 investment and the depreciation of the investment combined with  
13 expenses and common overheads.

14 **Q: How is the total cost of the network as estimated by the economic**  
15 **model different from the incremental cost of a service?**

16 **A:** Once the total cost of the network has been determined, it is necessary to  
17 derive the incremental cost of a particular service, where the incremental  
18 cost is the difference in the carrier's total cost with and without the  
19 service.<sup>24</sup> Thus, facilities that must be in place to produce the carrier's  
20 other services would not be included in the incremental cost of the service

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<sup>24</sup> William J. Baumol and J. Gregory Sidak, *Toward Competition in Local Telephony*, MIT Press, 1994, page 57.

1 under examination. In particular, as Chairman Cawley has recently stated,  
2 the cost of the loop is not incremental to basic exchange service because  
3 that loop also is required to provide access service, data service and in  
4 some instances, video services.<sup>25</sup>

5 An estimate of the incremental cost of basic residential service can be  
6 calculated using the FCC Synthesis Model. That model estimates the cost  
7 of building a network that can provide the services that the FCC found to  
8 be the supported services, along with other services generally produced in  
9 combination with the supported services. By building a network that  
10 could support multiple services, the cost of such a model reflects the  
11 economies of scale and scope associated with the joint provision of those  
12 services.<sup>26</sup> The incremental cost of basic exchange service as estimated by  
13 the Synthesis Model would be the total cost of the network minus the cost  
14 of the loop.

15 **Q: Does Chairman Cawley's statement agree with the FCC findings**  
16 **regarding loop costs?**

17 **A:** Yes. The FCC noted that "the cost of the local loops and their associated  
18 line cards in local switches, for example, are common with respect to  
19 interstate access service and local exchange service, because once these

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<sup>25</sup> Motion of Vice Chairman James H. Cawley, Docket Nos. C-20077332 and C-20066987, August 7, 2008.

<sup>26</sup> In the Matter of the Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-157, released May 8, 1997; Fifth Report and Order, FCC 98-279, released October 28, 1998; Tenth Report and Order, FCC 99-304, released November 2, 1999.

1 facilities are installed to provide one service they are able to provide the  
2 other at no additional cost.”<sup>27</sup> The order also noted that while TELRIC  
3 (total element long run incremental cost) is similar to TSLRIC (total  
4 service long run incremental cost), the fact that TELRIC is pricing  
5 elements (loops, switches and transport facilities) significantly reduces the  
6 amount of common costs that remain outside of the costing exercise.<sup>28</sup>

7 **Q: Has the FCC recently reviewed its position regarding loop common**  
8 **costs?**

9 **A:** Yes. In its current Further Notice of Proposed Rulemaking on High Cost  
10 Universal Service Support, the FCC stated that:

11  
12 For example, a copper loop can be used to provide analog  
13 voice service as well as data service using DSL technology.  
14 The cost of the loop is therefore common to both voice and  
15 DSL services. The incremental cost of voice service,  
16 assuming that DSL is already provided, therefore, does not  
17 include any of the long run incremental cost of the loop  
18 itself. Similarly, the incremental cost of DSL, assuming  
19 voice is already provided, includes only that portion that  
20 may be required to condition the loop to meet the higher  
21 quality standards that may be required for the data  
22 transmission.<sup>29</sup>

23  
24 Thus, it is clear that the FCC continues to assert that loop costs are  
25 common costs incurred to provide a number of services and are not the  
26 incremental cost of basic local exchange service.

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<sup>27</sup> In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, First Report and Order, FCC 96-325, rel. August 8, 1996, (Local Competition Order), ¶ 678.

<sup>28</sup> *Id.*

<sup>29</sup> In the Matter of High Cost Universal Service Support, Further Notice of Proposed Rulemaking, WC Docket No. 05-337, released November 5, 2008, Appendix A, ¶ 247.

1     **Q: Have other state commissions found that the loop is not an**  
2     **incremental cost to a particular service?**

3     **A.** Yes. The Washington Utilities and Transportation Commission  
4     (“WUTC”), for example, found that “the local loop is not appropriately  
5     included in the incremental cost of local exchange service. The local loop  
6     facilities are required for nearly every service provided by the Company to  
7     a customer.”<sup>30</sup> This finding recognizes that all services, including local  
8     exchange, vertical, state and interstate toll service, rely on the loop. None  
9     of these services could be provided without the loop. After excluding the  
10    loop cost from the calculation of the service cost study, the WUTC found  
11    that the service incremental cost should be based on all of the other  
12    forward-looking total incremental costs included in the cost study.<sup>31</sup> In  
13    addition, the WUTC found that “because the cost of the loop is considered  
14    to be a shared cost for the provision of voice and advanced services, we  
15    conclude that a portion of the cost of the loop should be recovered from  
16    LECs providing advanced services and specifically digital subscriber line  
17    services.”<sup>32</sup> Thus, the WUTC again recognized that the loop is an input  
18    used by multiple services and should not be assigned as a direct cost of  
19    basic voice grade service.

20    **Q: What is the source of the publicly available FCC model results?**

21    **A:** There are two sets of publicly available results of the FCC Synthesis  
22    Model. The first set was produced by the FCC staff. This set of results  
23    contains results for the non-rural companies such as Verizon PA (formerly

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<sup>30</sup> Washington Utilities and Transportation Commission v. U.S. West Communications, Inc.,  
Docket No. UT-950200, Fifteenth Supplemental Order, page 83.

<sup>31</sup> Id., page 90.

<sup>32</sup> In the Matter of the Continued Costing and Pricing of Unbundled Network Elements, Transport,  
and Termination, Docket No. UT-003013, Thirteenth Supplemental Order, ¶ 57.

1 known as Pennsylvania Bell) and Verizon North (formerly known as  
2 GTE).<sup>33</sup> The second set was produced by AT&T and provided to the FCC  
3 staff as back-up material to the Rural Task Force Analysis. This set  
4 contains results for the rural Pennsylvania carriers.

5 **Q: Please discuss the model results for Verizon PA and Verizon North.**

6 **A:** An analysis of the results shows that total cost per line declines as density  
7 increases, loop cost as percentage of total cost are relatively constant  
8 across a range of densities, and non-loop costs are, in general, less than  
9 \$18.00 per month.

10 **Q: How did you determine that the total cost per line declines as density**  
11 **increases?**

12 **A:** As shown in Exhibit RL-4, I compared the total monthly cost per-line to  
13 the density for each of Verizon's 465 modeled wire centers. Density is  
14 measured as the number of lines per-square mile. Verizon's wire center  
15 density varies from approximately four lines per-square mile to  
16 approximately 39,000 lines per-square mile. At low densities, the costs  
17 are above \$100.00 per line while at high densities the costs are below  
18 \$20.00 per line. The cost per-line declines in a regular fashion  
19 approximating a logarithmic trend line. This chart verifies the general  
20 hypothesis that it is more expensive to serve rural areas than it is to serve  
21 urban areas.

22 **Q: How did you determine that the loop cost as percentage of total cost**  
23 **remains relatively constant across a range of densities?**

24 **A:** As shown in Exhibit RL-5, I divided the loop cost into the total cost.  
25 There is a very slight linear decline in this percentage as density increases.

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<sup>33</sup> The former Quaker State and Contel study areas, that are now part of Verizon North, were not included in the non-rural company analysis.

1           However, loop cost as percent of total cost, in general, remains within a  
2           narrow band. The percentage was between 80 and 90 percent for 366 of  
3           the 465 wire centers. The percentage was below 80 for only 10 wire  
4           centers and between 90 and 95 percent for 89 wire centers.

5   **Q:   How did you determine that monthly non-loop costs are generally less**  
6   **than \$18.00 per-line?**

7   **A:**   Model non-loop costs include port, end-office usage, transport and  
8           signaling. I determined these costs by subtracting loop costs from total  
9           costs per-line. Monthly non-loop cost per-line were above \$18.00 for only  
10          four of the 465 modeled wire centers. These costs were between \$10.00  
11          and \$18.00 for 17 wire centers and between \$3.00 and \$10.00 for 237 wire  
12          centers. The remaining 207 wire centers had monthly non-loop per-line  
13          costs below \$3.00.<sup>34</sup>

14 **Q:   Why is it important to note that, for most wire centers, the monthly**  
15 **non-loop costs are below \$18.00?**

16 **A:**   Given that loop costs are joint costs and not part of the incremental cost of  
17          local service, the incremental cost of local service cannot be higher than  
18          the non-loop costs. Because non-loop costs for almost all of the Verizon  
19          wire centers, including those wire centers that are in low density areas, are  
20          below \$18.00, this result supports that rural non-loop costs are also below  
21          \$18.00, the current rate cap for residential basic exchange service. This  
22          supports the fact that the rural carrier incremental cost of basic exchange  
23          service may be below \$18.00.

24 **Q:   Please discuss the model results for the rural carriers?**

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<sup>34</sup> See, Exhibit RL-6.

1    **A:**    The rural carrier results were similar to the Verizon results in that loop  
2           costs as a percent of total cost is very high, and that non-loop costs are  
3           below the \$18.00 residential rate cap.

4    **Q:**    **How did you determine that rural loop cost as a percent of total cost is**  
5           **very high?**

6    **A:**    As shown in Exhibit RL-7, I divided loop cost into total cost for each rural  
7           carrier. These percentages range from 83 to 91 percent. This range is  
8           similar to the range report above for Verizon.

9    **Q:**    **How did you determine that monthly non-loop costs were below**  
10           **\$18.00?**

11   **A:**    As shown in Exhibit RL-7, I subtracted loop costs from total costs to  
12           determine the non-loop costs. For every carrier, this cost was below  
13           \$18.00. The monthly non-loop cost per-line range was from \$2.53 to  
14           \$16.42. Again, this range is similar to the range reported above for  
15           Verizon.

16   **Q:**    **Why is it important to compare rural Pennsylvania results to the**  
17           **results for Verizon?**

18   **A:**    It is important to compare these results because the FCC adopted the  
19           model for determining universal support for non-rural carriers such as  
20           Verizon but did not adopt the model for use in determining universal  
21           service funding for rural carriers. If I had only reviewed the rural carriers  
22           results then, due to the fact that the FCC did not adopt the model for rural  
23           carriers, it could be argued that the results for the rural carriers should not  
24           be given great weight. However, because the rural carriers' results match  
25           the pattern of results shown for Verizon, it supports the conclusion that the  
26           \$18.00 cap for residential basic service charged by rural Pennsylvania  
27           carriers is above the incremental cost of service.

1 **Q: Are the non-loop costs the incremental cost of residential service?**

2 **A:** No. The non-loop cost estimates are the total company non-loop costs.  
3 They include the joint cost of serving both basic exchange residential and  
4 business customers, and for the provision of vertical services such as  
5 Caller ID.

6 **Q: When were the rural and non-rural costs in the FCC model**  
7 **estimated?**

8 **A:** The two sets of results were estimated in 2000.

9 **Q: How have telephone costs changed since the year 2000?**

10 **A:** Since 2000, non-loop costs have remained relatively constant. On the  
11 other hand, there has been a slight upward trend in loop costs. Thus,  
12 relative loop costs have increased. Thus, I would expect, if there is any  
13 measured change in the cost of service, that loop cost as a percent of total  
14 cost would have increased since 2000 and that non-loop cost would  
15 remain below \$18.00.

16 **Q: Are there problems associated with using the Synthesis Model to**  
17 **estimate rural carrier costs?**

18 **A:** Yes. The Rural Task Force identified a number of problems associated  
19 with using the Synthesis Model to estimate rural carrier costs. The Task  
20 Force report noted that:

- 21 • Estimated line counts by wire center did not match actual  
22 line counts by wire center
- 23 • Estimated average loop lengths did not match actual  
24 average loop length by wire center
- 25 • The type of outside plant (aerial, buried or underground)  
26 was not reasonably consistent with the type of outside  
27 plant used by the rural carriers

- 1                   • Many input values did not match the rural carrier input  
2                   costs<sup>35</sup>

3 **Q: Is it possible to correct problems identified by the Rural Task Force?**

4 **A:** Yes. In discovery in this case, I asked the rural companies in this case  
5 questions that related to each of the inputs necessary to run the Synthesis  
6 Model for each company. If the carriers had been able to answer my  
7 questions in OCA Data request III with the proper amount of specificity, I  
8 would have been able to correct many of the problems that the Rural Task  
9 Force identified. For example, I asked the carriers to provide me the  
10 number of lines by wire center, the addresses of their customers, the  
11 percent of the plant that is aerial, buried or underground, and many of their  
12 current input costs.

13 **Q: Did you have difficulties using the responses that the carriers  
14 provided you in response to discovery in this case?**

15 **A:** Yes. The greatest difficulty occurred when I tried to translate the carrier  
16 customer addresses into geo-coded locations. I used several different geo-  
17 coding protocols, but I was only able to convert one carrier's information,  
18 Armstrong Telephone Co., into information that the Synthesis Model was  
19 able to use for all customers. In addition, Embarq provided geo-coded  
20 information that I was able to use for many, but not all, of its customers.

21 **Q: In your model analysis, what inputs did you update?**

22 **A:** I updated the outside plant inputs using data supplied to me by Armstrong  
23 and Embarq. With regard to Armstrong, there were a number of inputs for  
24 which current data were not available. In those cases, I used data

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<sup>35</sup> A Review of the FCC's Non-Rural Universal Service Fund Method and the Synthesis Model for Rural Telephone Companies, Rural Task Force White Paper 4, September, 2000, <http://www.wutc.wa.gov/rtf>.

1 representative of similarly situated small rural carriers. With regard to  
2 Embarq, I was able to update most of the Synthesis Model's inputs with  
3 Embarq data.

4 **Q: Did you retain any data from the Synthesis Model?**

5 **A:** Yes, I retained the older cost data for wire centers costs for three reasons.  
6 First, the FCC's analysis of switching cost included a negative time trend.  
7 This implies that current switching cost should be lower than older  
8 switching costs. Retaining the older cost, thus, implies that I would be  
9 producing costs that are biased towards having high incremental basic  
10 exchange service cost and, therefore, do not under-estimate those costs.<sup>36</sup>  
11 Second, the switch and transport price indices that I have reviewed in  
12 several UNE cases have indicated that switch and transport prices have  
13 either declined or remained flat over time.<sup>37</sup> Third, recent evidence  
14 suggests that newer soft-switches are cheaper than older circuit switches.  
15 Thus, the forward-looking cost of switching would decline to reflect the  
16 reduced cost of the newer technology.<sup>38</sup>

17 **Q: With regard to Armstrong Telephone, please compare the current**  
18 **model results to the Rural Task Force model results.**

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<sup>36</sup> In the Matter of the Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Tenth Report and Order, FCC 99-304, released November 2, 1999, Appendix C.

<sup>37</sup> Filed initial and reply testimony of Robert Loube on behalf of TelNet Worldwide, Inc., ACD Telecom, Inc., TC3 Telecom, Inc., Michigan Access, Inc., JAS Networks, Inc., DayStarr, LLC, Clear Rate Communications, Inc., and Arialink Telecom. (the "CLECs"), In the matter on the Commission's own motion, to review the total element long run incremental costs and the total service long run incremental costs for Verizon North Inc. and Contel of the South, Inc. d/b/a Verizon North Systems, to provide telecommunications services, April 7 and June 26, 2008; Filed a declaration of Robert Loube on behalf of The Utility Reform Network in re: Investigation on the Commission's Own Motion into Open Access and Network Architecture Development of Dominant Carrier Networks, Verizon UNE Phase, Investigation 93-04-002, filed August 6, 2004.

<sup>38</sup> In the Matter of High-Cost Universal Service Support, WC Docket No. 05-337, Order on Remand and Report and Order and Further Notice of Proposed Rulemaking, FCC 08-262, released November 5, 2008, Appendix A, ¶ 257.

1    **A:**    The two model results are remarkably similar. The ratio of loop to total  
2           cost is very similar, with current ratio of 91 percent for Armstrong and the  
3           Rural Task Force ratio of 89 percent. The non-loop costs are \$6.01 for the  
4           current Armstrong estimate and \$6.68 for the Rural Task Force estimate.  
5           Thus, the estimates show that the incremental cost of basic exchange  
6           service was, and still is, well below the existing and proposed residential  
7           rate benchmark.

8    **Q:**    **With regard to Embarq, please compare the current model results to**  
9           **the Rural Task Force model results.**

10   **A:**    The current model generated total network, loop and non-loop costs for 61  
11           Embarq wire centers. In Exhibit RL-8, I compare the current model  
12           results for Embarq to the Rural Task Force model results. The results in  
13           only one of 122 cases show that non-loop costs are above \$18.00. For the  
14           other 121 cases, the non-loop costs are below \$18.00. Thus, it is  
15           reasonable to assert that the Embarq results demonstrate that the rural rate  
16           benchmark of \$18.00 that I recommend in this proceeding is greater than  
17           the incremental cost of basic local exchange service.

18   **Q:**    **Did you conduct any further analysis of the results?**

19   **A:**    Yes. In order to compare the current loop costs to the Rural task force  
20           loop costs, I also estimated the Spearman rank correlation coefficient  
21           among the two groups of estimates. The Spearman rank correlation  
22           coefficient measures whether the two sets of estimates are similar. That is,  
23           whether a wire center with high loop costs in current model results will  
24           also have high loop costs in the Rural Task Force results. The Spearman  
25           rank correlation coefficient can vary from positive one to negative one. If  
26           a positive one is obtained then the rankings are perfectly and directly  
27           correlated. That is, the wire center with the highest loop cost in the

1 current model results is also the wire center with the highest loop costs in  
2 the Rural Task Force results, and the wire center with the second highest  
3 loop costs in the current model results is also the wire center with the  
4 second highest loops costs in the Rural Task Force results. In this  
5 instance, I calculated a Spearman rank coefficient among the wire center  
6 loop costs of 0.87, implying that loop costs are generally ranked similarly.

7 **Q: What conclusions do you reach by reviewing the existing cost studies**  
8 **and conducting these economic cost studies?**

9 **A:** I conclude that model non-loop cost estimates are a reasonable proxy for  
10 the incremental cost of basic local exchange service, and that, in almost all  
11 instances, the estimated incremental cost of the Rural ILECs is less than  
12 the \$18.00 residential rate benchmark. This further supports the 120%  
13 comparability standard I discussed previously.

14  
15 **IV. Enhancing the Pennsylvania Universal Service Fund**

16 **Q: The Commission's April 9, 2008 Order also asks "whether funding for**  
17 **the Pa USF should be increased." What is your response to that**  
18 **question?**

19 **A:** The Pa USF should be adjusted if necessary to maintain the comparability  
20 standard discussed above. That is, the Pa USF should be used to allow all  
21 rural ILEC current residential basic local service rates to be no more than  
22 120% of Verizon's weighted average rate. On a going forward basis, the  
23 Pa USF should be large enough to maintain that level of comparability to  
24 Verizon's rates as those rates cause the current \$18.00 cap on residential

1 basic local exchange service to increase. Doing so would be consistent  
2 with federal and state law and the actions of numerous other states.

3 **Q: Should the Pa USF replace revenue that would have otherwise been**  
4 **recovered from increases in basic exchange rates above \$18.00 and**  
5 **changes to access service rates?**

6 **A:** Yes. If the Commission adopts the OCA proposed limits on basic rate  
7 changes, and if the Commission maintains its freeze on access rate  
8 increases, then it may be necessary to allow rural carriers the opportunity  
9 to recover Chapter 30 revenue increases from the Pa USF if the carrier  
10 meets the prerequisite established for obtaining support.

11 **Q: What are the prerequisites for obtaining additional support from the**  
12 **Pa USF?**

13 **A:** The two prerequisites are that 1) the carrier's rates are greater than the  
14 proposed rate benchmark, and 2) the carrier is eligible for a rate increase  
15 according to the Chapter 30 standards.

16 **Q: The Commission's April 9, 2009 Order also inquires about the role of**  
17 **non-expired "banked revenues" on using Pa USF funding to support**  
18 **rural ILECs who incrementally pierce the appropriate residential rate**  
19 **cap. What is the impact on the prerequisites of "banked revenue" in**  
20 **such a situation?**

21 **A:** The impact on the prerequisites of banked revenue depends on whether the  
22 carrier's rates would have exceeded the rate benchmark if the carrier had  
23 not banked the revenue. That is, if the carrier had chosen to increase rates

1 instead of banking the revenue and if the increased rates had exceeded the  
2 rate benchmark, then the carrier would be able to request the Pa USF to  
3 replace the banked revenue. However, if the carrier banked revenue rather  
4 than increasing the rate up to the benchmark, then the carrier cannot  
5 request additional funding from the Pa USF to replace the banked revenue.

6 **Q: Why is it appropriate to enhance universal service support when the**  
7 **carrier meets the prerequisites?**

8 **A:** It is appropriate to provide additional universal service support because it  
9 is necessary to keep rural rates comparable and affordable, and also to  
10 enable rural companies to meet their Chapter 30 broadband requirements.  
11 Chapter 30 allows carriers to increase revenues through increasing rates  
12 for non-competitive services. The two biggest sources of non-competitive  
13 revenue are revenues from basic exchange service and access services.  
14 Increases in access and basic exchange services could have theoretically  
15 funded the Chapter 30 required broadband investment initiative.  
16 However, the Commission has previously frozen or reduced access rates,  
17 and both Chapter 30 and this Commission's prior order maintain limits on  
18 basic exchange rate increases. As a result, without access to the universal  
19 service fund, the rural carriers would have only limited sources of  
20 additional revenue. For example, they could increase rates for vertical  
21 services such as Caller ID or for miscellaneous services such as non-  
22 published numbers. Such rates are already high, however, and generally  
23 may not be able to withstand any further increases.

1 **Q: How does the enhanced network affect the cost of providing basic**  
2 **exchange service?**

3 **A:** The enhanced network that provides both basic exchange service and  
4 broadband services increases the joint cost of providing telephone  
5 services. At the same time, an enhanced network also reduces the  
6 incremental cost of providing telephone service.

7 **Q: What is the impact on basic exchange rates of the freeze on access**  
8 **rates?**

9 **A:** The freeze on access rates substantially increases the impact of a Chapter  
10 30 rate increase on basic exchange rates. For example, if the only two  
11 non-competitive services are basic exchange and access services, and each  
12 service supplies approximately 50 percent of the non-competitive revenue,  
13 then the freeze on access rates effectively doubles the basic exchange rate  
14 increase. That is, if inflation is 3 percent and the only rate that can be  
15 increased is the basic service rate and fifty percent of the revenue is  
16 generated by basic services then basic service rates must increase by 6  
17 percent, double the inflation rate, to generate the required Chapter 30  
18 revenue. In practice, many rural carriers have banked revenue increases  
19 rather than let the large increases fall on their basic service customers.

20 **Q: Why is it necessary to have additional revenue to support the Chapter**  
21 **30 build-out given that most carriers will finish building their**  
22 **enhanced network by December 31, 2008?**

1    **A:**     It may still be necessary to have additional revenue because it is necessary  
2             to pay for the return on equity and debt and the depreciation associated  
3             with the build-out, even though the build-out is complete.

4    **Q:**     **The Commission's April 9, 2008 Order also asks whether the potential**  
5             **availability of Pa USF support to those rural ILECs that pierce the**  
6             **appropriate residential rate cap has any anti-competitive or other**  
7             **adverse affects. Do you see any?**

8    **A:**     No. It is the failure to provide additional support that may cause anti-  
9             competitive impacts rather than the provision of such support. Rural  
10            ILECs have a unique obligation to provide broadband service to all of  
11            their customers by a date certain. Other carriers that provide telephone  
12            service in rural areas do not have that obligation. Therefore, the Rural  
13            ILECs have additional investment and maintenance expenses that other  
14            carriers can avoid. Without the provision of additional universal service  
15            support, the Rural ILECs would be at a competitive disadvantage. OCA  
16            witness Colton also discusses the affordability issues at play here.

17   **Q:**     **Why does the commitment to provide broadband services to all**  
18             **customers place an additional burden on the Rural ILECs?**

19   **A:**     When a carrier provides broadband services, that carrier, in general, makes  
20             additional investments and receives additional revenues, such as DSL  
21             service revenue. The additional revenues allow the carrier to recover the  
22             cost of the additional investment. However, in general, the cost of  
23             providing broadband services increases as the percent of customers who

1 are offered the service increases. That is, on a customer basis, it is more  
2 expensive to extend service to 90 percent of the customers than 85 percent  
3 and it is also more expensive to extend service to 95 percent of the  
4 customers than 90 percent.<sup>39</sup> Thus, if one competitor is required to serve  
5 all customers and other competitors do not have to serve all customers, the  
6 competitor with the obligation to serve is at a disadvantage.

7  
8 V. Pennsylvania Universal Service Contribution Method

9 **Q: The Commission's April 9, 2008 Order also provides that this**  
10 **investigation is to consider "whether funding for the Pennsylvania**  
11 **Universal Service Fund should be increased." How do you respond to**  
12 **that question?**

13 **A:** The Pa USF should be increased only if necessary to maintain the  
14 comparability standard discussed above and the affordability standard  
15 discussed in Mr. Colton's testimony. Having said that, when considering  
16 whether funding for the Pa USF should increase, it is important to  
17 consider whether the contribution method should also be changed. Given  
18 that the contribution base has been declining, the fund contribution factor  
19 is increasing even without any additional requirements on the fund. If the  
20 fund is required to support greater increases in order to maintain the  
21 \$18.00 cap, while also freezing or reducing access charges, the

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<sup>39</sup> Prefiled Joint Rebuttal Testimony of Michael L. Harrington, Michael S. Brown and John Smee on behalf of FairPoint Communications Regarding Topic Groups II and III, August 22, 2007, Maine Public Utilities Commission, Docket No. 2007-67; Surrebuttal testimony of Robert Loube,

1 contribution factor may otherwise increase substantially. The increase in  
2 the contribution factor is an adverse effect of the current limited  
3 contribution base.

4 **Q: What is the contribution base?**

5 **A:** The contribution base is the state revenue of the carriers who are required  
6 to contribute to the fund.

7 **Q: Who are the current contributors to the Pa USF?**

8 **A:** The current contributors include Pennsylvania local exchange and  
9 interexchange carriers.

10 **Q: How would you increase the contribution base?**

11 **A:** If necessary to meet the state universal service fund requirements in the  
12 future, I would increase the contribution base by requiring wireless and  
13 voice over internet protocol (“VoIP”) carriers to contribute to the fund. I  
14 understand that the Commission has determined to exclude consideration  
15 of wireless carriers in conjunction with Pa USF funding obligations at this  
16 time. If additional funding is needed in the future, however, I would urge  
17 the Commission to consider the expansion of the contribution base. This  
18 is appropriate, in part, because all telecommunications users benefit by  
19 being able to reach rural customers who are connected to the public  
20 switched telephone network. Indeed, that has been one of the underlying  
21 bases of universal service telecommunications policy since the federal  
22 Communications Act of 1934. The more people who are connected to the

1 telephone network, then the more that all users of all telecommunications  
2 services will benefit. Both federal and state universal service policies  
3 recognize the special need to apply this principle to rural consumers who  
4 are more difficult and costly to serve.

5  
6 VI. Conclusions and Recommendations

7 **Q: Please summarize your conclusions and recommendations in this case.**

8 **A:** I recommend that the PUC adopt the following guidelines and principles  
9 in this proceeding:

- 10 • Establish a rural residential benchmark equal to 120% of the Verizon PA  
11 weighted average residential rate.
- 12 • Retain the current rural residential benchmark of \$18.00 until the Verizon  
13 PA weighted average residential rate exceeds \$15.00;
- 14 • Once the Verizon PA weighted average residential rate exceeds \$15.00,  
15 allow the rural residential benchmark to increase based on the 120%  
16 comparability standard but subject to the affordability standard developed  
17 in Mr. Colton's testimony;
- 18 • Allow carriers with residential rates greater than the residential benchmark  
19 to obtain additional funding from the Pa USF;
- 20 • Recognize that the \$18.00 benchmark exceeds the incremental cost of  
21 basic local exchange service; and

1       • If the Pa USF must be expanded in the future, consider the expansion of  
2       the contribution base to all types of telecommunications services,  
3       including wireless and VoIP providers.

4   **Q: Does this conclude your testimony?**

5   **A:** Yes. I note, however, that, as I briefly indicated above, the FCC is  
6       currently conducting a major examination of intercarrier compensation  
7       rates. The result of that examination may have an impact on intrastate  
8       access rates which are the very rates being considered in a subsequent  
9       phase of this proceeding. While this investigation has been delayed  
10      several times to avoid any conflicts with the FCC proceeding, the FCC is  
11      now expected to act on its case soon. To the extent it is relevant to this  
12      portion of the proceeding, I would like to reserve the right to address any  
13      FCC action in further testimony in this case if necessary.

14

15   107362

# **Exhibit RL-1**

Vita

**Dr. Robert Loubé**

Personal Data

Office Phone: 301-681-0338  
Email Address: bobloubé@earthlink.net  
Home and Office Address: 10601 Cavalier Drive  
Silver Spring, Maryland 20901  
Home Phone: 301-681-4987

Education

Ph.D., Economics, Michigan State University, 1983  
M.A., Economics, University of Massachusetts-Amherst, 1971  
B.S., Economics, University of Maryland-College Park, 1969

Professional Experience

Utility Regulation

**Vice President**

**Rolka Loubé and Saltzer Associates**

April 2007 to Present

Responsibilities include:

- Filed an expert report on behalf of the U.S. Department of Justice, the United States District Court for the Western District of Texas, San Antonio Division, AT&T Inc, Plaintiff, v. United States of America, Defendant, Civil No. SA-07-CA-0197-OG, October 14, 2008.
- Filed reply testimony on behalf of the Maryland Office of the People's Counsel, In the Matter of Appropriate Forms of Regulating Telephone Companies, Maryland Public Service Commission, Case No. 9133, August 28, 2008.

- Filed initial and reply testimony on behalf of TelNet Worldwide, Inc., ACD Telecom, Inc., TC3 Telecom, Inc., Michigan Access, Inc., JAS Networks, Inc., DayStarr, LLC, Clear Rate Communications, Inc., and Arialink Telecom. (the "CLECs"), In the matter on the Commission's own motion, to review the total element long run incremental costs and the total service long run incremental costs for Verizon North Inc. and Contel of the South, Inc. d/b/a Verizon North Systems, to provide telecommunications services, April 7 and June 26, 2008.
- Testified on behalf of the City of Kitchener, the Consumers Council of Canada, and the Vulnerable Energy Consumers Coalition in the Union/Enbridge 2008 Rates Cases, Ontario Energy Board, EB 2007-0606 and EB2007-0615, April 1, 2008.
- Testified on behalf of the New Hampshire Office of Consumer Advocate in Kearsarge Telephone Company, Wilton Telephone Company, Hollis Telephone Company and Merrimack County Telephone Company Petition for an Alternative Form of Regulation, New Hampshire Public Utilities Commission, Case No. DT 07-027, December 5, 2007.
- Filed testimony on behalf of the City of Kitchener, the Consumers Council of Canada, and the Vulnerable Energy Consumers Coalition in the Union/Enbridge 2008 Rates Cases, Ontario Energy Board, EB 2007-0606 and EB2007-0615, October 22, 2007.
- Testified on behalf of the Maine Office of the Public Advocate in the Joint Application for Approvals Related to Verizon's Transfer of Property and Customer Relations to Company to be Merged with and into Fairpoint Communications, Inc. Maine Public Utilities Commission Docket No. 2007-67 on October 2, 2007.
- Prepared comments on behalf of the Washington Public Counsel and The Washington Electronic Business and Telecommunications Coalition, In the Matter of the Petition of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Denver, Minneapolis-St. Paul, Phoenix and Seattle Metropolitan Statistical Areas, WC Docket No. 07-97, August 31, 2007.

Director, Economic Research  
Rhoads & Sinon, LLC  
April 2001 to March 2007

Responsibilities include:

- Testified on behalf of the Washington Public Counsel in the Matter of the Petition of Qwest Corporation to be Regulated Under An Alternative Form of Regulation, WUTC Docket No. UT-061625, March 14, 2007.
- Filed rebuttal testimony on behalf of the Pennsylvania Office of Consumer Advocate in the 2006 Annual Price Stability Index/Service Price Index of Buffalo Valley Telephone Company, Conestoga Telephone & Telegraph Company, and Denver & Ephrata Telephone & Telegraph Company, PA PUC Docket No. P-0098142F1000, filed January 5, 2007.
- Testified on behalf of the Attorney General Michael A. Cox, In the Matter of the Notice by AT&T Michigan Pursuant to sections 304(d) and 310a of the Michigan Telecommunications Act of an increase to the rate for primary basic local exchange service in the amount not to exceed AT&T Michigan's intrastate end user line charge in effect on July 1, 2005, MPSC Case No. 15036, filed January 30, 2007.
- Prepared comments on behalf of the Pennsylvania Office of the Consumer Advocate, FCC Intercarrier Compensation Workshop and Solicitation of Comments on the Missoula Plan, Pennsylvania Public Utility Commission Docket No. M-000061972.
- Prepared an affidavit on behalf of the National Association of Utility Consumer Advocates (NASUCA) and the Maine Office of the Public Advocate, In the Matter of Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286, filed August 22, 2006.
- Advisor to the Maryland office of the People's Counsel, In the Matter of Cavalier Telephone Midwest Atlantic for Breach of Interconnection Terms by Verizon Maryland, Inc., Case No. 9046.

- Testified on behalf of the Maine Office of Public Advocate in the Investigation Into Verizon Maine's Alternative Form of Regulation, Phase I, Docket No. 2005-155, October 17 and October 18, 2006.
- Prepared comments on behalf of the National Association of State Utility Consumer Advocates (NASUCA) In the Matter of the Federal-State Joint Board on Universal Service, CC Docket No. 96-45, filed March 27, 2006 (with David Gabel and the NASUCA Telecommunications Committee).
- Advisor to the Washington State Public Counsel in the Investigation of the Sprint-Nextel Merger, Washington Utilities and Transportation Docket No. UT-051291.
- Filed direct testimony on behalf of the Maine Office of Public Advocate in the Investigation Into Verizon Maine's Alternative Form of Regulation, Phase II, Docket No. 2005-155, January 13, 2006.
- Testified on behalf of the Maine Office of Public Advocate in the Investigation into Line Sharing, Maine Docket No. 2004-809, November 18, 2005.
- Testified on behalf of the Maine Office of Public Advocate in Verizon Communications, Inc. and MCI, Inc., Review of Joint Application for Approval of Merger, Maine Docket No. 2005-154, September 29, 2005.
- Filed direct, rebuttal and surrebuttal testimony on behalf of the Office of Consumer Advocate in Pennsylvania Docket No. C-20027195, June 8, June 29, and July 11 2005.
- Filed a rebuttal declaration regarding price floor issues on behalf of The Utility Reform Network in re: Investigation on the Commission's Own Motion into Open Access and Network Architecture Development of Dominant Carrier Networks, Verizon UNE Phase, Investigation 93-04-002, filed April 1, 2005.
- Filed a price floor declaration on behalf of The Utility Reform Network in re: Investigation on the Commission's Own Motion into Open Access and Network Architecture Development of Dominant Carrier Networks, Verizon UNE Phase, Investigation 93-04-002, filed January 28, 2005.

- Filed direct testimony on behalf of Public Counsel and AARP in re: WUTC v. Verizon, Docket No. UT-040788, before the Washington Utilities and Transportation Commission, December 17, 2004.
- Filed a rebuttal declaration on behalf of The Utility Reform Network in re: Investigation on the Commission's Own Motion into Open Access and Network Architecture Development of Dominant Carrier Networks, Verizon UNE Phase, Investigation 93-04-002, filed November 9, 2004
- Prepared a report on the State of Telecommunications Services in Nevada for the subcommittee to study telecommunications service in Nevada, August 2004,
- Filed a declaration on behalf of The Utility Reform Network in re: Investigation on the Commission's Own Motion into Open Access and Network Architecture Development of Dominant Carrier Networks, Verizon UNE Phase, Investigation 93-04-002, filed August 6, 2004
- Filed expert rebuttal testimony on behalf of the Staff of the South Carolina Commission in re: Implementation of requirements Arising from Federal Communications Commission Triennial UNE review: Local Circuit Switching for mass market customers, SC PSC Docket No. 2003-326-c.
- Testified on behalf of the Pennsylvania Office of Consumer Advocate in re: Investigation into the Obligations of Incumbent Local Exchange Carriers to Unbundle Network Elements, PA PUC Docket No. I-0030099.
- Prepared an Affidavit for the National Association of State Utility Consumer Advocates in the Matter of the Review of Commission's Rules Regarding The Pricing of Unbundled Network Elements And the Resale of Service by Incumbent Local Exchange Carriers, WC Docket No. 03-173 (with David Gabel).
- Provided expert advice to the Cities of Austin, Dallas, Fort Worth, and Hereford in Southwestern Bell Telephone Company's Filing To Establishing Surcharges Resulting From District Court Remand Of PUC Final Order In Docket No. 18509, SOAH Docket No. 473-03-1620, Texas PUC Docket No. 26719.
- Filed expert testimony on behalf of the Staff of the Nevada Public Utilities in The Petition of Nevada Bell for an Order commencing a proceeding to determine the costs and rates for unbundled network elements, Docket No. 00-7012

- Prepared comments for the National Association of State Utility Consumer Advocates in the Matter of Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge Cap, FCC CC Docket No. 96-262 (with David Gabel)
- Technical Adviser to the Alabama Public Service Commission in the Generic Proceeding to Establish Prices for Interconnection Services and Unbundled Network Elements - Docket No. 27821
- Prepared reply comments for the Office of the People's Counsel of the District of Columbia In the Matter of Developing a Unified Inter-carrier Compensation Regime, FCC CC Docket No. 01-92.
- Assisted the Universal Service Administrative Company in managing the interstate common line and model support programs.

**Industry Economist, GS 301-15**  
**Federal Communications Commission**  
 May 1996 to April 2001

Responsibilities include:

- Established the criteria for choosing the universal service economic cost model;
- Evaluated and modified telephone cost models;
- Determined the input values used in telephone cost models;
- Served on the FCC staff of the Federal State universal service joint board;
- Developed and evaluated alternative universal service funding proposals;
- Developed and compared alternative jurisdiction separations allocators with regard to the impact of the allocators on state and federal jurisdictional responsibilities;
- Reviewed orders of other divisions to ensure that those orders complement the tasks and mandates of the Accounting Policy Division;
- Conducted special studies for use by the Chairman, Commissioners, Bureau Chief or Division Chief

- Provided technical economic advice to the division legal staff regarding common carrier operations and regulatory policy.

**Director, Office of Economics**  
**Public Service Commission of the District of Columbia,**  
July 1993 to May 1996

Responsibilities include:

- Supervised the preparation of staff testimony in telephone, electric and gas utility cases.
- Represented the Commission on the Staff of Federal State Separations Joint Board.
- Prepared and presented testimony on the strategic approach to electricity demand side management and least cost planning principles.
- Represented the Commission on the National Association of Regulatory Utility Commissioners Communications Committee's universal service and access reform working groups.

**Acting Director, Office of Economics**  
**Public Service Commission of the District of Columbia,**  
February 1993 to July 1993

Responsibilities include:

- Prepared comments on FERC Notices of Proposed Rulemaking.
- Represented the Commission on the telephone quality of service and low-income program working groups.

**Senior Telecommunications Economist**  
**Public Service Commission of the District of Columbia,**  
May 1989 to the February 1993

Responsibilities include:

- Prepared and presented testimony regarding telephone rate structure, competition in telephone markets, embedded cost studies, and long run incremental cost studies.

- Represented the Commission on digital deployment and generic cost manual working groups.
- Represented the Commission on the staff of the 410B Joint Federal/State Conference on Open Network Architecture.
- Prepared comments on FCC Notices of Proposed Rulemaking.

**Econometrician,**  
**Indiana Utility Regulatory Commission,**  
 March 1988 to May 1989

Responsibilities include:

- Developed electric energy and demand forecasts.
- Supervised consultants developing economic and demographic models for utility service territories.
- Represented the Commission on the Executive Committee on Intrastate Access Charges.

**Principal Utility Analyst,**  
**Indiana Utility Regulatory Commission,**  
 January 1986 to March 1988

Responsibilities include:

- Prepared and presented testimony regarding demand forecasting for telephone and electric services, cost of equity and long run marginal cost.
- Contributed to staff reports on energy and demand forecasts.
- Developed financial forecasts for electric utilities.

#### International Consulting

Telephone Organization of Thailand, conducted a Tariff and Cost Workshop for Senior Management and Staff, Bangkok, February 5-7, 2001. Contractor: Booz, Allen & Hamilton, Inc.

Ministry of Communications, Indonesia, drafted a report on best practices guidelines for Universal Service Obligations, and conducted round-table with the Ministry of Communications staff and with the U. S. telecommunications community, Jakarta, August 20-September 9, 2000. Contractor: Nathan Associates, Inc.

## Teaching

**Assistant Professor,**  
**James Madison University,**  
September 1983 to December 1985

**Instructor,**  
**James Madison University,**  
September 1979 to June 1983

Courses Taught:       Industrial Regulation, Industrial  
                          Organization (undergraduate and MBA),  
                          Intermediate Macroeconomic Theory, Economic  
                          Analysis (MBA), Principles (Macro and Micro)

## Other

Economist in the Office of Director, Bureau of Economic Analysis,  
Department of Commerce, Washington D.C.,  
November 1972 to September 1975

## Publications

"The Telecommunications Act of 1996: Residential Rates and  
Competition," *Utilities Policy*, September 2004.

"Universal Service: How much is enough?" *Journal of Economic  
Issues*, June 2003.

"Public Interest Regulation, Common Costs and Universal Service,"  
eds. Edythe S. Miller and Warren J. Samuels, *An Institutional  
Approach to Public Utilities Regulation*, Michigan State  
University Press, 2002.

"Price Cap Regulation: Problems and Solutions," *Land Economics*,  
Vol. 71, Number 3, August 1995.

"Measuring the Total Service Long-Run Incremental Cost," *Ninth  
NARUC Biennial Regulatory Information Conference*, September 1994  
(with David Gabel and Mark Kennet).

"The Proper Use of Stand Alone Cost Studies," *Ninth NARUC Biennial Regulatory Information Conference*, September 1994.

"State Experience in InterLATA Toll Deregulation," *Journal of Economic Issues*, Vol. XXVIII, No. 2, June 1994 (with Labros Pilalis).

"Price Caps and Cross-subsidization," *Eighth NARUC Biennial Regulatory Information Conference*, Ohio State University, 1992.

"The Institutional Conditions for Technological Change: Fiber to the Home," *Journal of Economic Issues*, Vol. XXV, No. 4, December 1991.

"Fiber to the Home: A Competitive Analysis," *Seventh NARUC Biennial Regulatory Information Conference*, Ohio State University, 1990.

"The Return of the Electric Utility Holding Company and the Future of the Electric Supply Industry," *Journal of Economic Issues*, Vol. XXIII, No. 2, June 1989.

"Impact of the National Appliance Energy Conservation Act on Residential Energy Consumption within a Service Territory," *Sixth NARUC Biennial Regulatory Information Conference*, Ohio State University, 1988 (with Katri Clodfelder).

*A Summary of Future Demand Trends and Capacity Plans for Major Electric Utilities in Indiana*, Public Service Commission of Indiana, Indianapolis, Indiana, 1987 (with Wayne Lash, et al).

*Electric Demand and Supply Planning for the State of Indiana*, Public Service Commission of Indiana, Indianapolis, Indiana, 1985 (with Wayne Lash, et al).

"District Heating and Regulatory Reform," *Proceedings of the Seventy-Fifth Annual Conference of the International District Heating Association*, Washington D.C.: IDHA 1984.

*State and Local Regulation of District Heating and Cooling Systems: Issues and Options*, Argonne, Illinois: Argonne National Laboratory, 1981 (with Philip Kier, et al).

"Michigan's Hydroelectric Potential," *The Michigan State Economic Record*, Volume 20, Number 7 (July-August 1978), Division of Research, Graduate School of Business, Michigan State University.

Staff Testimony

Before the Public Service Commission of the District of Columbia:

Formal Case No. 929 The Application of Potomac Electric Power Company for an Increase in its Retail Rates for the Sale of Electric Energy.

Principal Issues: Class Revenue Responsibility, Rate Structure and Low Income Rates.

Formal Case No. 926 The Application of The Chesapeake and Potomac Telephone Company for Authority to Establish a Revenue Requirement and to Increase and Restructure its Schedule of Rates and Charges

Principal Issues: Centrex burden and the Centrex embedded cost study.

Formal Case No. 917

Phase II

The Application of Potomac Electric Power Company For Approval of its Third Least Cost Plan

Principal Issues: The Strategic Approach to DSM Develop and Implementation, Level of DSM Spending, Appropriate Standards by Which DSM Expenses Should Be Judged Prudent, and Rate Design and Least-Cost Planning Principles.

Formal Case No. 891 The Application of Chesapeake and Potomac Telephone Company to Offer Return Call and Caller ID Within the District of Columbia

Principal Issues: Tying Arrangements Between Sales of Equipment and Services, and Public Policy Issues Associated With the Offering of Caller ID

Formal Case No. 850 Investigation into the Reasonableness of the Authorized Return on Equity, Rate of Return, and Current Charges and Rates for Telecommunications Services Offered by the Chesapeake and Potomac Telephone Company

Principal Issues: Rate Design, Incremental Cost and Embedded Cost Studies

Formal Case No. 814

Phase III

Investigation into the Impact of AT&T Divestiture and Decisions of the Federal Communications

Commission on the Chesapeake and Potomac Telephone  
Company's Jurisdictional Rates

Principal Issues: Flexible pricing, incremental cost  
studies, tests for the existence of competition, criteria  
for measuring alternative regulatory plans.

Formal Case No. 814 Investigation into the Impact of AT&T  
Divestiture and Decisions of the Federal  
Communications Commission on the Chesapeake  
and Potomac Telephone Company's  
Jurisdictional Rates

Principal Issues: The Use of Cross Elasticity Studies and  
Market Surveys to Define Markets for Telecommunications  
Services

Telephone Tariff

91-3 Investigation of the Chesapeake and Potomac Telephone  
Company's General Regulations Tariff No. 201, Section 1  
Principal Issues: Regulatory safeguards and costs of pre-  
approval of special assemblies

Before the Indiana Utility Regulatory Commission:

Cause No. 38665 Joint Petition of Century Telephone  
Enterprises, Inc., Odon Telephone Co., Inc.  
and Colonial Telephone Company, Inc.  
Principal Issue: Approval of the Purchase of Odon by Century

Cause No. 38560 Petition of Northern Indiana Public Service  
Company  
Principal Issues: Economic Development Rates and Long Run  
Marginal Cost

Cause No. 38426 Petition of GTE-Indiana  
Principal Issues: Revenue Adjustment, Cross-  
Subsidization, Cost Methodology and Demand Repression

Cause No. 38415 Petition of Public Service Company of Indiana  
Principal Issue: Financing Authority

Cause No. 38302 Joint Petition of Indiana Gas Company, Inc.  
and Westport Natural Gas Company, Inc.  
Principal Issue: Acquisition Adjustment

Cause No. 38158-S1 Investigation to Determine the Extent of  
Regulation of Pay Telephone Equipment  
Principal Issue: Regulation of IXC-Owned Pay Phones

Cause No. 38158 Investigation to Determine the Extent of  
Regulation of Pay Telephone Equipment  
Principal Issues: Deregulation and Rate Structure

Cause No. 38061 Petition of Midwest Natural Gas Corporation  
Principal Issue: Cost of Equity

Cause No. 38059 Petition of Indiana Bell Telephone Company, Inc.  
Principal Issues: Local Measured Service and Long Run  
Marginal Cost

Cause No. 38045 Petition of Northern Indiana Public Service  
Company  
Principal Issues: Demand Forecasting, Financial Viability  
and Regulatory Policy with Regard to Excess Capacity

Cause No. 38034 Petition of Odon Telephone Company, Inc.  
Principal Issues: Acquisition Adjustment, Cost of Equity,  
Financing Authority, and Service Improvement Program

Cause No. 37938 Petition of Northern Indiana Public Service  
Company  
Principal Issues: Economic Development Rates

Cause No. 37927 Petition of United Telephone of Indiana  
Principal Issues: Cost of Equity

Cause No. 37866 Petition of Hoosier Energy Rural Electric  
Cooperative, Inc., et al.  
Principal Issues: Economic Development Rates and Long Run  
Marginal Cost

Cause No. 37814 Petition of United Telespectrum of Indiana, Inc.  
Principal Issue: Certificate of Territorial Authority

Cause No. 37735 Petition of Westport Natural Gas Company, Inc.  
Principal Issue: Cost of Equity

Cause No. 37706 Petition of Midwest Natural Gas Corporation  
Principal Issue: Cost of Equity

Cause No. 37686 Petition of Indiana Bell Telephone Company, Inc.  
Principal Issue: Demand Repression

Cause No. 37414 Petition of Public Service Company of Indiana

Principal Issues: Forecasting Methodology and Capacity Planning

Lectures

"Network Neutrality and Service Quality," and "Telecommunications Pricing," NARUC Advanced Regulatory Studies Program, June 2006.

"Public Utility Pricing," "Retail Pricing in Telecommunications," and "Cost Models in Telecommunications," NARUC Annual Regulatory Studies Program, August 2004.

"Retail Pricing in Telecommunications," NARUC Annual Regulatory Studies Program, August 2003.

"The Evolution of Telecommunications Pricing," NARUC Annual Regulatory Studies Program, August 2002.

"Federal Restructuring of the Telecommunications Industry," "Federal Universal Service Programs," and "State Universal Service Programs," NARUC Annual Regulatory Studies Program, August 2001.

"Cost Modeling in Telecommunications," NARUC Annual Regulatory Studies Program, August 2000.

"Cost Modeling in Telecommunications," NARUC Annual Regulatory Studies Program, August 1999.

"Cost Modeling and Universal Service," NARUC Annual Regulatory Studies Program, August 1998.

"Cost Modeling in Telecommunications," NARUC Annual Regulatory Studies Program, August 1997.

"Policy Issues Raised by Performance-Based Incentive Systems," Public Policies Toward Competition in the Electric Power Industry, Wisconsin Public Utility Institute, October 1994.

"Cost Allocations in Broadband Networks," NARUC Annual Regulatory Studies Program, August 1994.

"Pricing Concepts and the Control of Price Discrimination in Advanced Telecommunications Networks: Issues and Methods," NARUC Advanced Regulatory Studies Program, January 1994.

"Cost Allocation in Advanced Telecommunications Networks: Issues and Methods," NARUC Annual Regulatory Studies Program, August 1993.

"A Review of Incentive Regulation," CAMPUT 7th Annual Regulatory Conference, Banff Canada, May 1993.

"New Social Contracts: Telecommunications Policy for the 21st Century," Annual Meeting of the Association of Evolutionary Economics, January 1993.

"Modernization: Who Pays? Who Benefits?," NARUC Annual Regulatory Studies Program, August 1992.

"Who Determines the Costs and Prices for Access to the Infrastructure," Telecommunications Policy: Agenda for the 21st Century Conference, The Michigan Divestiture Research Fund, March 1992.

"The New Social Contract," State Policies for Developing the Telecommunications Infrastructure Forum, Wisconsin Public Utility Institute, December 1991.

"RBOC Strategic Reactions to Entry," Atlantic Economic Society Annual Conference, Washington, D.C., October 1991.

#### Industry Committees

Federal Staff of the Federal-State Joint Board of CC Docket No. 80-286 (June 1999 to April 2001).

Federal Staff of the Federal-State Joint Board of CC Docket No.96-45 (May 1996 to April 2001).

National Association of Regulatory Utility Commissioners (NARUC) Staff Subcommittee on Communications (1994-1996).

State Staff of the Federal-State Joint Board of CC Docket No.80-286 (1991-1996).

#### Professional Associations

Member:

American Economic Association  
Association for Evolutionary Economics

# **Exhibit RL-2**

Information Alleged to be Proprietary has been Redacted

Exhibit 2: Verizon Weighted Average Residential Rate

	zone 1	zone2	zone 3	zone 4	total
rate	15.14	15.44	12.25	12.65	
residential lines	<b>PROP</b>	<b>PROP</b>	<b>PROP</b>	<b>PROP</b>	<b>PROP</b>
weighted rate	<b>PROP</b>	<b>PROP</b>	<b>PROP</b>	<b>PROP</b>	<b>PROP</b>
				weighted average	13.03
				120 percent	15.64

Source: Verizon PA Tariff

Verizon PA's Response to OCA Data Request No. I-2

# **Exhibit RL-3**

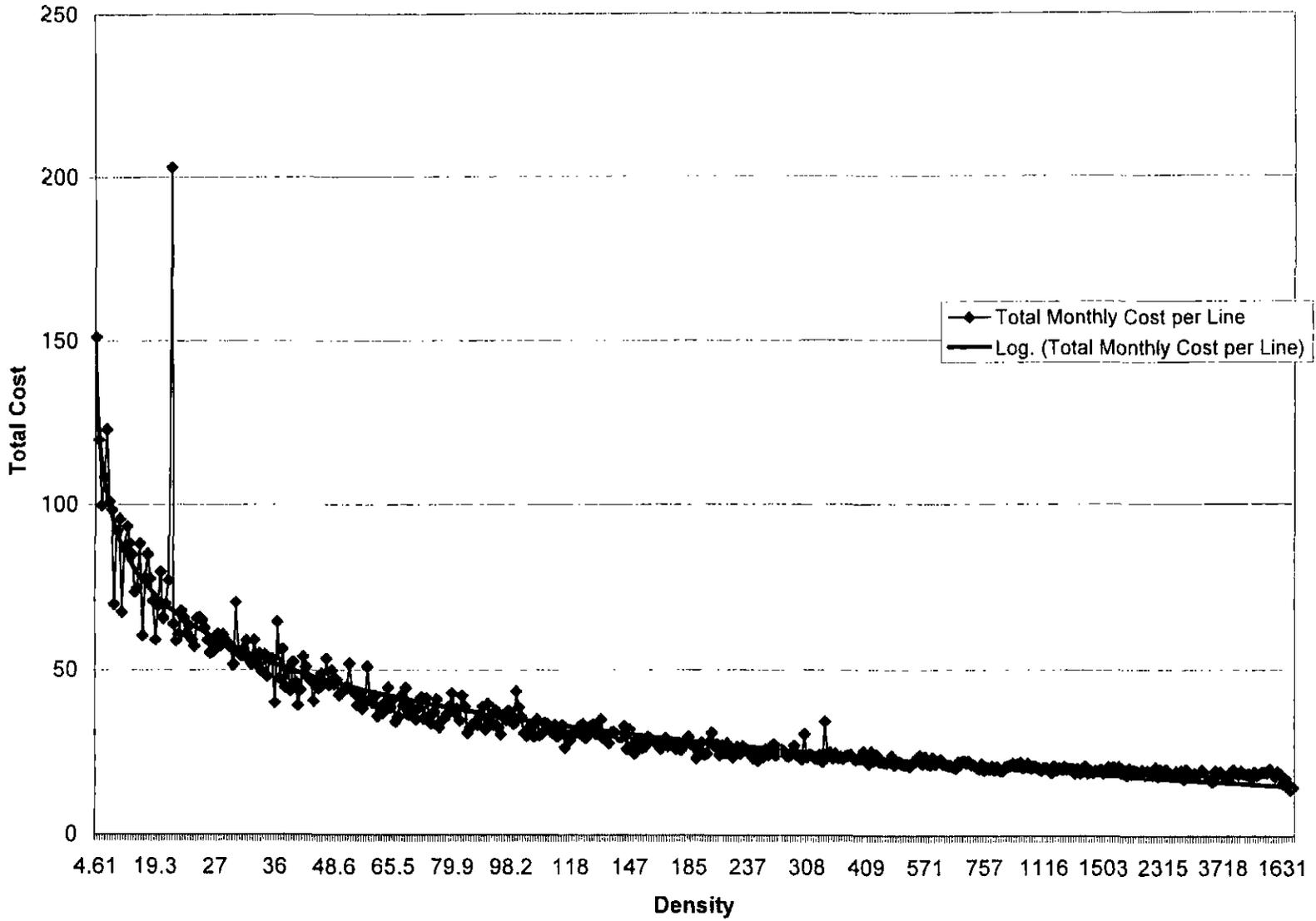
Ex RL-3 Verizon PA's Annual Rate Increases

	<u>Cell 1</u>	<u>Cell 2</u>	<u>Cell 3</u>	<u>Cell 4</u>
2005 PCO	\$0.80	\$0.80	\$0.80	\$0.80
2006 PCO	\$0.40	\$0.40	\$0.36	\$0.36
2007 PCO	\$0.51	\$0.51	\$0.53	\$0.53
2008 PCO	\$0.43	\$0.43	\$0.43	\$0.43
2009 PCO	\$0.47	\$0.47	\$0.47	\$0.47

Source: Verizon PA's Annual Submission

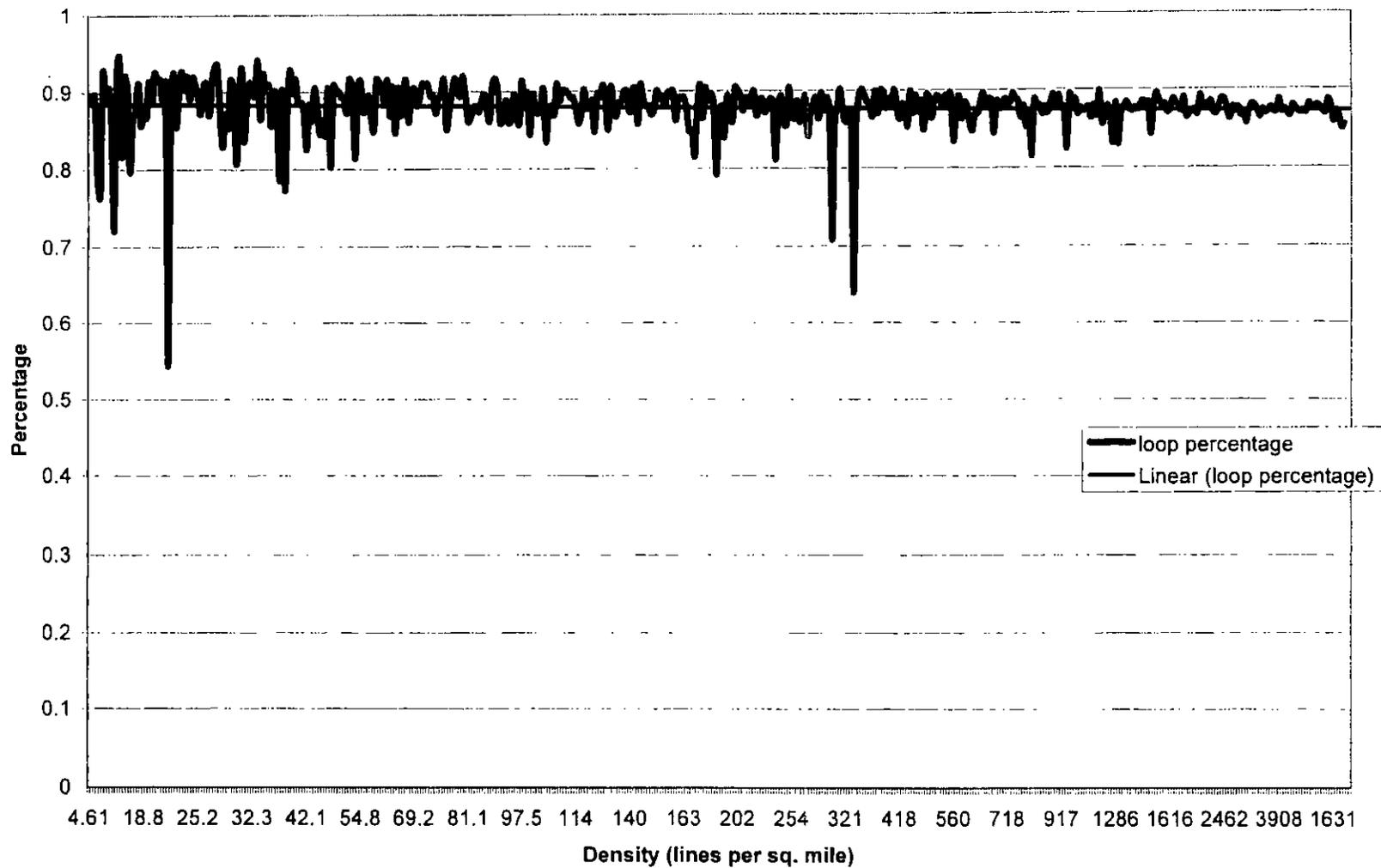
# **Exhibit RL-4**

Ex RL-4: Chart 1: Total Monthly Cost per Line



# **Exhibit RL-5**

Exhibit RL-5: Chart 2: Loop Cost as a Percent of total cost



# **Exhibit RL-6**

Exhibit RL-6

CLLI	Loop	Total Monthly Cost per Line	non-loop cost	count by cost bracket
CHTRPACH	110.38	202.99	92.61	1
GDVYPAXG	94.4	123.22	28.82	2
CIVLPAXC	68.94	95.75	26.81	3
ENDVPAEN	85.64	108.34	22.7	4
MRVLPAMA	76.41	93.55	17.14	1
AUSTPAAU	135.71	151.26	15.55	2
RLTTPARO	58.67	73.64	14.97	3
BSHKPABU	50.64	64.48	13.84	4
LDVYPALV	56.85	70.38	13.53	5
LKCOMPALC	106.55	120.03	13.48	6
BRCKPAES	43.46	56.29	12.83	7
NWFLPANF	21.93	34.28	12.35	8
REW PARE	66.92	78.07	11.15	9
SPRBPAXS	81.24	92.24	11	10
WSLYPAXW	77.35	88.34	10.99	11
STSTPASS	87.83	98.42	10.59	12
NBFRPAXN	42.86	53.39	10.53	13
ALFAPAAL	50.19	60.53	10.34	14
LEPRPALE	67.46	77.73	10.27	15
ULYSPAUL	89.54	99.79	10.25	16
CPSVPAXC	74.89	85.11	10.22	17
MTJWPAMJ	64.88	74.87	9.99	1
LKARPALA	42.25	51.91	9.66	2
HMLNPAHM	44.43	53.8	9.37	3
GPIAPAMA	47.1	56.29	9.19	4
RGVLPARI	21.61	30.53	8.92	5
ELDDPAEL	51.93	60.75	8.82	6
MVTWPAES	49.46	57.96	8.5	7
WLPKPAES	56.62	64.94	8.32	8
LNVLPAXL	76.87	85.1	8.23	9
SWSHPASS	47.39	55.13	7.74	10
PRTNPAXP	43.35	51.02	7.67	11
WALXPAWA	62.38	70.04	7.66	12
ALXNPAAX	45.45	53.09	7.64	13
SCTWPAXS	41.33	48.96	7.63	14
FCVLPAFR	93.35	100.89	7.54	15
SYTWPAXS	51.27	58.81	7.54	16
SPMLPASM	47.43	54.85	7.42	17
HVRVPAXH	47.89	55.05	7.16	18
HSNGPAHA	38.87	46	7.13	19
SESPPAXS	81.36	88.44	7.08	20
NWWLPAXN	37.74	44.61	6.87	21
NUMDPANU	59.11	65.96	6.85	22
GLCMPAGL	72.87	79.69	6.82	23

## Exhibit RL-6

CLLI	Loop	Total Monthly Cost per Line	non-loop cost	count by cost bracket
FSCKPAFC	36.74	43.52	6.78	24
MRCHPAMA	70.42	77.16	6.74	25
TIDTPATI	52.4	59.08	6.68	26
WNBRPAWI	52.25	58.91	6.66	27
BLVRPABO	50.61	57.24	6.63	28
AVMRPAXA	41.07	47.62	6.55	29
TNSTPATI	63.27	69.8	6.53	30
SGGVPASG	61.31	67.77	6.46	31
PLSVPAXP	52.7	59.12	6.42	32
MLHMPAMI	57.72	63.88	6.16	33
NFLDPANE	52.84	58.99	6.15	34
SHLVPAXS	34.91	41.03	6.12	35
SLSBPAXS	64.8	70.86	6.06	36
CTHLPACH	38.37	44.4	6.03	37
GATNPAGA	61.46	67.42	5.96	38
RSSLPARU	55.1	61.02	5.92	39
WDLDPAWO	59.53	65.45	5.92	40
FYTWPAXF	44.97	50.86	5.89	41
CRTWPACA	36.18	42.04	5.86	42
PRWDPAPA	56.82	62.65	5.83	43
DVDVPAXD	34.08	39.67	5.59	44
GLLYPAGL	21.15	26.69	5.54	45
FYCYP AFC	27.94	33.46	5.52	46
SMCKPASM	37.83	43.32	5.49	47
RENVPARE	60.24	65.71	5.47	48
HWLYPAHW	34.6	39.98	5.38	49
MCTWPAMC	35.56	40.93	5.37	50
FWGVPAXF	49.17	54.51	5.34	51
CNFLPAXC	55	60.33	5.33	52
SXTNPASA	40.81	46.13	5.32	53
PATNPAPA	38.57	43.86	5.29	54
WMDLPAWM	36.09	41.38	5.29	55
MTGRPAMG	32.82	38.11	5.29	56
NNGOPAXN	32.34	37.62	5.28	57
WLRCPAWO	39.46	44.73	5.27	58
FRTNP AFA	64.21	69.45	5.24	59
BLCLPABL	48	53.21	5.21	60
JNTWPAXJ	36.9	42.1	5.2	61
BGRNPABR	53.69	58.87	5.18	62
WMPMPAWA	37.12	42.2	5.08	63
AVLAPAAV	50.27	55.33	5.06	64
SYVLPASY	22.27	27.32	5.05	65
WSHVPAWA	58.36	63.4	5.04	66
DWSNPADA	42.01	47.02	5.01	67

## Exhibit RL-6

CLLI	Loop	Total Monthly Cost per Line	non-loop cost	count by cost bracket
BRBOPABA	29.92	34.86	4.94	68
SABGPAXS	34.24	39.17	4.93	69
CLVIPACL	46.88	51.8	4.92	70
WGVLPAXW	27.84	32.75	4.91	71
DUNBPADU	35.61	40.49	4.88	72
BSWLPAXB	32.21	37.09	4.88	73
CRESPAES	45.03	49.85	4.82	74
WTBGPAXW	60.97	65.78	4.81	75
CNCYPAXC	52.01	56.81	4.8	76
SAYRPAXS	26.3	31.02	4.72	77
ARVLPAXA	48.29	52.99	4.7	78
ROBSPAXR	29.52	34.22	4.7	79
PRYPPAPE	28.56	33.25	4.69	80
FRCHPAFA	30.06	34.71	4.65	81
RKWDPAXR	52.47	57.1	4.63	82
CLARPACL	19.82	24.44	4.62	83
JHTWPAXB	28.75	33.36	4.61	84
MYDLPAXM	47.03	51.62	4.59	85
MHFYPAMA	82.4	86.99	4.59	86
TBYHPATO	34.26	38.84	4.58	87
OSMLPAES	41.19	45.75	4.56	88
CMSPPAXC	42.84	47.4	4.56	89
PTMRPAPM	37.77	42.31	4.54	90
WMLSPAXW	28.09	32.57	4.48	91
GIVLPAGR	23.5	27.98	4.48	92
EBRLPAXE	32.16	36.59	4.43	93
MTUNPAMU	39.25	43.68	4.43	94
PTALPAPA	34.69	39.12	4.43	95
BERVPAXB	42.28	46.71	4.43	96
NWSLPANS	31.18	35.59	4.41	97
BRLNPAXB	54.38	58.79	4.41	98
DELTPAXD	37.36	41.74	4.38	99
HTDLPABZ	41.48	45.84	4.36	100
YNVLPAYO	43.67	48.03	4.36	101
BROGPAXB	47.95	52.31	4.36	102
VNDGPAXS	31.33	35.67	4.34	103
TTVLPAXT	32.16	36.47	4.31	104
MRCKPAMC	40.2	44.45	4.25	105
SMPTPASM	35.71	39.94	4.23	106
DAPHPADA	34.64	38.86	4.22	107
STBGAES	25.44	29.66	4.22	108
MSTWPAMA	24.03	28.25	4.22	109
EDNBPAE	29.88	34.07	4.19	110
EAGLPAEG	27.34	31.53	4.19	111

## Exhibit RL-6

CLLI	Loop	Total Monthly Cost per Line	non-loop cost	count by cost bracket
HOTWPAHO	41.33	45.47	4.14	112
BVDLPAXB	40.66	44.8	4.14	113
MTPCPAMP	30.86	35	4.14	114
BSMRPABE	34.84	38.96	4.12	115
VNDGPAXM	21.8	25.91	4.11	116
PLSGPAPG	22.76	26.85	4.09	117
MSCWPAMW	38.07	42.16	4.09	118
UNCYPAXU	31.95	36	4.05	119
CRWVPACU	39.69	43.68	3.99	120
CRRYPAXC	34.23	38.22	3.99	121
TNVLPATA	34.56	38.55	3.99	122
MLVLPAMI	53.23	57.21	3.98	123
KANEPAKA	28.56	32.54	3.98	124
SWTWPAXS	35.1	39.07	3.97	125
KMVLPAKV	30.93	34.9	3.97	126
JHTWPAXW	20.02	23.98	3.96	127
BOALPABO	26.29	30.23	3.94	128
MNCHPAXM	27.02	30.96	3.94	129
WNDBPAXW	26.81	30.74	3.93	130
METWPAXM	24.14	28.05	3.91	131
HNTGPAHU	26.94	30.84	3.9	132
BLWDPABE	32.05	35.93	3.88	133
MRCTPAMA	56.85	60.72	3.87	134
PRTGPAPO	24.16	28.01	3.85	135
YORKPAXW	23.66	27.5	3.84	136
ABVLPAES	45.73	49.56	3.83	137
HLFXPAHX	33.47	37.28	3.81	138
TAYLPATA	17.91	21.72	3.81	139
NWPHPANP	27.86	31.66	3.8	140
SPGVPAXS	30.12	33.9	3.78	141
GRRDPAXG	28.13	31.9	3.77	142
JHTWPAXN	36.28	40.02	3.74	143
NRTEPAXN	29.65	33.37	3.72	144
SWRDPAXS	50.56	54.27	3.71	145
SPTWPASP	34.93	38.61	3.68	146
WHHNPAWH	40.33	44	3.67	147
JRSHPAJS	31.46	35.13	3.67	148
AVDLPAAV	26.98	30.65	3.67	149
CTWSPAES	39.21	42.86	3.65	150
SMRTPAXS	28.78	32.42	3.64	151
LDNBPALB	29.19	32.82	3.63	152
CRDLPACA	21.5	25.13	3.63	153
KLMTPAKU	16.03	19.66	3.63	154
HYBKPAHB	29.94	33.55	3.61	155

## Exhibit RL-6

CLLI	Loop	Total Monthly Cost per Line	non-loop cost	count by cost bracket
BLVNPABV	20.2	23.78	3.58	156
CLYMPACL	46.5	50.08	3.58	157
GRLAPAGL	29.69	33.26	3.57	158
BLLFPABE	26.13	29.68	3.55	159
DNRAPADO	20.74	24.29	3.55	160
HMCYPAHO	30.96	34.51	3.55	161
CRSNPACR	26.87	30.41	3.54	162
DAVLPADA	23.61	27.14	3.53	163
CDPTPACO	27.87	31.39	3.52	164
BTTWPABU	36.55	40.06	3.51	165
IMPRPAIM	25.72	29.23	3.51	166
TYRNPATY	25.19	28.69	3.5	167
PHBGPAPH	26.42	29.91	3.49	168
BRFRPABR	22.87	26.35	3.48	169
EBNSPAEB	30.27	33.74	3.47	170
CLFDPACL	22.26	25.73	3.47	171
SFRKPAXS	35.07	38.53	3.46	172
BMNSPABM	39.55	42.99	3.44	173
DRRYPADE	29.88	33.32	3.44	174
WLSTPAWS	21.15	24.59	3.44	175
EYBGPAEL	37.52	40.95	3.43	176
RYVLPARE	32.98	36.41	3.43	177
NCLDPANC	18.68	22.11	3.43	178
WYNGPAWY	16.63	20.03	3.4	179
CSSPPACS	34.35	37.74	3.39	180
PLMOPAPL	18.9	22.29	3.39	181
MONSPAMO	16.73	20.12	3.39	182
DLBGPAXD	30.19	33.58	3.39	183
GLRKPAXG	29.57	32.95	3.38	184
GLNMPAGL	32.63	36.01	3.38	185
NRLDPAAA	22.41	25.78	3.37	186
JRMYPAJE	21.36	24.73	3.37	187
DOVRPAXD	30.34	33.69	3.35	188
WTHRPAWE	30.89	34.23	3.34	189
NNTCPANA	20.2	23.53	3.33	190
ANVLPAAAN	25.8	29.12	3.32	191
ASLDPAAL	22.63	25.93	3.3	192
MCKNPAXM	35.3	38.59	3.29	193
MCADPAMC	20.94	24.23	3.29	194
PIVLPAPV	34.26	37.51	3.25	195
SCDLPASC	19.92	23.17	3.25	196
MOSCPAMC	17.36	20.61	3.25	197
CRVVPACA	35.49	38.72	3.23	198
MRCRPAME	31.74	34.96	3.22	199

## Exhibit RL-6

CLLI	Loop	Total Monthly Cost per Line	non-loop cost	count by cost bracket
OKDLPAOA	26.58	29.79	3.21	200
FELDPAFR	23.47	26.67	3.2	201
NSQHPANE	23.58	26.78	3.2	202
CLFRPACA	22.08	25.28	3.2	203
MTCRPAMC	19.32	22.51	3.19	204
PLMYPAPA	20.93	24.11	3.18	205
WGRVPAWG	29.23	32.41	3.18	206
HSDLPAHO	27.2	30.36	3.16	207
OXFRPAOX	27.8	30.96	3.16	208
HPVLPAAE	33.96	37.12	3.16	209
HERMPAAE	29.11	32.25	3.14	210
BCHMPABU	30.23	33.37	3.14	211
SHMKPASH	21.47	24.6	3.13	212
LCHNPAES	20.09	23.22	3.13	213
PRBGPA PB	24.75	27.87	3.12	214
HUMLPAHM	20.95	24.06	3.11	215
SRVLPASH	26.02	29.12	3.1	216
MHCYPAMC	20.38	23.48	3.1	217
KNSQPAKS	20.06	23.16	3.1	218
HLBGPAHO	24.31	27.4	3.09	219
WNTNPAWN	27.43	30.51	3.08	220
WRRNPAWA	22.88	25.96	3.08	221
MNDNPAMH	26.74	29.82	3.08	222
MNVIPAMI	21.13	24.21	3.08	223
FLYVPAFI	28	31.08	3.08	224
LGNRPALI	32.68	35.75	3.07	225
BLVIPABL	21.57	24.64	3.07	226
CNLVPACO	22.8	25.86	3.06	227
PUNXPAPU	28.86	31.91	3.05	228
SHNDPASH	18.58	21.62	3.04	229
ORBGPAOR	24.69	27.73	3.04	230
LWTWPALE	21.23	24.26	3.03	231
TAMQPATA	21.1	24.13	3.03	232
WTFRPAXW	48.68	51.7	3.02	233
BWVLPABR	26.59	29.6	3.01	234
CHRLPACH	19.2	22.21	3.01	235
DRVLPADO	27.28	30.29	3.01	236
DUBSPADU	24.82	27.83	3.01	237
MLTNPAMI	21.64	24.63	2.99	1
JHTWPAXG	19.92	22.91	2.99	2
ELZBPAEL	24.75	27.72	2.97	3
LHTNPALE	18.78	21.75	2.97	4
FAVLPAFR	18.63	21.59	2.96	5
HRLVPAHV	17.13	20.09	2.96	6

Exhibit RL-6

CLLI	Loop	Total Monthly Cost per Line	non-loop cost	count by cost bracket
JMTHPAJT	24.4	27.35	2.95	7
PSVLPAPV	27.95	30.9	2.95	8
YORKPAXS	23.13	26.07	2.94	9
ELZTPAET	22.18	25.12	2.94	10
MIVLPAMI	24.17	27.11	2.94	11
LTRBPALA	20.42	23.36	2.94	12
FKLNPAXF	27.08	30.01	2.93	13
MCDDPAMC	24.57	27.5	2.93	14
RDLNPAXR	23.78	26.71	2.93	15
PGTWPAPT	32.21	35.13	2.92	16
MDLDPAMI	27.46	30.38	2.92	17
MNGHPAMO	18.86	21.76	2.9	18
NWHPPANH	23.35	26.25	2.9	19
CNBGPACA	21.35	24.25	2.9	20
SNBPASU	21.38	24.27	2.89	21
SCHNPASC	19.31	22.19	2.88	22
FLWDP AFL	26	28.87	2.87	23
PNBGPAPB	21.95	24.82	2.87	24
MDTNPAMI	19.5	22.37	2.87	25
PTTVP APO	17.16	20.02	2.86	26
BMBGPABL	20.42	23.26	2.84	27
BATHPABT	25.75	28.58	2.83	28
KZTNP AKZ	23.22	26.04	2.82	29
BVFLPABF	21.36	24.17	2.81	30
HZTNP AHZ	17.95	20.76	2.81	31
ELCYP AEC	22.28	25.09	2.81	32
SCHWPASV	23.5	26.3	2.8	33
MTPTPAMP	20.06	22.86	2.8	34
BADNPABA	20.63	23.43	2.8	35
JHTWPAXJ	18.77	21.57	2.8	36
HLTWPAHE	21.22	24.01	2.79	37
ZLNPPAZE	23.54	26.33	2.79	38
GVCYPAGR	20.21	23	2.79	39
OLCYPAXO	28.01	30.79	2.78	40
INDIPAIN	19.17	21.95	2.78	41
CNPNP ACE	24.24	27.01	2.77	42
HMBGPAHB	24.84	27.61	2.77	43
MCMRPAMC	20.93	23.69	2.76	44
DYTWPADB	18.44	21.17	2.73	45
FRERPAXF	26.95	29.67	2.72	46
YORKPAXN	19.86	22.58	2.72	47
NATNPANR	19.95	22.66	2.71	48
SHRNPASH	19.29	21.98	2.69	49
SPDLPASP	18.15	20.84	2.69	50

## Exhibit RL-6

CLLI	Loop	Total Monthly Cost per Line	non-loop cost	count by cost bracket
RDPKPARP	16.11	18.8	2.69	51
GNVLPAGR	26.53	29.22	2.69	52
ENOLPAEN	17.94	20.63	2.69	53
CGVLPACL	20.51	23.19	2.68	54
SLTTPAES	25.21	27.88	2.67	55
PRFDPAPF	24.25	26.91	2.66	56
SRBGPAST	20.73	23.39	2.66	57
TRPRPATR	17.41	20.06	2.65	58
MCRKPAMR	17	19.65	2.65	59
CHTTPACT	22.27	24.91	2.64	60
MUVLPAES	16.93	19.57	2.64	61
BTHYPABH	17.58	20.22	2.64	62
NZRTPANA	22.01	24.64	2.63	63
ERIEPAXE	22.02	24.64	2.62	64
BEWKPABR	21.78	24.4	2.62	65
DWTWPADT	19.68	22.29	2.61	66
CRPLPACO	18.38	20.98	2.6	67
OKMTPAOA	17.02	19.62	2.6	68
CTVLPACV	21.17	23.76	2.59	69
LNSDPALD	16.77	19.36	2.59	70
ALTWPAMT	17.76	20.34	2.58	71
KHVLPAKU	20.73	23.3	2.57	72
ROCHPARC	20.13	22.7	2.57	73
NWLSPANW	18.66	21.23	2.57	74
LRDLPALB	16.37	18.94	2.57	75
UNTNPAAUN	21	23.55	2.55	76
ERIEPAXW	19.06	21.61	2.55	77
SLTNPAST	17.87	20.42	2.55	78
WGTNPAWR	21.13	23.67	2.54	79
GLLDPAGN	17.31	19.85	2.54	80
ALNAPAAL	18.34	20.87	2.53	81
BHLHPABE	17.14	19.67	2.53	82
PTTNPAPI	17.96	20.48	2.52	83
PTTWPAPT	18.93	21.44	2.51	84
WKBGPAWK	17.25	19.76	2.51	85
NWSTPANS	24.85	27.35	2.5	86
ERIEPAXT	22.71	25.21	2.5	87
IRWNPAIR	19.52	22.02	2.5	88
LARCPALM	18.32	20.82	2.5	89
PEHLPAPH	19.26	21.76	2.5	90
SCTNPASC	16.75	19.25	2.5	91
RYFRPARF	18.69	21.18	2.49	92
ERIEPAXS	19.87	22.36	2.49	93
MLVAPAMI	17.16	19.65	2.49	94

Exhibit RL-6

CLLI	Loop	Total Monthly Cost per Line	non-loop cost	count by cost bracket
CHESPACB	18.16	20.65	2.49	95
BRDDPABR	16.21	18.7	2.49	96
CLRTPACL	18.4	20.88	2.48	97
BLLVPABE	16.95	19.43	2.48	98
SLWBPASL	18.95	21.42	2.47	99
NWTWPANW	19.15	21.61	2.46	100
PHLAPACH	16.96	19.42	2.46	101
PHLAPADE	17.52	19.98	2.46	102
JNNTPAJE	19.01	21.47	2.46	103
MNTPPAMO	21.97	24.42	2.45	104
BGVLPABR	18.07	20.52	2.45	105
SHSAPASH	17.05	19.5	2.45	106
YORKPAXM	16.88	19.33	2.45	107
PHLAPAIV	16.71	19.16	2.45	108
LNLXPALN	21.02	23.46	2.44	109
DRMTPADO	17	19.44	2.44	110
AMBRPAAM	18.76	21.2	2.44	111
PHLAPAWV	16.69	19.13	2.44	112
NWKNPANK	19.22	21.65	2.43	113
PHLAPAEW	16.22	18.65	2.43	114
PHLAPAMY	16.81	19.23	2.42	115
CHVLPACH	18.48	20.9	2.42	116
PRKSPAPE	21.81	24.22	2.41	117
PYVLPAPE	17.72	20.13	2.41	118
ARMRPAAR	15.91	18.32	2.41	119
CHESPACA	17.4	19.81	2.41	120
LDVLPAES	19.61	22.01	2.4	121
ALTWPAAL	16.04	18.44	2.4	122
PHLAPAKR	16.08	18.48	2.4	123
PHLAPAPI	16.29	18.69	2.4	124
PHLAPARE	16.4	18.8	2.4	125
WSVWPAWE	15.87	18.26	2.39	126
OLYPPAOL	17.15	19.54	2.39	127
SWKYPASE	21.35	23.74	2.39	128
ALQPPAAL	20.94	23.33	2.39	129
NRTWPANR	16.17	18.56	2.39	130
MCPTPAMK	17.81	20.19	2.38	131
KGTNPAES	16.24	18.62	2.38	132
PHLAPAGE	15.94	18.32	2.38	133
SNSPPASS	19.09	21.47	2.38	134
PAOLPAPA	17.2	19.57	2.37	135
PHLAPAOR	16.61	18.98	2.37	136
YRDLPAYL	19.72	22.08	2.36	137
MEDIPAME	16.51	18.87	2.36	138

Exhibit RL-6

CLLI	Loop	Total Monthly Cost per Line	non-loop cost	count by cost bracket
PHLAPAJE	16.82	19.18	2.36	139
NWCSPANC	21.57	23.92	2.35	140
TRNTPATA	19.75	22.1	2.35	141
SPFDPASF	17.47	19.82	2.35	142
WAYNPAWY	14.69	17.03	2.34	143
EXTNPAEX	16.95	19.29	2.34	144
PLHSPAPH	17.54	19.88	2.34	145
LANGPALA	17.3	19.64	2.34	146
HTBOPAHB	16.88	19.22	2.34	147
LNCSPALA	16.29	18.62	2.33	148
PHLAPADB	15.59	17.92	2.33	149
SDTNPASD	19.51	21.84	2.33	150
WCHSPAWC	18.44	20.76	2.32	151
WLPTPAWI	17.18	19.5	2.32	152
EPBGPAEP	16.6	18.92	2.32	153
MRSLPAMV	18.46	20.77	2.31	154
PXTGPAPG	16.5	18.81	2.31	155
WLBPAWB	17.17	19.48	2.31	156
GNBGPAGR	17.29	19.59	2.3	157
MOVLPAMO	16.54	18.84	2.3	158
TRCKPATC	17.54	19.84	2.3	159
QKTWPAQT	20.96	23.25	2.29	160
LBNNPAES	18.39	20.68	2.29	161
PITBPAAL	16.25	18.54	2.29	162
PHLAPASA	16.73	19.02	2.29	163
PXVLPAPV	19.06	21.34	2.28	164
WMFLPAWM	17.61	19.89	2.28	165
PITBPACA	17.56	19.84	2.28	166
RDNGPARE	15.82	18.1	2.28	167
PITBPANS	15.57	17.85	2.28	168
HRBGPAHA	15.28	17.56	2.28	169
RBTPPART	18.05	20.33	2.28	170
CTSQPACT	15.84	18.11	2.27	171
SHLNPASH	20.11	22.37	2.26	172
HMSTPAHO	17.84	20.1	2.26	173
WASHPAWA	21.42	23.68	2.26	174
MBRGPAME	19.12	21.38	2.26	175
GLNSPAGL	18.99	21.24	2.25	176
ERIEPAXM	16.66	18.91	2.25	177
PHLAPAEV	13.56	15.8	2.24	178
PITBPAEL	16.42	18.66	2.24	179
PITBPASQ	15.96	18.19	2.23	180
PHLAPASH	16.38	18.6	2.22	181
STCGPAES	17.92	20.14	2.22	182



# **Exhibit RL-7**

Exhibit RL-7 PA Rural Carrier Rural Task Force Results

company	total switched lines	loop cost per line	non-loop cost per line	total cost	loop cost percent of total cost
Alltel Pennsylvaniainc Total	214,359	39.06	5.16	44.22	88.3%
Armstrong Tel Co North Total	461	70.66	9.87	80.53	87.7%
Armstrong Tel Co-PA Total	1,595	56.07	6.68	62.75	89.4%
Buffalo Valley Tel Co Total	18,989	31.51	3.37	34.88	90.3%
Citizens Tel Co Of Kecksburg Total	4,575	42.67	5.18	47.85	89.2%
C-tec Corp Total	237,196	38.75	4.42	43.17	89.8%
Denver And Ephrata Tel And Tel Co Total	51,372	24.44	2.91	27.35	89.4%
Frontier Comm Of Breezewood Inc Total	3,342	98.71	16.42	115.13	85.7%
Frontier Comm Of Canton Inc Total	3,826	58.21	5.80	64.01	90.9%
Frontier Comm Of PA Inc Total	26,424	27.84	2.71	30.55	91.1%
Frontier Comm-lakewood Inc Total	1,435	41.04	6.97	48.00	85.5%
Frontier Comm-oswayo River Inc Total	1,923	76.93	14.54	91.47	84.1%
Hickory Tel Co Total	1,278	50.82	7.58	58.40	87.0%
Ironton Tel Co Total	4,115	27.94	5.26	33.20	84.2%
Lackawaxen Tel Co Total	3,048	47.68	5.89	53.57	89.0%
Laurel Highland Tel Co Total	4,274	59.53	6.97	66.50	89.5%
Mahanoy And Mahantongo Tel Co Total	3,598	61.10	7.98	69.07	88.5%
Marianna-scenery Hill Tel Co Total	2,531	48.04	7.92	55.96	85.8%
North Penn Tel Co Total	4,281	74.43	7.13	81.56	91.3%
North Pittsburgh Tel Co Total	62,891	26.18	2.53	28.72	91.2%
Palmerton Tel Co Total	11,227	34.62	3.92	38.54	89.8%
Pennsylvania Tel Co Total	1,153	64.72	7.75	72.47	89.3%
Pymatuning Ind Tel Co Total	2,250	34.34	6.08	40.43	85.0%
South Canaan Tel Co Total	2,335	54.30	7.72	62.02	87.6%
Sugar Valley Tel Co Total	902	81.82	8.82	90.64	90.3%
The Bentleyville Tel Co Total	3,304	37.50	5.66	43.15	86.9%
The Conestoga Tel And Tel Co Total	47,984	27.59	3.07	30.66	90.0%
The North Eastern PA Tel Co Total	10,949	57.70	9.45	67.15	85.9%
Tuolumne Tel Co DbA Alltel Pennsylvani Total	3,607	56.39	7.28	63.67	88.6%
United Tel Co Of PA Total	349,504	34.79	3.41	38.20	91.1%
Venus Tel Corp Total	1,076	76.98	9.01	85.99	89.5%
Yukon-waltz Tel Co Total	1,011	38.53	7.86	46.40	83.1%

Source: Rural Task Force

# **Exhibit RL-8**

**Information Alleged To Be Proprietary Has Been Deleted**

Public Exhibit RL-8 cli	Current Model Estimate			Rural Task Force Estimate		
	Loop	Total Monthly Cost per Line	non-loop cost	Loop	Total Monthly Cost per Line	non-loop cost
ALVLPAXA				55.05	67.38	12.33
BCKPAXB				49.30	57.48	8.17
BIGVPAXB				40.95	43.79	2.84
BLINPAXB				81.84	94.09	12.25
BLVLPAXB				31.80	38.53	6.73
BRINPAXB				46.37	52.62	6.26
BTLRPAXB				25.41	28.07	2.65
CHBGPAXC				24.72	27.20	2.48
CHCRPAXC				49.20	52.60	3.40
CLMAPAXC				21.34	24.21	2.87
CNQNPAXC				37.90	41.95	4.05
CRLSPAXC				26.09	28.13	2.04
DNCNPAXD				31.57	35.60	4.03
DYRNPAXD				83.04	87.35	4.31
EMTNPAXE				64.28	77.28	13.00
EUCLPAXE				69.19	74.50	5.31
EVCYPAXE				32.54	35.59	3.04
EWFRPAXE				94.48	103.89	9.41
EZTWPAXE				26.34	28.75	2.41
FRFDPAXF				41.74	45.06	3.32
FXBGPAXF				44.83	63.34	18.51
FYVLPAXF				33.07	36.15	3.09
GTBGPAXG				28.85	31.20	2.34
HNVRPAXH				23.52	25.56	2.04
HWRDPAXH				56.85	66.44	9.59
ICBGPAXI				80.17	86.45	6.28
LTTWPAXL				31.52	33.97	2.46
LVRPPAXL				53.61	60.48	6.87
LYSVPAXL				67.00	72.94	5.94
MARNPAXM				39.37	43.89	4.52
MCBGPAXM				51.47	54.54	3.07
MCLVPAXM				51.15	59.00	7.84
MFTWPAXM				43.07	49.33	6.26
MHSPPAXM				35.84	38.36	2.52
MLHLPAXE				40.27	46.01	5.75
MLTWPAXM				58.35	64.23	5.89
MRDNPAXM				21.04	24.93	3.88
MRTTPAXM				26.30	29.75	3.45
MTVLPAXM				25.29	28.30	3.01
MYVIPAXM				31.03	36.33	5.29
NBFDPAXN				45.47	49.52	4.05
NIXNPAXN				36.40	39.69	3.30
NVLCPAXN				46.86	49.33	2.47
NWOXPAXN				31.46	35.48	4.02
NWPTPAXN				40.48	44.83	4.35
NWSHPAXN				60.94	65.82	4.87
ORBSPAXO				67.98	73.73	5.76

**Information Alleged To Be Proprietary Has Been Deleted**

Public Exhibit RL-8 cli	Current Model Estimate			Rural Task Force Estimate		
	Loop	Total Monthly Cost per Line	non-loop cost	Loop	Total Monthly Cost per Line	non-loop cost
PRKRPAXP				55.86	60.74	4.88
PRSPPAXP				43.89	47.88	3.99
PTRLPAXP				43.43	48.03	4.60
PTRYPAXP				53.32	59.51	6.18
PTVLPAXP				55.63	59.29	3.66
RCFDPAXR				61.08	69.07	8.00
RDVLPAXR				43.00	49.14	6.14
SHGPPAXS				94.61	101.65	7.04
STTMPAXS				45.00	48.29	3.29
THSPPAXT				69.80	73.79	3.99
TMTWPAXT				58.23	65.45	7.22
WSNBPAW				57.75	61.75	4.00
YRSPPAXY				47.49	51.20	3.70
ZIONPAXZ				60.32	68.82	8.50

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

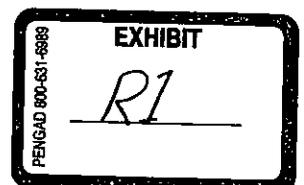
Investigation Regarding Intrastate Access )  
Charges and IntraLATA Toll Rates of Rural ) Docket No. I-00040105  
Carriers, and the Pennsylvania Universal )  
Service Fund )

**REBUTTAL TESTIMONY OF DR. ROBERT LOUBE**

**ON BEHALF OF**  
**PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE**

January 15, 2009

**RECEIVED**  
MAR 26 2009  
PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU



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**ROBERT LOUBE**

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1 **Introduction and Summary**

2 **Q: Please state your name and business address.**

3 A: My name is Robert Loube. My business address is 10601 Cavalier Drive, Silver  
4 Spring, Maryland 20901.

5 **Q: By whom are you employed and in what capacity?**

6 A: I am the Vice President of Rolka Loube Saltzer Associates.

7 **Q: Are you same Robert Loube that filed Direct Testimony on December 10,**  
8 **2008 in this proceeding?**

9 A: Yes.

10 **Q: On whose behalf are testifying?**

11 A: I am testifying on behalf of the Pennsylvania Office of Consumer Advocate  
12 (OCA).

13 **Q: What is the purpose of your testimony?**

14 A: The purpose of my rebuttal testimony is to respond to the testimony of Mr. Nurse  
15 and Dr. Oyefusi on behalf of AT&T, the testimony of Dr. Pelcovits on behalf of  
16 Comcast Phone of Pennsylvania (Comcast), the testimony of Mr. Buckalew on  
17 behalf of the Office of Small Business Advocate (OSBA), the testimony of Mr.  
18 Laffey on behalf of the Pennsylvania Telephone Association (PTA) and the  
19 testimony of Mr. Price on behalf of Verizon. I will address the claims made in

1 these testimonies regarding the legal basis for establishing a rate cap, the  
2 determination of the rate cap, the need to expand the Pennsylvania Universal  
3 Service Fund (Pa USF), the impact of maintaining a rate cap and expanding the  
4 Pa USF on competition.

5 **The Legal Basis for a Rate Cap**

6 **Q: OSBA witness Buckalew testified on advice of counsel that, “there is no basis**  
7 **in law for capped rates.” (OSBA at 5). Mr. Buckalew also testified that he is**  
8 **not “aware of any rural ILEC that has a cap on local exchange rate increases**  
9 **for the purpose of the annual PSM filings in its alternative form of regulation**  
10 **plan” (OSBA at 6). Finally, Mr. Buckalew testified that he is not “aware of**  
11 **any commission orders that were in effect on November 30, 2004, which**  
12 **established a cap on local exchange rate increases for the purpose of the**  
13 **annual PSM filings.” (OSBA at 6-7). Do you have any response to these**  
14 **statements?**

15 **A: Yes. While I too am not a lawyer, I am advised by counsel that there is a basis in**  
16 **law for capped rates. As a policy analyst, I am also familiar with the history of**  
17 **this issue. The genesis of the rate cap was the Commission’s Global Order in**  
18 **1999.<sup>1</sup> In that proceeding, the Commission specifically stated that small**  
19 **incumbent local exchange carriers (ILECs) with average monthly residential one-**  
20 **party basic local rates above \$16.00 at the time the Pa USF is implemented will**  
21 **provide customers a Universal Service credit in an amount that will effectively**

---

<sup>1</sup> Re: Nextlink Pennsylvania, Inc., 93 PaPUC 172 (1999)(Global Order)(subsequent history omitted).

1 reduce the rate to \$16.00. In other words, customers were only to be charged  
2 \$16.00 for basic local exchange service, no more.

3  
4 The Commission discussed this issue later in the Global Order and stated that “on  
5 consideration of the positions of the parties, and the evidence contained in this  
6 record, we conclude that as to all non BA-PA ILECs, a rate ceiling will be  
7 implemented which caps the one-party residential local rates of each such ILEC,  
8 including charges for dial-tone, touchtone, and local usage, at \$16.00 per month  
9 until December 31, 2003. As set forth below, if such ILEC’s one-party residential  
10 rate is above \$16.00 per month, and is found to be just and reasonable by the  
11 Commission, the revenue associated with the difference between the rate ceiling  
12 and the approved rate will be recovered from the Pennsylvania USF.” Four  
13 months after the Global Order, the Commission approved the Small Company  
14 Group’s Chapter 30 plan and the ALLTEL Chapter 30 Plan and included the  
15 \$16.00 rate ceiling as part of those Chapter 30 plans.<sup>2</sup> In the ALLTEL  
16 Reconsideration Order, for example, the Commission clarified that, if an increase  
17 based on ALLTEL’s Price Stability Mechanism resulted in a just and reasonable  
18 residential rate over the \$16.00 rate ceiling, then the difference could be recovered  
19 from the interim Pa USF.<sup>3</sup>

20  
<sup>2</sup> See, Petition of the following Companies For Approval of an Alternative Form of Regulation Plan and Network Modernization Plan, Docket Nos. P-00981425, *et al.*, Opinion and Order (entered January 20, 2000), Opinion and Order on Reconsideration (entered March 20, 2000); Petition of ALLTEL Pennsylvania, Inc. for Approval of an Alternative Form of Regulation and Network Modernization Plan, Docket No. P-00981423, Opinion and Order (entered January 20, 2000); Opinion and Order on Reconsideration (entered March 20, 2000).

<sup>3</sup> ALLTEL Chapter 30 Reconsideration Order at 41.

1 **Q: Were there any other Commission Orders that addressed the residential rate**  
2 **cap that you are aware of?**

3 **A:** Yes. In 2003, the Commission approved a Joint Procedural Stipulation  
4 concerning the RTCC/Sprint United Joint Proposal for Access Charge  
5 Reductions.<sup>4</sup> This proceeding arose as a result of the Commission's  
6 determination in the Global Order to further examine intrastate access rates in  
7 Pennsylvania. The Joint Procedural Stipulation specifically provided that:

8  
9 The monthly \$16.00 cap on R-1 [residential] average rates  
10 established in the Global Order and any ILEC-specific  
11 weighted average rate cap which may have been  
12 established in any individual ILEC's Chapter 30 Plan will  
13 be increased for all ILECs to the weighted average \$18.00  
14 *cap for a minimum of three (3) year period January 1,*  
15 *2004 through December 31, 2006.* As to any ILEC which  
16 as of July 1, 2002 has hit the \$16.00 cap and takes a credit  
17 from the USF, the ILEC shall continue to receive and apply  
18 the credit but would be limited to recovering from its  
19 customers future R-1 increases of \$2.00 under the  
20 foregoing \$18.00 cap reflecting the USF credit in effect as  
21 of July 1, 2002. *Any approved future increases in rates*  
22 *above the \$18.00 rate cap for any ILEC shall also be*  
23 *recoverable from the USF under the exact same terms*  
24 *and conditions as approved in the Global Order.*

25  
26 (emphasis added). The Commission even provided an example of  
27 a practical application of the Pa USF by providing:

28  
29 For example, if ILEC A's R-1 rates are currently \$17.25,  
30 then their customer is billed \$17.25 but receives a credit of  
31 \$1.25 from USF, receiving a net bill of \$16.00. ILEC A  
32 could, as of December 31, 2004, implement the provisions  
33 of Paragraph 3 hereof, increase its rates, if justified, by  
34 \$2.00 to \$19.25, charge its customers \$19.25, reflect a  
35 credit of \$1.25 to its customers, receive \$1.25 from the

---

<sup>4</sup> Access Charge Investigation per Global Order of September 30, 1999. Docket No. M-00021596, Order (entered July 15, 2003) (Rural Access Settlement Order).

1 USF and then send a net bill to its customers of \$18.00. If  
2 ILEC A justified an R-1 rate of \$20.25, then it would be  
3 entitled to \$2.25 from the USF and will send a net bill to its  
4 customers of \$18.00.  
5

6 The Commission clearly increased the residential rate cap from \$16.00 to \$18.00  
7 in approving the Joint Procedural Stipulation and maintained the fundamental  
8 protection that the customer would only be charged \$18.00 with the remaining  
9 allowed revenue recovered from the Pa USF. The Commission further  
10 determined that the rate cap would be in effect for a *minimum* of three additional  
11 years.

12  
13 **Q: What happened next?**

14  
15 **A:** In 2004, the General Assembly made changes to the original Chapter 30 through  
16 the passage of Act 183. One of the new provisions was Section 3015(g) of the  
17 Public Utility Code, entitled "Rate Change Limitations." Section 3015(g)  
18 specifically provides that: "The annual rate change limitations set forth in a local  
19 exchange telecommunications company's effective commission-approved  
20 alternative form of regulation plan or any other commission-approved annual rate  
21 change limitation shall remain applicable and shall be deemed just and reasonable  
22 under section 1301." As I discussed above, the Commission's Order approving  
23 the rural ILECs alternative form of regulation plans contained a rate ceiling of  
24 \$18.00.

25 **Q: Did you review any other information?**

26  
27 **A:** A review of the legislative history of House Bill 30, which became Act 183,  
28 reveals a specific recognition regarding the presence and significance of the

1 \$18.00 residential rate cap and its relationship to other sections of Chapter 30.

2 Representative Adolph, the prime sponsor of House Bill 30, stated on the floor of  
3 the House of Representatives in defense of the bill: “Mr. ADOLPH. Finally, Mr.  
4 Speaker, as amended by the Senate, HB 30 recodifies existing section 1301 of the  
5 Public Utility Code, which states that rates shall be just and reasonable.

6 Additionally, the legislation grandfathers rate change limitations contained in  
7 current network modernization plans, and keep in mind that there is an \$18.00 cap  
8 for basic telephone service.”<sup>5</sup>

9  
10 I note as well that Governor Rendell, upon signing Act 183 in to law specifically  
11 noted that Act 183 “ensures that every Pennsylvanian has access to affordable  
12 basic telephone service by making it easier for more low-income Pennsylvanians  
13 to enroll in federal Lifeline service, which will help them install phones and pay  
14 their monthly bills, protecting access to basic telephone services even in the most  
15 rural and economically depressed areas of the state [and] limiting the price  
16 increases for basic service, particularly hard to serve rural areas.”<sup>6</sup>

17  
18 **Q: Do you have any further comments in response to Mr. Buckalew’s contention**  
19 **that there is no basis for the current rate cap?**

20 **A:** Yes. Many if not all of the rural ILECs’ respective Commission-approved  
21 Chapter 30 alternative regulation and network modernization plans include a  
22 provision that caps rates and allows the company to receive any amount above  
23 that rate that is determined to be just and reasonable from the Pa USF. For

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<sup>5</sup> Leg. Journ. Nov. 19, 2004 at 2161.

<sup>6</sup> “Governor Rendell Signs House Bill 30,” Press Release ( Nov. 30, 2004)(www.state.pa.us).

1 example, the Buffalo Valley Telephone Company's Commission-approved  
2 Chapter 30 plan provides:

3

4 2. Pursuant to the Global Order entered September 30,  
5 1999, the Commission instituted a transitional universal  
6 service funding mechanism, i.e. the Pennsylvania USF,  
7 with a projected termination date of December 31, 2003.  
8 During the pendency of the Pennsylvania USF, the  
9 Company retains the right to change and rebalance its  
10 intrastate access rates in accordance with the Price Stability  
11 Plan, and if such rates are found to be just and reasonable,  
12 they shall be permitted to become effective. Further,  
13 should the new rates exceed the \$16.00 monthly residential  
14 ceiling and applicable business rate ceiling established in  
15 the Global Order for the duration of the Pennsylvania USF,  
16 *the Company is permitted to recover the revenue*  
17 *difference arising from the application of the Global*  
18 *Order rate ceilings from the Pennsylvania USF.* By Order  
19 entered July 15, 2003, at Docket No. M-00021596, et al.,  
20 the Commission approved modifications to the Global  
21 Order including a continuation of the USF and an increase  
22 of the \$16.00 residential cap to \$18.00.

23

24 (emphasis added).

25

26

27 **Q: Did you also want to comment on another matter in response to other**  
28 **parties' Direct Testimony in this proceeding?**

29 **A:** In their Direct Testimony, several witnesses quoted to the Commission Order that  
30 initially instituted the Pa USF or discusses the Pa USF. In my review of their  
31 quotes, I determined that a more complete recitation of the Order would be useful.  
32 I wanted to take this opportunity in rebuttal testimony to provide a fuller context  
33 for the quotes.

34

35 **Q: Please explain.**

36

1    **A:**     Comcast witness Pelcovits, for example, quoted to the Commission Order  
2             instituting the Pa USF by saying “The Commission has recently reiterated that the  
3             Pa USF ‘is actually a pass-through mechanism . . . . an exchange of revenue  
4             between telephone companies which attempts to equalize the revenue deficits  
5             occasioned by mandated decreases in their toll and access charges’.” (Comcast at  
6             4). Furthermore, AT&T witnesses Nurse and Oyefusi state in their Direct  
7             Testimony that “the Pa USF was established for the *specific purpose* of funding  
8             switched access and toll rate decreases.” (AT&T at 17, emphasis in original).

9

10   **Q:**     **And what additional context do you think is needed?**

11   **A:**     The specific sentence immediately proceeding the sentence cited by Comcast  
12             from the Global Order provides, for example, that “the USF is a means to reduce  
13             access and toll rates for the ultimate benefit of the end-user and to encourage  
14             greater toll competition, *while enabling carriers to continue to preserve the*  
15             *affordability of local rates.*”<sup>7</sup> Witnesses Pelcovits, Nurse and Oyefusi failed to  
16             mention in this portion of their Direct Testimony that the Pa USF was intended to  
17             keep basic local service rates affordable. Instead, these witnesses focus only on  
18             the portion of the Global Order that discusses reducing access and toll rates. The  
19             entire Commission discussion must be considered.

20

21   **Q:**     **Why is the full quote significant?**

22   **A:**     This is significant because, as I have stated in my Direct Testimony, the federal  
23             Telecommunications Act of 1996 and Chapter 30 of the Public Utility Code

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<sup>7</sup> Global Order at 238 (emphasis added).

1 support *both* the promotion of the competitive provision of telecommunications  
2 services *and* the maintenance, preservation and enhancement of universal service  
3 principles. One cannot look solely to promoting competition at any cost without  
4 also considering universal service principles.

5

6 **Q: Do you have any other concerns about parties' quotation of Commission**  
7 **orders in their Direct Testimony?**

8 **A:** Yes. In Verizon's Direct Testimony of witness Don Price, the witness questions  
9 the legality of the Pa USF beyond December 31, 2006 (Verizon at 10). In doing  
10 so, Mr. Price fails to recognize that the Commission Order approving the  
11 extension of the rate cap from December 31, 2003 to December 31, 2006 as part  
12 of the Rural Access Settlement Order specifically provided that the residential  
13 rate cap will continue for a *minimum* of three years. That Order provided no end  
14 date. Similarly, the Commission determined in that Order that the Pa USF will  
15 "continue beyond December 31, 2003 *until a further Commission rulemaking*  
16 *Order determines otherwise.*" Such a Commission rulemaking Order has not yet  
17 occurred.

18

19

20 **The Determination of the Rate Cap**

21 **Q: What is the purpose of this section of your testimony?**

22 **A:** The purpose of this section of my testimony is to summarize and critically  
23 evaluate the testimony of the other witnesses in this proceeding with regard to

1 their recommendations as to whether there should be a rate cap, and if so, what  
2 rate cap or benchmark the Commission should adopt.

3 **Q: Please summarize the testimony of Mr. Laffey.**

4 **A:** Mr. Laffey, on behalf of PTA, asserts that current \$18.00 benchmark should be  
5 retained. He justifies this retention by showing that the \$18.00 benchmark is  
6 greater than the national average urban rate of \$15.03 and by providing a  
7 comparison to Verizon PA rates. Thus, he uses a comparability standard to  
8 determine just and reasonable rates for the rural ILEC carriers.

9 **Q: Do you agree with the Mr. Laffey's justification for retaining the \$18.00**  
10 **benchmark?**

11 **A:** I generally agree with Mr. Laffey's justification for retaining the \$18.00  
12 benchmark. The requirement to maintain rural and urban rate comparability is  
13 written into the Telecommunications Act of 1996, and other states have used that  
14 guideline to provide support to rural carriers. However, there are two issues  
15 where I disagree with Mr. Laffey's position.

16 **Q: Please explain.**

17 **A:** First, I disagree with the way Mr. Laffey determined the Verizon PA density cell  
18 3 and 4 rates for the purposes of determining the benchmark. Second, I have  
19 asserted that the benchmark should change over time, while Mr. Laffey has not  
20 provided a mechanism that would change the benchmark.

1 **Q: How did Mr. Laffey determine the Verizon PA density cell 3 and 4 rates?**

2 **A:** Mr. Laffey's calculation of those rates included the cost of Extended Area Service  
3 (EAS) unlimited calling rates.

4 **Q: How should the Verizon PA density cell 3 and 4 rates be calculated for the**  
5 **purpose of determining the basic local exchange benchmark?**

6 **A:** The density cell 3 and 4 rates should only include the usage rates for unlimited  
7 local calling. I have provided those rates in Exhibit RL-2 of my Direct  
8 Testimony. Those rates are lower than the rates included in Mr. Laffey's  
9 testimony. Those rates reflect the basic exchange service rates, and it is only the  
10 basic exchange service rate that is limited by the benchmark. I realize that many  
11 customers may be paying the EAS rate as well but the Pa USF should only be  
12 used to fund access to basic local exchange service, with unlimited local calling,  
13 not extended area service. Furthermore, customers also pay a subscriber line  
14 charge (SLC) rate and other fees. These other charges and fees are also not part  
15 of the rate that is governed by the benchmark. It is necessary to match the rate  
16 comparisons to the definition of the rate governed by the benchmark and thus,  
17 EAS usage rates should not be used.

18 **Q: Why is it necessary to provide a mechanism that allows the benchmark to**  
19 **change over time?**

20 **A:** It is necessary to provide a mechanism that allows the benchmark to change over  
21 time because the underlying forces that determine the benchmark, comparability

1 and affordability, change over time. A mechanism that allows the benchmark to  
2 change over time would thus maintain the comparability and affordability  
3 standards and would save the Commission the time and expense of re-evaluating  
4 the benchmark every couple of years. Therefore, if the Commission would adopt  
5 Mr. Laffey's recommendation, it would have to return to these issues more  
6 frequently. Adopting the recommendations included in my and Mr. Colton's  
7 Direct Testimony would allow the Commission to establish a flexible mechanism  
8 that would maintain the rural ILEC benchmark at a just and reasonable level for  
9 the foreseeable future.

10 **Q: Please summarize the testimony of Mr. Buckalew.**

11 **A:** Mr. Buckalew, on behalf of the OSBA, asserts that any rate cap that might be  
12 adopted should meet an affordability standard and a cost standard. He states that  
13 the affordability standard should be based on the average of Verizon's urban  
14 rates. He also notes that the benchmark should increase because there has been  
15 ongoing inflation since the benchmark was first established. Yet, he also notes  
16 that inflation should not be used as a rate making standard because ILEC cost of  
17 service does not increase with inflation. Finally, he disagrees with the concept of  
18 a rate cap because capping one rate in an environment that allows revenue to  
19 increase with inflation places the burden of the increased allowed revenue on all  
20 other rates that are not capped.

21 **Q: How does Mr. Buckalew determine his affordability standard?**

1    **A:**    Mr. Buckalew asserts that the affordability standard should be based on the  
2            average of Verizon's urban rates. Mr. Buckalew asserts that this average is  
3            approximately \$21.00. Moreover, he asserts that \$21.00 is affordable because it  
4            matches the existing benchmark of \$16.00 times the rate of inflation as measured  
5            by change in Consumer Price Index (CPI) from September 1999 through July  
6            2008.

7    **Q:**    **Do you have any concerns with Mr. Buckalew's determination of an**  
8            **affordability standard?**

9    **A:**    Yes. First, his standard is not based on the average of Verizon's urban rates as he  
10            asserts. The average of Verizon's urban rates is only \$15.29. To reach his  
11            approximate \$21.00 average, he added the Verizon PA SLC to the urban average  
12            basic exchange rate. Thus, using his criterion for affordability, the benchmark for  
13            local exchanges rates is only \$15.29, not \$21.00. Second, his choice of inflation  
14            indices, the CPI, is different from the GDP inflation index used to establish rates  
15            in Pennsylvania. The GDP price inflation index increased 25 percent from the  
16            third quarter 1999 to the third quarter 2008 as compared to the 30 percent CPI  
17            increase. Using that index would result in a \$20 affordability rate in 2008 if one  
18            were to follow Mr. Buckalew's methodology.

19   **Q:**    **Will a cap on the residential rate cause undue discrimination for other rates**  
20            **or ratepayers?**

21   **A:**    A cap on the residential rate will not cause undue discrimination for other  
22            ratepayers. The Commission has already placed a cap on one group of non-

1 competitive ratepayers, those who pay access charges. The result of that cap has  
2 been that residential and business rates have either increased faster than inflation  
3 or the carriers have banked the allowed rate increases. If the Commission now  
4 fulfills its mandate to establish just and reasonable residential basic local  
5 exchange rates, another group of customers will be protected from rate increases.

6 **Q: How can the Commission protect another group of customers without**  
7 **harming the remaining unprotected customers?**

8 **A:** In such a situation, in order to allow carriers to recover allowed revenue increases  
9 without undue discrimination, the Commission should allow carriers to collect the  
10 allowed amount of revenue from the Pa USF. Mr. Buckalew denies the  
11 Commission the right to use the Pa USF to maintain just and reasonable rates  
12 when he states that “Generalized support programs in today’s open market should  
13 end. You can’t have competition and at the same time provide general  
14 subsidies.”<sup>8</sup> Mr. Buckalew’s assertion is incorrect. Competition will theoretically  
15 erode implicit support mechanisms where a company increases its rates in a low  
16 cost market to support rates in a high cost market because competitors will enter  
17 the low cost market and entice customers away from the carrier providing the  
18 implicit subsidies. However, an explicit support mechanism that is charged to all  
19 carriers on the basis of their state revenue and designed to provide support to  
20 carriers serving rural areas is compatible with open markets.

21 **Q: Please summarize Dr. Pelcovits’ testimony?**

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<sup>8</sup> Direct Testimony of Allen Buckalew, page 12, lines 5-6.

1    **A:**    Dr. Pelcovits, on behalf of Comcast, asserts that the Commission should retain its  
2            \$18.00 cap on residential rates. He further states that even if the \$18.00 rate can  
3            not be justified on the basis of cost, it may be necessary to retain that rate in order  
4            to meet other public policy goals.<sup>9</sup> He also notes that the \$18.00 rate may become  
5            less meaningful in the future as customers switch to competitive services and  
6            away from non-competitive services. However, he argues against providing any  
7            additional Pa USF funding. This requirement, along with the current cap on  
8            access charges, means that carriers would have to bank allowed revenue increases  
9            or attempt to obtain significant revenue increase from a shrinking portion of their  
10           revenue stream. The only way that a carrier could receive additional revenue  
11           under Dr. Pelcovits' recommendations, other than to raise rates for optional  
12           services like Caller ID and Call Waiting by extreme amounts, would be to file a  
13           rate of return case, including a full disclosure of all revenue streams earned by  
14           any affiliate company.

15   **Q:**    **Do you have any concerns with Dr. Pelcovits' recommendations?**

16   **A:**    Yes. While I agree with him that the \$18.00 residential rate cap should be  
17            maintained, I do not agree that rural carriers should be shut off from obtaining  
18            additional funding. His recommendations would deny rural carriers allowed  
19            revenue unless or until the legislature changed the current law.

20   **Q:**    **Please summarize the testimony of Mr. Price.**

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<sup>9</sup> Direct Testimony of Michael Pelcovits, page 21, lines 9-12.

1    **A:**    Mr. Price, on behalf of Verizon, asserts that it is not necessary to establish a  
2           generic rate cap in this proceeding. It is his understanding that the current rate  
3           cap was established to limit the rate re-balancing of access and toll rates that was  
4           required in the past, and therefore, the \$18.00 cap is not applicable to the current  
5           proceeding. Moreover, he contends that a single rate cap is not applicable  
6           because many rural carriers have residential rates below the \$18.00 cap and  
7           because some rural carriers have banked their allowed rate increases. In addition,  
8           he notes that the ability to increase rates is limited by competition and the Chapter  
9           30 rules associated with inflation. Finally, he asserts that, if the Commission  
10          wishes to establish a new rate cap, that cap should be no lower than \$21.00.

11   **Q:**    **Do you agree with Mr. Price that the current rate cap is limited to past rate**  
12           **re-balancing of access and toll rates only?**

13   **A:**    No. As I noted above, the rate cap is not limited solely to recovering revenue lost  
14           from reductions in access and toll charges. Instead, future allowed rate increases  
15           that push rates above \$18.00 are offset by Pa USF support.

16   **Q:**    **Do you agree with Mr. Price's recommendation that there should not be a**  
17           **generic rate cap for all carriers?**

18   **A:**    No. A generic rate cap is determined by the comparability and affordability  
19           standards supported by my and Mr. Colton's Direct Testimony. The fact that  
20           some carriers are charging less than \$18.00 does not reduce the need for a generic  
21           rate cap. Carriers with rates below \$18.00 would be allowed to increase  
22           residential rates as part of an approved rate increase associated with a Chapter 30

1 revenue case. The fact that some carriers bank allowed revenue increases also  
2 does not reduce the need for a generic rate cap. In those cases, the carriers made a  
3 business decision to keep their rates below the rate cap. The purpose of the cap is  
4 to ensure that rates will never exceed a just and reasonable level. That purpose  
5 exists even when some carriers have rates that are less than the cap.

6 **Q: Do you agree with Mr. Price that the Chapter 30 rules that limit rate**  
7 **increases to inflation have been an effective limitation on residential rate**  
8 **increases?**

9 **A:** No. Chapter 30 limits the overall increase in non-competitive revenue to  
10 inflation. However, due to the Commission's decisions prohibiting access charge  
11 increases, basic service rates may be increased by amounts significantly greater  
12 than inflation. This substantial increase occurs because the two largest non-  
13 competitive revenue streams are basic service revenue and access revenue. Given  
14 that access rates are not increased, the revenue responsibility associated with the  
15 access rates is transferred primarily to basic local service.

16 **Q: Do you agree with Mr. Price's assertion that competition offers protection**  
17 **for customers of basic local exchange service?**

18 **A:** No. For example, the cable and wireless offerings are generally bundles of local  
19 and long distance service. In the case of a cable provider, the bundle may also  
20 include Internet connection and video service. These bundles may be very  
21 attractive to customers wishing to purchase all of the services offered in  
22 combination but they do not provide protection for the customer that wishes to

1 purchase a stand-alone basic local exchange service or stand-alone service with a  
2 limited amount of long distance and vertical services.

3 **Q: Do you agree with Mr. Price's recommendation that a new rate cap should**  
4 **be no lower than \$21?**

5 **A:** No. First, Mr. Price based his analysis on the CPI rather than the GDP price  
6 index used in Chapter 30 revenue cases. Changes in the CPI have been  
7 influenced by the extreme fluctuations in the price of gasoline. The average price  
8 of gasoline decreased from \$4.14 in July 2008 to \$2.20 in November 2008, and  
9 consequently the CPI decreased at annual rate of -10.2 percent.<sup>10</sup> It would,  
10 therefore, be unreasonable to base telephone rates on the CPI. As noted above,  
11 Mr. Buckalew also used CPI to adjust his affordability standard and that  
12 adjustment would also be unreasonable due to the volatility of the CPI. Second,  
13 even if Mr. Price had relied on the GDP price index, I would disagree with the  
14 proposition that inflation is the key determinant of the reasonableness of  
15 telephone rates. Instead, as I and Mr. Colton have proposed, the reasonableness  
16 of telephone rates depends on comparability and affordability.

17 **Q: Please summarize the testimony of Mr. Nurse and Dr. Oyefusi.**

18 **A:** Mr. Nurse and Dr. Oyefusi, panel witnesses on behalf of AT&T, assert that the  
19 rate cap should be eliminated. In support of their recommendation to eliminate  
20 the rate cap, the panel witnesses claim that the any rate cap is arbitrary, that there  
21 is no requirement for rates to be affordable, that competition can be relied upon to

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<sup>10</sup> <http://www.bls.gov/cpi/cpid0811.pdf>.

1 maintain reasonable rates, that other state rate caps are higher than the current  
2 Pennsylvania rate cap and that customers are moving away from purchasing  
3 stand-alone basic service.

4 **Q: Do you agree with the panel witnesses that affordability concerns should be**  
5 **ignored in determining the rate cap?**

6 **A:** No. As I noted above, the Global Order states: “the USF is a means to reduce  
7 access and toll rates for the ultimate benefit of the end-user and to encourage  
8 greater toll competition, *while enabling carriers to continue to preserve the*  
9 *affordability of local rates.*”<sup>11</sup> Thus, the purpose of the rate cap from its inception  
10 has been to maintain affordable local rates.

11 **Q: Do you agree with the panel witnesses that competition can be relied on to**  
12 **maintain just and reasonable rates for basic local service?**

13 **A:** No. There are three alternative potential sets of providers of basic local service.  
14 These are competitive local exchange carriers (CLECs), cable providers and  
15 wireless carriers. However, these carriers are not active in the stand-alone local  
16 exchange market.

17 **Q: Please explain why CLECs are not actively providing competition in the**  
18 **stand-alone basic exchange market?**

19 **A:** For a number of years, CLECs using unbundled network element platforms  
20 (UNE-P) offered a bundle of services that included local exchange service. Thus,

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<sup>11</sup> Global Order at 238 (emphasis added).

1 even when they were active in the market place, they generally did not provide  
2 stand-alone service. However, since the FCC no longer requires ILECs to provide  
3 UNE-P, the largest CLECs, AT&T and MCI, have disappeared from the  
4 residential market. Moreover, given that most rural carriers were exempt from the  
5 provision of UNEs, it is likely that CLECs offered only very limited service in the  
6 service territories of the rural ILECs.

7 **Q: Please explain why wireless service does not provide competition for the**  
8 **stand-alone basic exchange market?**

9 **A:** Wireless service does not provide competition for the stand-alone basic exchange  
10 market because wireless service is a complement rather than a substitute service  
11 and because wireless service is substantially more expensive than stand-alone  
12 basic exchange service.

13 **Q: What is the basis for your claim that wireless is a complement and not a**  
14 **substitute for wireline service?**

15 **A:** The basis for my claim that wireless is a complement to wireline service is that  
16 over 58 percent of households continue to purchase and use both services.<sup>12</sup>

17 **Q: Does the existence of households that are wireless only prove that wireless**  
18 **service is a substitute for wireline service?**

19 **A:** The fact that some households are wireless only supports a claim that wireless  
20 service is considered a substitute for wireline service for only those households.

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<sup>12</sup> Wireless Substitution: Early Release of Estimates from the National Health Interview Survey, July-December 2007, <http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless200812.htm>.

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

SURREBUTTAL TESTIMONY OF DR. ROBERT LOUBE

ON BEHALF OF  
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

RECEIVED

MAR 26 2009

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

February 10, 2009

(Public Version)



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**ROBERT LOUBE**

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1 **Introduction and Summary**

2 **Q: Please state your name and business address.**

3 **A:** My name is Robert Loubé. My business address is 10601 Cavalier Drive, Silver  
4 Spring, Maryland 20901.

5 **Q: By whom are you employed and in what capacity?**

6 **A:** I am the Vice President of Rolka Loubé Saltzer Associates.

7 **Q: Are you same Robert Loubé that filed Direct Testimony on December 10,**  
8 **2008 and Rebuttal Testimony on January 15, 2009 in this proceeding?**

9 **A:** Yes.

10 **Q: On whose behalf are testifying?**

11 **A:** I am testifying on behalf of the Pennsylvania Office of Consumer Advocate  
12 (OCA).

13 **Q: What is the purpose of your testimony?**

14 **A:** The purpose of my Surrebuttal Testimony is to respond to the Rebuttal Testimony  
15 of Mr. Nurse and Dr. Oyefusi (Panel Witnesses) on behalf of AT&T, Rebuttal  
16 Testimony of Mr. Buckalew on behalf of the Office of Small Business Advocate  
17 (OSBA), the Rebuttal Testimony of Ms. Londerholm on behalf of the United  
18 Telephone Company of Pennsylvania LLC d/b/a Embarq Pennsylvania (Embarq)  
19 and the Rebuttal Testimony of Mr. Price on behalf of Verizon. I will address the

1 claims made in these testimonies regarding the allocation of common cost and just  
2 and reasonable residential rates, the use of the FCC's Synthesis Model, the  
3 relationship between competition and universal service, the requirement to  
4 increase the Pennsylvania Universal Service Fund (Pa USF), and the use of  
5 Verizon's rates to determine the comparability benchmark.

6

7 **Joint and Common Cost Allocation and Just and Reasonable Residential Rates**

8 **Q: Please summarize the rebuttal testimony regarding the relationship between**  
9 **joint and common cost allocation and just and reasonable residential rates?**

10 **A:** Ms. Londerholm and the Panel witnesses deny the fact that the loop is a joint and  
11 common network investment required to provide a number of services. Instead,  
12 they would directly assign the loop to local service. Panel witnesses assert that  
13 classifying the loop as a joint and common cost is a "tired old argument [that]  
14 simply does not have any place in today's telecommunications policy."<sup>1</sup> Ms.  
15 Londerholm and the Panel witnesses support that argument based on the alleged  
16 primacy of local service. The Panel witnesses further argue that the FCC has held  
17 that loop cost should be recovered solely from end-users. The logical conclusion  
18 of these premises, that the loop cost should be assigned 100% to local service, is  
19 that the local rate should be increased when that rate is below the sum of the total  
20 cost of using the network and the fixed loop costs. Moreover, Ms. Londerholm,  
21 the Panel witnesses and Mr. Price assert that I believe that the residential rates

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<sup>1</sup>Panel Witnesses, Rebuttal Testimony, page 17, lines 2-3.

1 should be no higher than the incremental cost of service, and therefore, that I have  
2 not even assigned any of the joint and common cost of the loop to residential  
3 customers. They believe that it is impossible for a carrier to be financially viable  
4 if zero joint and common costs are allocated to residential customers.

5 **Q: Do you agree with the assertion that local rates should be equal to the**  
6 **incremental cost of service?**

7 **A:** No. As I discuss further below, local residential rates are generally greater than  
8 the incremental cost of service, thus proving that local residential rates are not  
9 being subsidized by access revenue.

10 **Q: What do you mean by the primacy of local service?**

11 **A:** Primacy of local service refers either to the fact that local service was offered first  
12 in a historical sense or to the fact that it is the primary service that customers  
13 want. For example, the Panel witnesses state “Local loops were an indispensable  
14 part of local service before telephone companies even offered long-distance  
15 service.”<sup>2</sup> In addition, Ms. Londerholm states that “when a customer contacts  
16 Embarq for service it is to establish basic local exchange service. Embarq builds  
17 loops to provide basic local exchange service. Therefore the cost causation to  
18 Embarq for the loop is basic exchange service.”<sup>3</sup>

19 **Q: Do you agree that history should dictate cost of service allocation?**

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<sup>2</sup> Panel witnesses, Rebuttal Testimony, page 16, lines 12-13.

<sup>3</sup> Londerholm, Rebuttal Testimony, page 7, lines 9-11.

1    **A:**    No. The fact that one service preceded another service does not determine how a  
2            carrier is currently building or using a particular facility. It is current usage and  
3            current building practices along with the regulatory goals that determine the cost  
4            allocation process. With regard to the particular reference to the lack of long  
5            distance service, one must remember that long distance has been around for a very  
6            long time. As early as 1885, AT&T was created as the Bell System long distance  
7            carrier.<sup>4</sup> The Kingsbury Agreement required AT&T to allow non-competing  
8            carriers to use its long distance system<sup>5</sup> and the first transcontinental line was  
9            established in January 1915.<sup>6</sup> Therefore, while there may be a few loops still in  
10           service in Pennsylvania that existed prior to the beginning of long distance, the  
11           overwhelming majority of Pennsylvania loops were constructed with the  
12           understanding that the loop would provide both local and long distance service.

13   **Q:**    **Do you agree that local service is the only cost causer of the local loop?**

14   **A:**    No. If a service is directly responsible for the additional cost incurred by a  
15            carrier, then that service is considered the cost causer of that additional cost.  
16            However, the local loop is not directly related to a single service. Instead, the  
17            local loop is required to provide many services including local service, long  
18            distance service, emergency services, data services such as internet access and  
19            more recently video services. If the local loop was not being used to provide  
20            these additional services, there would be little need for additional investment, and

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<sup>4</sup> Neil Wasserman, *From Invention to Innovation*, Johns Hopkins University Press, 1985, page 18.

<sup>5</sup> Letter from N.C. Kingsbury, vice-president of AT&T, to the Attorney General of the United States, December 19, 1913.

<sup>6</sup> Steven B. Adams and Orville R. Butler, *Manufacturing the Future: A History of Western Electric*, Cambridge University Press, 1999, page 2.

1 the cost of local service would have decreased to cover maintenance and a few  
2 line extensions and replacements. However, the local loop is constantly being  
3 redesigned to provide additional services. In the early 1980's, the standards for  
4 building the local loop were revised to incorporate the carrier serving area  
5 standards in order to provide digital services such as ISDN. More recently, bridge  
6 taps and load coils are being removed, more remotes are being placed and old  
7 remotes are being upgraded in order to provide DSL service and meet Chapter 30  
8 requirements. Verizon is currently deploying its FiOS system that provides voice,  
9 data and video over a fiber local loop. Other carriers are also upgrading plant to  
10 provide video service. In fact, the very basis of this case, the Chapter 30 rate  
11 increases and broadband requirements, confirm that local service is not the only  
12 cost causer of the local loop.

13 **Q: Do you agree with Panel witnesses' description of the FCC reforms cited in**  
14 **their footnote 13 on page 16 of their Rebuttal Testimony that local loop costs**  
15 **should be directly assigned to local service?**

16 **A:** I disagree. First, the FCC never declared that all loop costs should be included in  
17 the cost of local service. The FCC has recognized since Smith v. Illinois and its  
18 first Separation Manuals in the 1940's that a portion of the local loop should be  
19 assigned to the interstate jurisdiction.<sup>7</sup> That portion is currently 25 percent.  
20 Second, while the FCC asserted that Non-traffic sensitive costs should be  
21 recovered on fixed rate basis and Traffic sensitive costs should be recovered on a

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<sup>7</sup> Smith v. Illinois Bell Telephone Co., 282 U.S. 133 (1930). See also, Richard Gabel, *Development of Separations Principles in the Telephone Industry*, Institute of Public Utilities, Michigan State University Press 1967.

1 per-minute basis, it never declared that Non-traffic sensitive costs should be  
2 recovered only from end-users. Instead, it authorized the recovery of Non-traffic  
3 sensitive cost from carriers and through the federal universal service fund along  
4 with access charges paid by end-users.

5 **Q: What was the fixed rated carrier charge that was authorized by the FCC?**

6 **A:** The FCC authorized the local exchange carriers to recover common line (loop)  
7 costs “through a flat per-line charge (the ‘primary interexchange carrier charge,’  
8 or ‘PICC’), not on the end user, but on the end user’s presubscribed interexchange  
9 carrier.”<sup>8</sup> Thus, the primary concern of the FCC was not who paid, end user or  
10 carrier, but how they paid, flat rate or per-minute. Moreover, the obligation of  
11 carriers to pay the PICC is similar to the obligation of Pennsylvania carriers to  
12 pay state common line access charges.

13 **Q: What interstate universal service programs support the portion of the local**  
14 **loop that is allocated to the federal jurisdiction?**

15 **A:** There are two interstate universal service programs that support the portion of the  
16 local loop that is allocated to the federal jurisdiction. First, the Interstate Access  
17 Support (IAS) program provides support to price cap carriers. As a result of this  
18 support, carriers receiving the support made significant reductions in the carrier  
19 common line charges and other interstate access charges. Second, the Interstate

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<sup>8</sup> In the Matter of Access Charge Reform, CC Docket No. 96-262, First Report and Order, FCC 97-158, released May 16, 1997, ¶ 55.

1 Common Line Support (ICLS) program provides support to rate of return carriers.  
2 These carriers were required to eliminate their carrier common line charge.

3 **Q: Do any Pennsylvania carriers receive support from the IAS program?**

4 **A:** Yes. Surrebuttal Exhibit RL-1S shows that Pennsylvania incumbent local  
5 exchange carriers (ILECs) are projected to receive \$20.2 million in IAS funds in  
6 2009. Of that amount, Verizon Pennsylvania and Verizon North are scheduled to  
7 receive \$13.3 million in IAS funds. Thus, in that instance, the end users of other  
8 carriers are supporting Verizon's local loops.

9 **Q: Do any AT&T ILECs receive funds from the IAS program?**

10 **A:** Yes. Surrebuttal Exhibit RL-2S shows that AT&T ILECs are projected to receive  
11 \$12.6 million in IAS funds in 2009. Thus, the end users of other carriers,  
12 including Pennsylvania end users, are supporting the local loops of AT&T ILECs.

13 **Q: Do any Pennsylvania carriers receive support from the ICLS program?**

14 **A:** Yes. Surrebuttal Exhibit RL-3S shows the Pennsylvania rate-of-return<sup>9</sup> ILECs are  
15 projected to receive \$24.8 million in ICLS funds in 2009.

16 **Q: Did you assert that the local residential rates should be equal to the**  
17 **incremental cost of service as Mr. Price and Ms. Londerholm contend?**

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<sup>9</sup> The term rate of return ILECs refers to how the carriers are regulated at the federal jurisdiction level. Rate of return carriers are supported via the ICLS funds. These funds are the difference between allowed interstate common line revenues and the interstate common line revenue requirement. See 47 C.F.R. §§ 54.901-54.904.

1 A: No. I have shown in my Direct Testimony that local residential rates are  
2 generally greater than the incremental cost of service. This showing proves that  
3 local residential rates are not being subsidized by access revenue. It also shows  
4 that residential customers of basic exchange service are making a contribution to  
5 the joint and common cost of the firms. As such, residential customers are  
6 helping to maintain the financial viability of the carriers.

7 **Q: Do you believe that local residential rates should be equal to the incremental**  
8 **cost of service?**

9 A: No. It is my opinion that local residential rates should be equal to the incremental  
10 cost of service plus a contribution to partially recover the joint and common cost  
11 of service. This same basic principle should be applied to all services using the  
12 local loop including access charges paid by other carriers. Thus, I agree with the  
13 other witnesses that a carrier would not be financially viable if the rates charged  
14 for all of its services were equal to the incremental cost of service.

15 **Q: How should the Commission determine the amount of contribution to joint**  
16 **and common loop costs that should be recovered from residential customers?**

17 A: A contribution to joint and common cost equals the amount paid by customers  
18 above and beyond the incremental cost of service. Accordingly, in this  
19 proceeding, that contribution equals the difference between the just and  
20 reasonable rate based on the principles of comparability and affordability and the  
21 incremental cost of service based on the principle that the loop is not part of the  
22 incremental cost of service.

1 **Q: Please summarize your points in this section of your testimony.**

2 **A:** First, I supported my position that the loop is part of the joint and common cost of  
3 the network and cannot be directly assigned to any service, especially not to basic  
4 local exchange service. My position is consistent with Chairman Cawley's recent  
5 motion that "the Commission has consistently adopted the position that the fixed  
6 costs associated with the loop plant and facilities of ILECs should be allocated  
7 and recovered by services that utilize the local loop, including the ILECs'  
8 intrastate carrier access services."<sup>10</sup> Second, I have refuted the claim that the FCC  
9 believes that all loop costs should be recovered only from end users. Third, I  
10 agree with the other witnesses that the residential rate should be above the  
11 incremental cost of service and that residential customers should contribute to the  
12 recovery of loop costs. However, that contribution must be limited by the fact  
13 that the residential basic service rate should be no higher than the just and  
14 reasonable benchmark.

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<sup>10</sup> Motion of Vice Chairman James H. Cawley, Docket Nos. C-20077332 and C-20066987 (August 7, 2008) at 3. In addition, in affirming the Commission's Global Order in its entirety, the Commonwealth Court also determined that "users of all services, including access, should share in the payment of total network costs, with the cost of the local loop included as an element of that total network." Bell Atlantic Pennsylvania v. Pa.P.U.C., 763 A.2d 440, 479 (Pa. Cmwlth 2000), subsequent history omitted. Similarly, this Commission has also stated: "We reaffirm our findings in our September 5, 1995 Order at Docket No. L-00950105 that the local loop is a "joint cost", not a direct cost of providing only those services included in the definition of B[asic] U[niversal] S[ervice]. It is used for a variety of services other than BUS and must be allocated among the services which utilize it." Universal Service Investigation, January 28, 1997 Order.

1 **The FCC's Synthesis Model**

2 **Q: Please summarize the Rebuttal Testimony of the Panel witnesses, Mr. Price**  
3 **and Ms. Londerholm with regard to the use of the FCC's Synthesis Model.**

4 **A:** Mr. Price asserts that the FCC developed its Synthesis Model only as tool to  
5 compare costs across states and not to evaluate the absolute level of cost for any  
6 specific carrier. He also states that the FCC has only used the model for non-rural  
7 carriers and thus, it should not be used to estimate the costs of the Rural ILECs.  
8 The Panel witnesses also argue that the model was designed for non-rural carriers  
9 and it is not appropriate to use the model to estimate the costs for rural carriers.  
10 The Panel witnesses assert that, in general, forward-looking costs are expected to  
11 be lower than embedded cost. Upon showing that the Rural ILECs' embedded  
12 costs are lower than the forward-looking costs, the Panel witnesses assert that the  
13 forward-looking results are way off base. Ms. Londerholm asserts that because  
14 the FCC's Synthesis model is 10 years old, it has not incorporated recent cost  
15 modeling advances and it still uses out-of-date input values. She does admit,  
16 however, that "the results of his cost model work can be used for a basic  
17 understanding of costs."<sup>11</sup> Yet she warns that "both the methodology and results  
18 of Dr. Loube's study give only a cursory understanding of the costs."<sup>12</sup>

19 **Q. For what purpose and how did you use the model?**

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<sup>11</sup> Londerholm, Rebuttal Testimony, page 6, lines 3-4.

<sup>12</sup> Id., lines 4-5.

1 A. The purpose of estimating Rural ILEC cost with the model was to examine the  
2 general relationship between loop cost and total cost and to understand whether  
3 those costs varied by density. I attempted to run the model for every Rural ILEC.  
4 However, because of a large number of data problems, my analysis was restricted  
5 to Embarq and Armstrong. The most significant change that I made to the model  
6 was to determine customer locations based on street address and geo-coded  
7 locations. This type of information is a significant improvement over the  
8 information that was available to the FCC and the Rural Task Force.<sup>13</sup> The early  
9 customer location data included many addresses based on rural route numbers and  
10 post office box numbers. That type of information could not be successfully geo-  
11 coded. Instead, the FCC and the Rural Task Force had to use a number of  
12 assumptions and algorithms to locate a portion of the customers in rural areas.

13 **Q: Do you agree that the Synthesis Model was designed solely to be used for**  
14 **estimating the non-rural carrier cost?**

15 A: No. The Synthesis Model was designed to estimate the cost of all carriers. It can  
16 estimate the cost of Rural ILECs because there is no model design difference  
17 between estimating the cost at the wire center level for a Rural ILEC wire center  
18 and estimating the cost at the wire center level for a non-rural ILEC rural wire  
19 center. It is important to note that “When the Commission [FCC] determined in  
20 May 1997 that universal service support should be based on the forward-looking

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<sup>13</sup> The Rural Task Force contained representatives from incumbent rural carriers local exchange carriers, rural competitive local exchange carriers, consumers advocates, interexchange carriers, insular areas, state regulation, and other non-LEC participants. See, Federal-State Joint Board on Universal Service Announces the Creation of a Rural Task Force, CC Docket No. 96-45, Public Notices, FCC 98J-1, (Jt. Bd. 1998).

1 economic cost of constructing and operating the network facilities and functions  
2 used to provide the supported services, it is also determined that rural carriers  
3 would shift gradually to a forward-looking economic cost methodology.”<sup>14</sup>

4 **Q: Did the Rural Task Force assert that the model’s design was incorrect?**

5 **A:** No. The Task Force Reports admits that it “did not explore or analyze the  
6 network design, but accepted that the model reasonably meets the forward-  
7 looking least cost design criterion.”<sup>15</sup> Moreover, the task force “did not attempt to  
8 conduct a review of the program logic used in developing the loop cost.”<sup>16</sup> Thus,  
9 the Rural Task Force concerns are not with the design of the model.

10 **Q: What were the concerns of the Rural Task Force?**

11 **A:** The concerns of the Rural Task Force were with the results of the method for  
12 providing support and with the outputs of the model. The method of providing  
13 support associated with the non-rural model was based on the difference between  
14 the state average cost and the national average cost. If the state average cost was  
15 above 135 percent of the national average, then all carriers in the state were  
16 eligible for support and if the state average cost was below 135 percent of the  
17 national average, then no carriers in the state would be eligible for support. This  
18 criterion is different for the embedded loop support program, where the carrier’s  
19 cost is compared to the national average cost to determine support eligibility. The

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<sup>14</sup> In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Fourteenth Report and Order, FCC 01-157, released May 23, 2001, ¶ 4.

<sup>15</sup> Rural Task Force, A Review of the FCC’s non-rural universal service fund method and the synthesis model for rural telephone companies, Rural Task Force White Paper 4, September, 2000, page 23.

<sup>16</sup> Id., page 26.

1 result of the change in eligibility criterion could be dramatic for an individual  
2 carrier. For example, if the state average is \$25 per line and the national average  
3 is \$20 per line, then no carrier in that state would receive support because 135  
4 percent of the national average is \$27 line. Thus, a rural carrier that may have a  
5 cost of \$90 per line would not be eligible for support. The Rural Task Force  
6 estimated that this change in method would reduce the support to rural carriers by  
7 \$1.102 billion from \$1.553 billion to \$451 million.<sup>17</sup> The Rural Task Force also  
8 stated that outputs of the model did not appear reasonable. The major complaint  
9 with the outputs is that the outputs do not match actual attributes of the rural  
10 carriers.<sup>18</sup>

11 **Q: Did you attempt to correct the model for out-of-date inputs?**

12 **A:** Yes. I used current cost of loop inputs, current wire center locations and current  
13 customer locations as provided by the carriers. I did not update the switching  
14 inputs because these inputs were originally based on Rural Utility Service<sup>19</sup> and  
15 FCC data, and because it has been my experience, from reviewing proprietary  
16 central office cost information in Unbundled Network Element proceedings, that  
17 there has been no upward trend in the price of central office equipment.

18 **Q: Do you agree that the Synthesis Model should only be used to compare the**  
19 **cost of service among carriers and not to establish absolute cost levels?**

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<sup>17</sup> Id., page 15.

<sup>18</sup> Id., pages 9-10.

<sup>19</sup> The Rural Utility Service is part of the United States Department of Agriculture.

1 A: No. On a number of occasions the Synthesis Model (SM) has been used to  
2 estimate absolute cost levels. In particular, in the Virginia arbitration  
3 proceeding,<sup>20</sup> AT&T proposed and the FCC adopted the use of a modified  
4 Synthesis Model (MSM) for the determination of Verizon Virginia Unbundled  
5 Network Element rates. In adopting the MSM, the FCC noted:

6 In most respects, including in particular the model's central  
7 design algorithms, the MSM remains the same model as that adopted  
8 by the Commission in the universal service proceeding. For  
9 example, just as the original SM begins designing outside plant by  
10 assuming the existing incumbent wire center locations and by using  
11 road surrogate data to locate customers, so does the MSM. Both  
12 models then use algorithms to determine efficient outside plant  
13 routes to connect the customer locations to the wire center locations.  
14 Although the MSM is substantially the same in construct as the  
15 underlying SM, AT&T/WorldCom made certain platform and cost  
16 inputs changes to the loop module, designed, they assert, to improve  
17 the model. The switching and transport module of the MSM, and the  
18 calculations contained therein, remain the same as in the SM.<sup>21</sup>

19  
20 **Q: Do you agree that the forward-looking costs should be lower than embedded**  
21 **cost?**

22 A: No. Forward-looking cost is based on the latest technology and the current prices  
23 of inputs. Embedded cost is based on the mix of technology in use and price of  
24 inputs at the date of purchase. Forward-looking cost will, in general, be lower  
25 than embedded cost if the impact of technological change reduces the cost of

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<sup>20</sup> The Virginia arbitration proceeding refers to the proceeding in which the FCC established Unbundled Network Rates for Verizon Virginia. In the Matter of Petition of WorldCom, Inc., Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration, Memorandum Opinion and Order, DA 03-2738, rel. August 29, 2003, ¶¶37-57 (“Virginia Arbitration Order”).

<sup>21</sup> Id., ¶45, original footnotes removed.

1 service faster than the impact of inflation on input prices increases the cost of  
2 service. With regard to switching and inter-office transport, functions dominated  
3 by technological change, forward-looking costs are usually much lower than  
4 embedded cost. However, with regard to loop costs, this function may be  
5 dominated by structure costs such as digging trenches and placing poles.  
6 Structure costs, generally, increase with inflation and are a higher percentage of  
7 total cost in rural areas. Thus, for rural loop costs, embedded cost may be higher  
8 than forward-looking cost. In addition, embedded cost is based on the actual  
9 depreciated rate base. For carriers that have not experienced growth, it is possible  
10 that accumulated depreciation is relatively high and thus, the rate base is small.  
11 On the other hand, a forward-looking model cost estimate is not impacted by such  
12 an investment cycle. Therefore, even if both models generated the same gross  
13 investment, if the embedded rate base has been significantly depreciated, the  
14 forward-looking cost estimate would be higher than the embedded estimate.

15 **Q: Do you agree that because the Synthesis Model is 10 years old that your**  
16 **results are misleading?**

17 **A:** No. First, I updated many of the data inputs. Second, with regard to model  
18 procedures, the Synthesis Model groups customers using a clustering algorithm  
19 that is more advanced than recent versions of the Verizon and Embarq proprietary  
20 loop models.

21 **Q: Do you agree that your cost study work can be used for a basic**  
22 **understanding of cost in this proceeding?**

1    **A:**    Yes. The purpose of using the Synthesis Model was to show that loop costs are a  
2            very high percentage of the total cost of service, and that loop cost increases as  
3            density decreases. These general facts were confirmed by my analysis. Thus,  
4            when loop costs are counted as joint and common costs, the residential rates are  
5            sufficient to cover the incremental cost of residential service. These basic  
6            relationships are confirmed not only by my analysis in this proceeding but are  
7            also confirmed by the FCC public data and by the Rural Task Force data.<sup>22</sup>

8    **Q:**    **Please summarize your points from this section of your testimony.**

9    **A:**    It is appropriate to use the Synthesis Model to determine a basic understanding of  
10           the costs of Rural ILECs in this case. Data sources were updated to include data  
11           from specific carriers. I sponsored the Synthesis Model in an attempt to address  
12           the Commission’s request to provide an economic cost study to support my  
13           position. No other party provided an economic cost study, even though the  
14           Synthesis Model is available to all parties and Verizon, Embarq and AT&T have  
15           their own economic models. The results of running the model confirm the general  
16           understanding that loop costs are a very high percentage of the total cost of  
17           service, and that loop cost increases as density decreases.

18  
19  
20

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<sup>22</sup> The Rural Task Force data was prepared by AT&T.

1 **Competition**

2 **Q: Please summarize the Panel witnesses' rebuttal testimony with regard to the**  
3 **relationship between competition, just and reasonable rates and universal**  
4 **service.**

5 **A:** The Panel witnesses believe that the establishment of just and reasonable rates is a  
6 relic of the monopoly era. They assert that now that competition exists, there is  
7 no reason to establish just and reasonable rates or to use universal service funds to  
8 support such rates.

9 **Q: Do you agree that competition has eliminated the need to establish just and**  
10 **reasonable rates?**

11 **A:** No. First and foremost, the Public Utility Code requires rates to be just and  
12 reasonable. Nothing in Chapter 30 has changed that, and I am sure OCA counsel  
13 will address that issue in brief. Furthermore, while markets are now open to  
14 competition, it has not been shown that rural telephone markets display ubiquitous  
15 and effective competition in all markets. This is especially true for the basic  
16 exchange service market. There is no evidence presented in this proceeding that  
17 any alternative provider is offering a stand-alone basic service. Individuals  
18 purchasing that service have only one provider, the ILEC. Moreover, in the rural  
19 market for bundles of service that may include basic service, there are generally  
20 only two providers of that service, the cable provider and the ILEC. In addition,  
21 there is, at most, only a small percentage of customers choosing the wireless  
22 bundle over a wireline bundle. Moreover, the rates for those alternative services

1 are generally significantly higher than basic service. Thus, competition cannot be  
2 relied on to maintain affordable basic local service at a just and reasonable rate.

3 **Q: In light of these limitations on competition for basic local service, is it still**  
4 **necessary to maintain or enhance universal service funds in the presence of a**  
5 **market open to competition?**

6 **A:** Yes. Competitive markets often exhibit market failures. Those failures include a  
7 failure to provide discounted rates to low-income households, the failure to invest  
8 in broadband facilities in low density areas, and the failure to maintain affordable  
9 rates for consumers in general. Thus, in order to fulfill its policy obligations under  
10 both state and federal law, I have recommended that the Commission enhance the  
11 Pa USF even in the presence of markets that are open to competition.

12 .

### 13 **Universal Service Requirements**

14 **Q: Please summarize Mr. Price's arguments regarding the need for continuing**  
15 **and increasing the Pa USF.**

16 **A:** Mr. Price asserts that the fund was a "temporary mechanism that the PUC adopted  
17 nearly 10 years ago to replace the revenue from a discrete set of access and toll  
18 rate reductions to help the RLECs transition to a competitive market."<sup>23</sup> He  
19 emphasizes that the proposed change to the fund will provide an ever increasing  
20 burden on contributors. Further, he argues that the USF proposal "would divorce

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<sup>23</sup> Price, Rebuttal Testimony, page 5, lines 3 to 5.

1 the RLECs' annual exercise of their revenue increase from the disciplining effect  
2 of the market."<sup>24</sup> Finally, he argues that there is no need for additional funds given  
3 that Rural ILECs were required to complete their broadband build-out by  
4 December 31, 2008.

5 **Q: Do you agree that the Pa USF was a temporary measure?**

6 **A:** No. The Commission has an obligation to maintain affordable and just and  
7 reasonable rates. This obligation is part of the universal service mandate that the  
8 FCC and this Commission operate under. Both the FCC and this Commission are  
9 allowed to establish universal service funds to meet that obligation. Every fund  
10 obligates either other carriers or customers of other carriers to support a specified  
11 group of carriers or customers. The Commission has chosen to use the Pa USF as  
12 policy tool to fulfill that obligation. It should not be a surprise to any witness or  
13 party in this case that support funds flow from one group of carriers to another  
14 group. That obligation is part of the policy goals of the Pennsylvania legislation  
15 and is consistent with decades of federal and state efforts to increase the number  
16 of consumers who have access to affordable basic local telephone service. In  
17 contrast, the arguments of those who would eliminate the Pa USF in this  
18 proceeding could have the effect of reducing the number of consumers who have  
19 access to affordable basic local telephone service.

20 In addition, while the Pa USF was created by the Global Order, it was continued  
21 by the approval of unanimous settlement in 2003. It is my understanding that not

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<sup>24</sup> Price, Rebuttal Testimony, page 8, lines 1-3.

1           only the Rural Carriers and OCA but also Verizon and AT&T were parties to that  
2           stipulation. The Order approving the settlement reads “Our Global Order calls for  
3           the Pa USF to expire on December 31, 2003, *subject to the provisions of an*  
4           *access charge investigation*. However, the Pa USF regulations codified at 52 Pa.  
5           Code §§ 63.161-63.171 do not have a sunset provision. The Joint Proposal calls  
6           for a continuation of the Pa USF beyond December 31, 2003, *until a further*  
7           *Commission Ruling determines otherwise.*”<sup>25</sup> It is my understanding based on  
8           the advice from Counsel that the quoted language confirms that the Pa USF is not  
9           temporary and that the current proceeding is, in part, a proceeding that will  
10          address the future obligations of the Fund. Furthermore, to the extent that the  
11          current Pa USF is a transitional tool, it is a transition to another universal service  
12          device, not a transition to no universal service support at all.

13   **Q:    Do you agree that the sole purpose of the Fund is to offset access and toll rate**  
14    **reductions?**

15   **A:**    No. While initially Pa USF has been used in part to offset reductions in access  
16          rates, it is my understanding that the Fund is not limited solely to that obligation.  
17          Instead, the purpose of the Fund is to maintain reasonable and affordable basic  
18          local rates. If it is necessary to increase the size of the fund in order to maintain  
19          reasonable and affordable basic local rates, such an additional obligation is not  
20          prohibited.

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<sup>25</sup> Access Charge Investigation per Global Order of September 30, 1999, Docket Nos. M-00021596, P-00991648, P-00991649, Order, July 10, 2003, page 12 (emphasis added).

1 **Q: Do you agree that your proposed change will lead to an ever increasing Pa**  
2 **USF?**

3 **A:** I agree that the proposed change may lead to an increase in the support provided  
4 by the Pa USF. However, that increase is warranted and the annual increases  
5 should become smaller over time. The increase is warranted because it is  
6 providing revenue required to maintain just and reasonable rates. The increase  
7 will become smaller over time because of mitigating or offsetting trends. Under  
8 the proposal, the benchmark will increase once Verizon's weighted average  
9 residential rate exceeds \$18.00. As the benchmark increases, basic residential  
10 rates may be increased to pay Chapter 30 revenue increases and the impact on the  
11 Pa USF will decrease as a result.

12 **Q: Should a Universal Service Fund proposal be subject to market discipline?**

13 **A:** No. Universal service funds are designed to implement regulatory goals.  
14 Universal service funds are not designed to implement market activity. In fact, in  
15 many cases, universal service funds correct market failures. At the same time the  
16 funds should not lead to waste, fraud or abuse. Thus, it is imperative that the fund  
17 solve an immediate problem in an efficient manner. In this case, the problem is  
18 that rural residential rates would increase above a just and reasonable level if the  
19 Commission does not enhance the current Pa USF. The proposal is efficient  
20 because it requires a carrier to increase its rates to the benchmark before that  
21 carrier can obtain any additional support.

1 **Q: Did you argue, as Mr. Price suggests, that the Pa USF should be enhanced on**  
2 **a “need basis”?**

3 **A:** No. I noted that the Chapter 30 broadband obligation is a non-symmetric  
4 obligation placed only on ILECs. I also noted that the impact of that obligation  
5 does not stop when the build-out is complete because carriers will have to pay a  
6 return on capital and recover the depreciation on the additional plant in the future.  
7 Because of this obligation, enhancement of the Pa USF would not harm  
8 competition but instead may repair any harm done to competition associated with  
9 the non-symmetric broadband obligation because it will bring the rural ILECs  
10 back to a level playing field with companies who do not have this obligation in  
11 Pennsylvania. My recommended purpose for enhancing the fund is to allow a  
12 carrier an opportunity to recover allowed revenue increases in instances when the  
13 Commission has disallowed access rate increases and determines that basic  
14 service rate increases established by an ILECs’ Chapter 30 plan need to be  
15 moderated to conform with a just and reasonable standard.<sup>26</sup>

16

### 17 **Comparable Rates**

18 **Q: Please summarize Mr. Price’s and Mr. Buckalew’s rebuttal testimony with**  
19 **regard to your proposed comparable rate?**

---

<sup>26</sup> Loube, Direct Testimony, pages 27-30.

1 A: First, Mr. Price asserts that the Verizon rate should not be used as a comparable  
2 rate because Verizon's residential rate did not increase with inflation from 1993  
3 through 2004. Second, Mr. Price clarified Verizon's current tariffs. Third, he  
4 believes, given the Verizon proposed rates that will be effective March 1, 2009,  
5 that I would support a rate benchmark of \$19.27. Finally, he disagrees with my  
6 proposed 120% standard because it is inconsistent with the FCC's use of a  
7 comparability standard, noting that the current FCC factor would be 143%. Mr.  
8 Buckalew asserts that my recommendation is not reasonable because he believes  
9 that it is arbitrary.

10 **Q: Do you agree that the fact that Verizon's rate did not increase with inflation**  
11 **from 1993 through 2004 disqualifies that rate as a comparable rate to be**  
12 **used in determining the rural benchmark in Pennsylvania?**

13 A: No. Verizon's rate is the standard that should be used in Pennsylvania. The  
14 Verizon rate is the rate paid by more residential customers than any other rate in  
15 Pennsylvania. The fact that it did not increase with inflation does not matter.  
16 Inflation is an average of many prices. Prices of some services and commodities  
17 increase faster than inflation, others increase slower than inflation and still other  
18 prices decrease. Therefore, there is no a priori reason to assert that the residential  
19 rate should increase with inflation. During the 1993 to 2004 period, the rate of  
20 change in Verizon's residential basic rate was determined by legislative and  
21 regulatory actions. Those actions appear to be based on a relationship between  
22 inflation and an offset that was consistent with other price cap mechanisms.

1           Moreover, Verizon has not placed into the record of this proceeding any evidence  
2           that supports an alternative reasonable price for the period 1993 through 2004.

3   **Q:   Did Mr. Price clarify Verizon's residential rates?**

4   **A:**   Yes. Mr. Price's rebuttal exhibit 4 provides Verizon's residential rates as of  
5           January 15, 2009 and the rates that will be effective as of March 1, 2009.  
6           However, he did not provide the number of customers associated with each cell  
7           and usage rate. Therefore, it is not possible to determine the precise current  
8           weighted average Verizon residential rate based on that information.

9   **Q:   Is Mr. Price correct that, given the March 1, 2009 rates, you would support**  
10          **residential rate benchmark of \$19.27?**

11   **A:**   No. Mr. Price relied on the residential rate in Cell 1 only to determine his \$19.27  
12          estimate. However, I recommended that the benchmark be the weighted average  
13          of the rates in all four Verizon rate cells. My recommendation relies on the fact  
14          that the relationship between Verizon's rural rates and the rates of the Rural  
15          ILECs should also affect the comparability standard.

16   **Q:   Given the March 1, 2009 rates, what residential comparability rate**  
17          **benchmark would you recommend?**

18   **A:**   I calculated that the comparability rate benchmark to be \$16.40, which is 120% of  
19          the appropriate Verizon weighted average rate of \$13.66. Surrebuttal Exhibit RL-  
20          4S shows the calculation of the weighted average rate and the comparability rate  
21          benchmark. Because Verizon did not update its line counts, I used the line counts

1 previously provided to weight the rates across Cells. Because the comparability  
2 rate benchmark, \$16.40, is less than the current benchmark, I continue to  
3 recommend that the Commission retain the current \$18.00 residential benchmark.

4 **Q: Is it necessary to adopt the same comparability factor as the FCC in order to**  
5 **be consistent with the general principle of comparability?**

6 **A:** No. States are not required to adopt exactly the same factor as the FCC but  
7 should meet the specific needs of their particular state. As noted in my direct  
8 testimony, Maine adopted the Verizon rate without an additive factor. Other  
9 states have adopted other guidelines that meet the needs of their particular state.  
10 My proposed factor of 120 percent is similar to the program of the other states. I  
11 also note that for rural carriers the FCC starts providing support when a carrier's  
12 cost exceeds 115% of the national average loop cost.

13 **Q: Is there any reason not to adopt the FCC's comparability standard?**

14 **A:** Yes. The United States Court of Appeals for the 10<sup>th</sup> Circuit found that the FCC  
15 had not sufficiently supported its reasoning for adopting its two standard  
16 deviations from the national average proposal.<sup>27</sup> The Appeals Court decision was  
17 released approximately four years ago. The FCC has not answered the Court's  
18 questions in a remand order. In light of that delay, Qwest Corporation, Maine  
19 Public Utilities Commission, Vermont Public Service Board and Wyoming Public  
20 Service Commission have filed a petition for a writ of mandamus with the Court

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<sup>27</sup> Qwest Communications International v. FCC, 398 F.3d 1222 (10<sup>th</sup> Cir. 2005).

1 in an effort to have the Court put an end to the FCC's delay.<sup>28</sup> Thus, I  
2 recommend that this Commission should not adopt the specific FCC proposal  
3 because the FCC has not been able to establish that its proposal is reasonable.

4 **Q: Is Mr. Buckalew correct in describing your recommended benchmark?**

5 **A:** No. My benchmark is based on a reasonable consideration of the basic rates paid  
6 by Pennsylvania consumers.

7 **Q: How would Mr. Buckalew adjust your recommendation?**

8 **A:** Mr. Buckalew provides two ways to change my recommendation. First, he would  
9 compare the Rural ILEC rates to the rates offered by competitors. Second, he  
10 would adjust the benchmark by adding the basic rate and the federal subscriber  
11 line charge (SLC) and subtracting Federal loop support.

12 **Q: Do you agree with Mr. Buckalew that rates for basic service offered by**  
13 **competitors should be compared the Rural ILEC basic service rate?**

14 **A:** No. It is not possible to compare these rates because rival providers do not  
15 provide stand-alone basic service exchange service. Thus, there is no alternative  
16 rate that can be used to perform Mr. Buckalew's suggested comparison.

17 **Q: Do you agree with Mr. Buckalew that the Commission should consider the**  
18 **SLC and federal universal service support?**

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<sup>28</sup> In the United States Court of Appeals for the Tenth Circuit, In re Qwest Corporation, Maine Public Utilities Commission, Vermont Public Service Board, and Wyoming Public Service Commission, Petitioners, Petition for a Writ of Mandamus to the Federal Communications Commission, January 14, 2009.

1    **A:**    No.  The purpose of this proceeding is to establish a just and reasonable basic  
2            local exchange rate.  The SLC and federal universal service support are beyond  
3            the scope of this Commission’s authority and could vary significantly depending  
4            on the carrier and the FCC’s future findings.  Because the FCC could change both  
5            the SLC and its support payments, adding these items to the calculation add an  
6            element of arbitrariness to the process and decrease the reasonableness of my  
7            comparability recommendation.  I also note that OCA witness Roger Colton  
8            discusses the affordability constraint considerations regarding the SLC and the  
9            federal universal service support.

10   **Q:**    **Does this complete your surrebuttal testimony at this time?**

11   **A:**    Yes it does.

12   **109003**

Surrebuttal Exhibit RL-1S

State	SAC	Study Area Name	Rural	Type	IAS	CERT	Access Lines	Monthly Support Amounts				Annual Total Support Amounts
								Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	
PA	170169	VERIZON NORTH-PA	N	C	Y	Y	410,923	\$ 255,498	\$ 255,498	\$ 255,498	\$ 255,498	\$ 3,065,976
PA	175000	VERIZON PENNSYLVANIA	N	C	Y	Y	3,696,543	\$ 695,713	\$ 695,713	\$ 695,713	\$ 695,713	\$ 8,348,556
PA	170149	FRONTIER-BREEZEWOOD	R	C	Y	Y	3,947	\$ 6,806	\$ 6,806	\$ 6,806	\$ 6,806	\$ 81,672
PA	170152	FRONTIER-CANTON	R	C	Y	Y	3,762	\$ 1,795	\$ 1,795	\$ 1,795	\$ 1,795	\$ 21,540
PA	170168	FRONTIER-PA	R	C	Y	Y	22,678	\$ -	\$ -	\$ -	\$ -	\$ -
PA	170170	VERIZON N-PA(CONTEL)	R	C	Y	Y	47,768	\$ 158,737	\$ 158,737	\$ 158,737	\$ 158,737	\$ 1,904,844
PA	170178	FRONTIER-LAKEWOOD	R	C	Y	Y	1,391	\$ -	\$ -	\$ -	\$ -	\$ -
PA	170194	FRONTIER-OSWAYO RIVR	R	C	Y	Y	2,072	\$ 4,416	\$ 4,416	\$ 4,416	\$ 4,416	\$ 52,992
PA	170201	VERIZON N-PA(QUAKER)	R	C	Y	Y	42,935	\$ 150,141	\$ 150,141	\$ 150,141	\$ 150,141	\$ 1,801,692
PA	170209	EMBARQ (PA)	R	C	Y	Y	296,418	\$ 407,857	\$ 407,857	\$ 407,857	\$ 407,857	\$ 4,894,284
PA	179001	VERIZON BUSINESS GLOBAL LLC	N	X	Y	Y	38,896	\$ 10,518	\$ 10,518	\$ 10,518	\$ 10,518	\$ 126,216
PA	179009	D&E SYSTEMS, INC.	N	X	Y	Y	43,339	\$ 447	\$ 447	\$ 447	\$ 447	\$ 5,364
PA	179009	D&E SYSTEMS, INC.	R	X	Y	Y	1,333	\$ 2,191	\$ 2,191	\$ 2,191	\$ 2,191	\$ 26,292
		Verizon ILEC Total										\$ 13,319,376
		PA ILEC Total										\$ 20,171,556
		PA Total										\$ 20,329,428
		US ILEC Total										\$ 474,401,304
		US Total										\$ 667,642,596

source: USAC FCC Filing, HC 12 -Interstate Access Support, Projected by State by Study Area - 1Q2009

Surrebuttal Exhibit RL-2S

SAC	Study Area	IAS
135200	SOUTHERN NEW ENGLAND	-
305150	OHIO BELL TEL CO	-
315090	MICHIGAN BELL TEL CO	-
325080	INDIANA BELL TEL CO	-
335220	WISCONSIN BELL	-
345070	ILLINOIS BELL TEL CO	-
405211	SOUTHWESTERN BELL-AR	76,980
415214	SOUTHWESTERN BELL-KS	496,296
425213	SOUTHWESTERN BELL-MO	-
435215	SOUTHWESTERN BELL-OK	675,528
445216	SOUTHWESTERN BELL-TX	-
545170	PACIFIC BELL	7,794,216
555173	NEVADA BELL	3,537,792
	total	12,580,812

source: USAC FCC Filing, HC 12 -Interstate Access Support, Projected by State by Study Area - 1Q2009

Surrebuttal Exhibit RL-3S

State	SAC	Study Area Name	Rural	Type	ICLS	Certified	Num Loops	Monthly Support Amount				Annual Total Support Amount
								Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	
PA	170145	BENTLEYVILLE TEL CO	R	A	Y	Y	2,735	\$ 15,260	\$ 15,260	\$ 15,260	\$ 15,260	\$ 183,120
PA	170151	BUFFALO VALLEY TEL	R	A	Y	Y	19,025	\$ 59,851	\$ 59,851	\$ 59,851	\$ 59,851	\$ 718,212
PA	170156	CITIZENS - KECKSBURG	R	A	Y	Y	4,559	\$ 25,231	\$ 25,231	\$ 25,231	\$ 25,231	\$ 302,772
PA	170161	COMMONWEALTH TEL CO	R	A	Y	Y	271,342	\$ 986,272	\$ 986,272	\$ 986,272	\$ 986,272	\$ 11,835,264
PA	170162	THE CONESTOGA TEL	R	A	Y	Y	49,979	\$ 148,072	\$ 148,072	\$ 148,072	\$ 148,072	\$ 1,776,864
PA	170165	DENVER & EPHRATA	R	A	Y	Y	51,713	\$ 119,300	\$ 119,300	\$ 119,300	\$ 119,300	\$ 1,431,600
PA	170171	HICKORY TEL CO	R	A	Y	Y	1,310	\$ 10,477	\$ 10,477	\$ 10,477	\$ 10,477	\$ 125,724
PA	170175	IRONTON TEL CO	R	A	Y	Y	5,013	\$ 26,855	\$ 26,855	\$ 26,855	\$ 26,855	\$ 322,260
PA	170176	WINDSTREAM PA	R	C	Y	Y	199,747	\$ 119,583	\$ 119,583	\$ 119,583	\$ 119,583	\$ 1,434,996
PA	170177	LACKAWAXEN TELECOM	R	C	Y	Y	3,628	\$ 10,223	\$ 10,223	\$ 10,223	\$ 10,223	\$ 122,676
PA	170179	LAUREL HIGHLAND TEL	R	A	Y	Y	5,513	\$ 30,838	\$ 30,838	\$ 30,838	\$ 30,838	\$ 370,056
PA	170183	MAHANoy & MAHANTANGO	R	C	Y	Y	3,753	\$ 13,703	\$ 13,703	\$ 13,703	\$ 13,703	\$ 164,436
PA	170185	MARIANNA - SCENERY	R	C	Y	Y	2,278	\$ 20,051	\$ 20,051	\$ 20,051	\$ 20,051	\$ 240,612
PA	170189	ARMSTRONG TEL CO-PA	R	C	Y	Y	1,492	\$ 40,755	\$ 40,755	\$ 40,755	\$ 40,755	\$ 489,060
PA	170191	NORTH EASTERN PA TEL	R	A	Y	Y	11,393	\$ 65,111	\$ 65,111	\$ 65,111	\$ 65,111	\$ 781,332
PA	170192	NORTH PENN TEL CO	R	C	Y	Y	5,082	\$ 68,448	\$ 68,448	\$ 68,448	\$ 68,448	\$ 821,376
PA	170193	NORTH PITTSBURGH TEL	R	A	Y	Y	59,278	\$ 172,577	\$ 172,577	\$ 172,577	\$ 172,577	\$ 2,070,924
PA	170195	ARMSTRONG TEL NORTH	R	A	Y	Y	496	\$ 5,970	\$ 5,970	\$ 5,970	\$ 5,970	\$ 71,640
PA	170196	PALMERTON TEL CO	R	A	Y	Y	11,698	\$ 55,228	\$ 55,228	\$ 55,228	\$ 55,228	\$ 662,736
PA	170197	PENNSYLVANIA TEL CO	R	A	Y	Y	1,349	\$ 9,131	\$ 9,131	\$ 9,131	\$ 9,131	\$ 109,572
PA	170200	PYMATUNING IND TEL	R	A	Y	Y	2,189	\$ 19,641	\$ 19,641	\$ 19,641	\$ 19,641	\$ 235,692
PA	170204	SOUTH CANAAN TEL CO	R	A	Y	Y	2,677	\$ 18,231	\$ 18,231	\$ 18,231	\$ 18,231	\$ 218,772
PA	170206	SUGAR VALLEY TEL CO	R	C	Y	Y	1,056	\$ 8,439	\$ 8,439	\$ 8,439	\$ 8,439	\$ 101,268
PA	170210	VENUS TEL CORP	R	A	Y	Y	1,288	\$ 9,300	\$ 9,300	\$ 9,300	\$ 9,300	\$ 111,600
PA	170215	YUKON - WALTZ TEL CO	R	A	Y	Y	862	\$ 8,253	\$ 8,253	\$ 8,253	\$ 8,253	\$ 99,036
PA	170277	WEST SIDE TEL CO-PA	R	A	Y	Y	381	\$ 1,360	\$ 1,360	\$ 1,360	\$ 1,360	\$ 16,320
PA	179004	NPCR, INC.	R	X	Y	Y	26,558	\$ 82,633	\$ 82,633	\$ 82,633	\$ 82,633	\$ 991,596
		Pennsylvania ILEC Total										\$ 24,817,920
		Pennsylvania Total										\$ 25,809,516
		US ILEC Total										1,058,583,864
		US Total										\$ 1,726,714,020

source: USAC FCC Filing, HC 09 -Interstate Common Line Support, Projected by State by Study Area - 1Q2009

**Information Alleged To Be Proprietary Has Been Deleted**

Proprietary Surrebuttal Exhibit RL- 4S: Verizon Weighted Average Residential Rate					
	zone 1	zone2	zone 3	zone 4	total
rate	16.06	14.36	13.17	13.57	
residential lines					
weighted rate					
				weighted average	\$ 13.66
				120 percent	\$ 16.40

Source: Price Rebuttal Exhibit 4;  
 Verizon PA's Response to OCA Data Request No. 1-2

**Information Alleged To Be Proprietary Has Been Deleted**

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DIRECT TESTIMONY OF ROGER D. COLTON

ON BEHALF OF  
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

RECEIVED

MAR 26 2009

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

December 10, 2008



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**Q. PLEASE STATE YOUR NAME AND ADDRESS.**

A. My name is Roger Colton. My address is Fisher, Sheehan & Colton, Public Finance and General Economics, 34 Warwick Road, Belmont, Massachusetts, 02478.

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

A. I am a principal in the firm of Fisher Sheehan & Colton, Public Finance and General Economics of Belmont, Massachusetts. In that capacity, I provide technical assistance to a variety of federal and state agencies, consumer organizations and public utilities on rate and customer service issues involving telephone, water/sewer, natural gas and electric utilities.

**Q. FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?**

A. I am testifying on behalf of the Pennsylvania Office of Consumer Advocate (OCA).

**Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.**

A. I work primarily on low-income utility issues. This involves regulatory work on rate and customer service issues, as well as research into low-income usage, payment patterns, and affordability programs. At present, I am working on various projects in the states of New Hampshire, Maryland, Pennsylvania, North Carolina, Ohio, Indiana, Iowa, Colorado, New Mexico, Oregon and Washington. My clients include state agencies (e.g., Pennsylvania Office of Consumer Advocate, Maryland Office of Peoples Counsel, North Carolina Department of Justice, Iowa Department of Human Rights), federal agencies (e.g., U.S. Department of Health and Human Services), community-based organizations (e.g., Community Action of New Mexico, Coalition to Keep Indiana Warm, Community Action

1 Partnership of Oregon), and private utilities (*e.g.*, Entergy Services, Citizens Gas and Coke  
2 Utilities, Northern Indiana Public Service Company, Tacoma Public Utilities). In addition  
3 to state- and utility-specific work, I engage in national work in the United States and  
4 Canada. For example, I am currently working on a national study of the responses of water  
5 utilities to the payment troubles of residential customers for the American Water Works  
6 Association Research Foundation. In 2007, I was part of a team that performed a multi-  
7 sponsor public/private national study of low-income energy assistance programs.

8  
9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

10 A. After receiving my undergraduate degree in 1975, I obtained further training in both law and  
11 economics. I received my law degree in 1981; I received my Masters Degree (economics)  
12 in 1993.

13  
14 **Q. HAVE YOU AUTHORED ARTICLES ON PUBLIC UTILITY REGULATORY  
15 ISSUES?**

16 A. Yes. I have published more than 80 articles in scholarly and trade journals, primarily on  
17 low-income utility and housing issues. I have published an equal number of technical  
18 reports for various clients on energy, water, telecommunications and other associated low-  
19 income utility issues. A list of my professional publications is included in Attachment RC-1.

20  
21 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS OR OTHER UTILITY  
22 COMMISSIONS?**

1 A. Yes. I have previously testified before the Pennsylvania Public Utility Commission (PUC  
2 or Commission) on a variety of low-income energy, water and telecommunication issues  
3 over the past 20 years. On telecommunications issues, I testified on behalf of the  
4 Pennsylvania Utility Law Project (PULP) in the Global Order proceeding in 1999.<sup>1</sup> More  
5 recently, I worked with the OCA in the 2007 proceeding regarding the inter-action between  
6 the Pennsylvania Lifeline program and the sale of basic local telecommunication services as  
7 part of a bundle of services. I have served as the consultant to the National Association of  
8 State Utility Consumer Advocates (NASUCA) on issues pending before the Federal  
9 Communications Commission (FCC) regarding universal service price supports as well as  
10 regarding Lifeline and Link-up service.

11  
12 Overall, I have testified in regulatory proceedings in more than 30 states and various  
13 Canadian provinces on a wide range of low-income water, telecommunications and energy  
14 issues. Proceedings in which I have previously appeared as an expert witness are listed in  
15 Attachment RC-1.

16  
17 **Q. PLEASE EXPLAIN THE OBJECTIVE OF YOUR TESTIMONY.**

18 A. My testimony is designed to respond to Issue 2(b) in the Pennsylvania PUC's April 9,  
19 2008 order commencing this proceeding. The Commission's Order specifically provides  
20 that "the reopened investigation should address the appropriate benchmark for the rural  
21 ILEC residential rate for basic local exchange service taking into account the statutory  
22 requirements for maintaining and enhancing universal telecommunications service at

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<sup>1</sup> Re. Nextlink Pennsylvania, Inc., Docket No. P-00991648; P-00991649, 93 PaPUC 172 (September 30, 1999) (Global Order).

1 affordable rates.” My testimony addresses the affordability requirements of the April 9,  
2 2008 Order.

3  
4 Moreover, the Commission’s April 9, 2008 Order was issued within the policy  
5 framework established by statute. It is Pennsylvania policy to “(2) Maintain universal  
6 service at affordable rates..., (3) Ensure that customers pay only reasonable charges for  
7 protected services which shall be available on a nondiscriminatory basis.” (66 Pa.C.S. §  
8 3011(2), (3)). Other provisions of Section 3011 require that “the provision of universal  
9 telecommunications service at affordable rates” not be jeopardized by other goals. (66  
10 Pa.C.S. § 3011(8),(12)). Section 254(b) of the Federal Telecommunications Act requires  
11 that local rural telephone rates be affordable and reasonably comparable with urban rates.  
12 (47 USC § 254(b)). These two tests are not at odds with each other. The affordability  
13 analysis that I present below is based on the proposition that rural telephone rates should  
14 be reasonably comparable to non-rural rates within an affordability constraint. This  
15 construct allows local rural rates to be reasonably comparable to non-rural rates so long  
16 as meeting that test does not result in unaffordable bills. OCA witness Loube will  
17 address the comparability of rates. The objective of my testimony is to determine the  
18 point at which local telephone rates become unaffordable.

19  
20 **Q. WHAT IS THE PURPOSE OF IMPOSING THE AFFORDABILITY**  
21 **CONSTRAINT?**

22 **A.** The purpose of imposing an affordability constraint on local rural telephone rates is to  
23 advance the statutory directive that local rates be sufficiently affordable so as to maintain

1 and enhance universal service. I examine the extent to which basic telephone service at  
2 affordable rates is available to all customers in their homes.

3  
4 **Q. WHY IS IT IMPORTANT TO IMPOSE AN AFFORDABILITY CONSTRAINT IN**  
5 **ORDER TO ADVANCE UNIVERSAL TELEPHONE SERVICE?**

6 A. Inability to obtain affordable, accessible telephone service can create life-threatening  
7 situations for the poor. Frequently, the most important problem arising from the lack of  
8 access to telephone service is the denial of access to agencies and institutions that can  
9 provide help. For example, a frequently cited danger that results from lack of telephone  
10 service involves access to timely medical attention.

11  
12 The lack of telephone service can generate other life-threatening results as well.

13 Consider, for example, the impact of the lack of telephone service on the deadly nature of  
14 home fires. Aside from low-income status being associated with an increased incidence  
15 of home fires generally, it is associated with *deadly* fires as well. According to the  
16 National Fire Prevention Association (NFPA), the lack of telephone service is one of the  
17 poverty-related causes of increased fire fatalities. A 1996 study by the NFPA found that  
18 “without a telephone, the chance of a delay in alarm when reporting a fire to the fire  
19 department increases.”<sup>2</sup> This problem also affects the neighbors of the low-income  
20 customer that does not have telephone service as their home may be affected by the  
21 spread of a fire if the fire company is not called quickly enough.

22 Lack of access to a telephone jeopardizes access to public assistance programs as well.

23 Work that I have performed looking at the causes of non-participation in LIHEAP has

1 identified "inability to contact" the program as one leading reason why people do not  
2 apply for this federal energy assistance. Because of changes in the way that social service  
3 providers are doing business, these no-phone consumers are being denied equal access to  
4 critical social services, such as fuel assistance. As budget cuts have eliminated staffs, and  
5 as technological developments have introduced new, less staff intensive methods of  
6 contact, social service providers across the country are depending more on the telephone  
7 in providing services. Outreach, consultation and, increasingly, intake and referral  
8 functions are being conducted over the phone for a host of essential services including  
9 energy assistance.

10  
11 Finally, the lack of telephone service is a significant barrier to employment. The types of  
12 employment low-income households obtain often involve jobs offered and accepted via  
13 telephone. Moreover, hourly wage employees frequently receive information about when  
14 they might work on a daily or weekly basis. In such circumstances, having access to  
15 telephone service is critical to their ability to earn wages.

16  
17 **Q. IS THE LACK OF TELEPHONE SERVICE A PROBLEM EXCLUSIVE TO THE**  
18 **POOR?**

19 A. No. Access to telephone service is seen as an important tool to avoid social isolation for  
20 many people, whether or not those individuals are poor. The elderly in particular suffer  
21 more acutely from social isolation problems, often compounded by their physical  
22 isolation.

23  

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<sup>2</sup> "Burning Issues," *NFPA Journal*, at 104 (January/February 1996).

1 **Q. IS LOCAL TELEPHONE SERVICE OF PARTICULAR BENEFIT TO RURAL**  
2 **CUSTOMERS?**

3 A. Yes. The increased driving distances for rural households for local services, from health  
4 care to banking to accessing public assistance, makes the ability to substitute (or  
5 complement) in-person contact with telephone contact even more important.

6  
7 **Q. WHAT IS THE FIRST MEASURE OF UNIVERSAL SERVICE THAT YOU**  
8 **HAVE EXAMINED?**

9 A. I have examined telephone penetration rates in Pennsylvania over the last several years.

10  
11 **Q. WHAT CAN TELEPHONE PENETRATION RATES TELL ABOUT**  
12 **UNIVERSAL SERVICE AND THE AFFORDABILITY OF BASIC LOCAL**  
13 **SERVICE IN PENNSYLVANIA?**

14 A. The FCC regularly tracks changes in the telephone penetration rate by state and across  
15 the nation based on surveys conducted by the U.S. Census Bureau.<sup>3</sup> In 1997, the FCC  
16 recognized that “subscriberhip levels provide relevant information regarding whether  
17 consumers have the means to subscribe to universal service and, thus, represent an  
18 important tool in evaluating the affordability of rates.”<sup>4</sup> However, the FCC also noted  
19 that telephone “subscriberhip levels do not address the second component of  
20 affordability, namely whether paying the rates charged for the service imposes a hardship

---

<sup>3</sup> Telephone penetration rates include all form of telephony service, wireline, wireless and other. See Belinfante, *Telephone Subscriberhip in the United States (Data through March 2008)* at 2 (rel. Aug. 2008) (“*Telephone Subscriberhip Report*”). Available at [http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/DOC-284923A1.pdf](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-284923A1.pdf).

<sup>4</sup>In *the Matter of the Federal-State Joint Board on Universal Service*, Report and Order, 12 FCC Rcd 8776, ¶ 112 (rel. May 8, 2007) (“*1997 Universal Service Report*”).

1 for those who subscribe.”<sup>5</sup> Both the FCC “and states should use subscribership levels  
2 and certain other non-rate factors, to identify those areas in which the area designated for  
3 support may not be affordable.”<sup>6</sup>  
4

5 **Q. BASED ON THE FCC’S TELEPHONE SUBSCRIBERSHIP REPORTS,**  
6 **PENNSYLVANIA’S 2007 TELEPHONE PENETRATION RATE WAS 97.0%.<sup>7</sup>**  
7 **WHY IS MORE ANALYSIS NEEDED?**

8 A. First, the 97.0% telephone penetration rate reflects that 3% of Pennsylvania households  
9 did not have any telephone service in their house, apartment, or living area. Given  
10 roughly 4.9 million households in Pennsylvania, this translates to nearly 150,000  
11 households without telephone service in Pennsylvania. Even for those households with  
12 telephone service, maintaining basic telephone service may impose an economic  
13 hardship. Second, the FCC Telephone Subscribership Report just reports on the  
14 telephone penetration rate for Pennsylvania as a whole. While the FCC Report provides  
15 an adequate basis upon which to make nationwide and state-by-state changes, the state-  
16 level data reported by the FCC does not provide the intra-state detail needed to consider  
17 rural affordability for Pennsylvania.  
18

19 **Q. HOW HAVE YOU EXAMINED THE EXTENT TO WHICH PENNSYLVANIA**  
20 **HAS MAINTAINED OR ENHANCED UNIVERSAL TELEPHONE SERVICE?**

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<sup>5</sup> Id., ¶ 113.

<sup>6</sup> Id.

<sup>7</sup> *Telephone Subscribership Report* at 22. From 2004 to 2006, the annual average telephone penetration rate for Pennsylvania was 95.6%, 95.6%, and 96.3%, respectively.

1 A. I have examined the change in telephone penetration rates in different parts of  
2 Pennsylvania between 2000 and 2006. The data upon which I rely is provided by the  
3 U.S. Census Bureau. Since the Census Bureau does not publish data on a county-wide  
4 basis for all counties between the decennial Censuses, I have examined data for  
5 Pennsylvania's Public Use Microdata Areas (PUMAs).<sup>8</sup> The 2000 data is taken from the  
6 Decennial Census. The 2006 data is taken from the Census Bureau's 2006 American  
7 Community Survey (ACS).<sup>9</sup>

8  
9 **Q. WHAT DOES THIS DATA SHOW?**

10 A. Between 2000 and 2006, the penetration of telephone service in Pennsylvania decreased  
11 in a substantial part of the state. While in 2000, telephone penetration equaled or  
12 exceeded 95% in 91 of Pennsylvania's 92 PUMAs for all income levels, in 2006,  
13 telephone penetration equaled or exceeded 95% in only 69 PUMAs. Many of those  
14 PUMAs where penetration fell below 95% are in the southeastern region of  
15 Pennsylvania, taking in populations in Philadelphia, Delaware, Bucks, Lancaster, York,  
16 and Montgomery Counties. Of the eight rural PUMAs with telephone penetration less  
17 than 95%, five are in rural counties in west and west central Pennsylvania counties  
18 (Mercer, Butler, Indiana, Cambria, Greene). The other three are in rural counties in  
19 central Pennsylvania (Centre, Perry, Schuylkill).

20

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<sup>8</sup> Data from the American Community Survey is available on-line through use of the U.S. Census Bureau's "DataFerrett" database. The DataFerrett software may be downloaded at the following web site: <http://dataferrett.census.gov>. Pennsylvania is comprised of 92 PUMAs. Some, but not all, are limited to specific counties.

<sup>9</sup> The 2006 ACS data is the most recent, available data. Data from the 2007 ACS is not yet published. As noted above, the FCC *Telephone Subscribership Report* only provides data at the statewide level for after 2006.

1 The penetration rate for low-income households is even lower. Telephone penetration for  
2 households with income less than \$20,000 exceeded 95% in only 60 of Pennsylvania's  
3 PUMAs in 2006. Consistent with the above data, the rural counties with PUMAs having  
4 less than a 95% penetration level for households with income less than \$20,000 are  
5 concentrated in the west and southwestern regions of Pennsylvania (Greene, Somerset,  
6 Bedford, Cambria, Indiana, Butler, Mercer, Venango), with others located throughout the  
7 state, including the northern tier (Clearfield, Perry, Union, Schuylkill, McKean,  
8 Bradford).

9  
10 In 30 Pennsylvania PUMAs, the residential telephone penetration dropped by 3% or more  
11 from 2000 to 2006. While most of that decrease in penetration rates occurred in the  
12 southeastern part of the state, seven PUMAs with substantial decreases in telephone  
13 penetration represented rural counties. In an *additional* 23 PUMAs, residential telephone  
14 penetration dropped by more than 2% and less than 3% between 2000 and 2006. Again,  
15 seven of these PUMAs represented rural counties throughout Pennsylvania.

16  
17 **Q. HOW DOES THIS DROP IN TELEPHONE PENETRATION MANIFEST**  
18 **ITSELF IN PENNSYLVANIA'S RURAL AREAS?**

19 A. The Center for Rural Pennsylvania defines an area to be "rural" when there is a  
20 population density of 274 persons (or fewer) per square mile.<sup>10</sup> In Pennsylvania, 48 of  
21 the 67 counties are deemed to be "rural," with nearly 3.4 million residents living in these

---

<sup>10</sup> Center for Rural Pennsylvania, Newsletter (March/April 2006). The Center reported: "In 2003, the Center for Rural Pennsylvania's Board of Directors adopted a definition of rural to guide its legislative mandate of research and database development. This definition identifies rural counties, school districts, and municipalities using population

1 counties (at the time of the 2000 Census).<sup>11</sup> Schedule RDC-1 presents the PUMAs for  
2 which a drop in telephone penetration of 2% or more occurred from 2000 to 2006. In this  
3 Schedule, I have indicated the county represented by the PUMA<sup>12</sup> and whether the county  
4 is classified by the Center for Rural Pennsylvania as a “rural” county in Pennsylvania.

5  
6 **Part 1. Measuring “Affordability” in Pennsylvania.**

7 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY AN “AFFORDABLE” TELEPHONE**  
8 **RATE.**

9 A. When considering the “affordability” of residential telephone rates, I use the definition of  
10 affordability that was adopted by the Federal Communications Commission (FCC) in its  
11 implementation of Section 254(b)(1) the Telecommunications Act of 1996. Under that  
12 federal statute, Congress articulated the national policy that telecommunications services  
13 be available and affordable to all households, including to low-income customers. In  
14 implementing Section 254(b)(1), the FCC noted that the concept of “affordability” has  
15 two components to it, an absolute component and a relative component.<sup>13</sup> The absolute  
16 component references whether a household has the ability to obtain the service at all.  
17 The relative component references whether a household has the ability to obtain the  
18 service without serious detriment to the household. Both aspects of affordability should  
19 be considered in considering whether rural telephone service is affordable in  
20 Pennsylvania.

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density, or the number of persons per square land mile.” While legislation to codify this definition of “rural” was introduced in 2006 (House Bill 2347; Senate Bill 1083), that legislation was not acted upon.

<sup>11</sup> The Pennsylvania counties deemed to be “urban” include: Erie, Beaver, Allegheny, Westmoreland, Cumberland, Dauphin, York, Lebanon, Lancaster, Berks, Chester, Luzerne, Lackawanna, Northampton, Lehigh, Bucks, Montgomery, Delaware and Philadelphia.

<sup>12</sup> Some PUMAs represent partial counties; that is indicated where applicable.

<sup>13</sup> *1997 Universal Service Report and Order*, ¶ 110.

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**Q. PLEASE DESCRIBE THE TYPICAL WAY IN WHICH THE  
“AFFORDABILITY” OF PARTICULAR HOUSEHOLD EXPENSES ARE  
DETERMINED.**

A. The generally-recognized mechanism for measuring the “affordability” of household expenses involves assessing the “burden” which those expenses impose on a household as a percentage of income. This is certainly true with respect to shelter costs. Shelter costs include costs for housing and utilities.

**Q. HOW IS THE AFFORDABILITY OF HOME ENERGY COSTS MEASURED?**

A. The affordability of home energy costs is measured by examining the burden which those energy costs impose on a household as a percentage of income. The notion of measuring affordability by examining bills as a percentage of income is familiar in Pennsylvania. The Pennsylvania Public Utility Commission (PUC) has adopted the Customer Assistance Program (CAP) as a mechanism for energy utilities to deliver rate affordability assistance to low-income customers. In specifying the design of these natural gas and electric CAP programs, the PUC has directed that the programs should be designed to reduce home energy bills to an affordable percentage of income (within a budget constraint). Different burdens have been prescribed by the PUC depending upon whether a customer has natural gas heating with electricity, all electric service, or electric service with an unregulated source of home heating fuels (*e.g.*, fuel oil, propane).

1 The notion of measuring home energy affordability by reference to home energy burdens  
2 (bills as a percentage of income) is not unique to Pennsylvania. Other states operating  
3 home energy affordability programs (*e.g.*, New Jersey, Maine, Ohio, Utah) explicitly tie  
4 their programs to the achievement of an affordable percentage of income. Even in those  
5 states that do not explicitly incorporate percentage of income objectives, programs have  
6 implicitly incorporated the goal of achieving an affordable home energy burden. The  
7 New Hampshire and Indiana “tiered rate discount” programs, for example, both devise  
8 the level of their tiered discounts based on the percentage of income burden that the  
9 discount generates for customers.

10  
11 Moreover, even the federal Low-Income Home Energy Assistance Program (LIHEAP)  
12 takes home energy bills as a percentage of income into account. Pursuant to the federal  
13 LIHEAP statute (42 USC §8621), that federal fuel assistance program authorizes the  
14 Secretary of Health and Human Services “to make grants. . .to States to assist low-  
15 income households, particularly those with the lowest incomes, that pay a high proportion  
16 of household income for home energy, primarily in meeting their immediate home energy  
17 needs.” After defining “home energy burden” to mean “the expenditures of the  
18 household for home energy divided by the income of the household,” Congress directed  
19 that “the highest level of assistance will be furnished to those households which have the  
20 lowest incomes and the highest energy costs or needs in relation to income, taking into  
21 account family size.” (42 USC §8624).

1 **Q. HOW IS THE AFFORDABILITY OF WATER/WASTEWATER SERVICE**  
2 **DETERMINED?**

3 A. The affordability of water and wastewater (sewer) service is determined based upon a  
4 consideration of water/wastewater burdens (*i.e.*, bills as a percentage of income). The  
5 issue of affordability arises in the water industry when considering the affordability  
6 implications of complying with safe drinking water directives. According to the National  
7 Drinking Water Advisory Council's (NDWAC) Small Systems Working Group, "utility  
8 bills have a regressive effect with respect to the distribution of household incomes;  
9 households at lower income levels must devote a greater percentage of their income to  
10 utilities than households at higher income levels. It can be argued that at higher income  
11 levels, consumers can afford to pay not only a higher total water bill but a higher  
12 percentage of their income toward water utility payments."<sup>14</sup>

13  
14 A two percent (2%) water/wastewater burden was used by the Environmental Protection  
15 Agency (EPA) in its 1993 assessment of the affordability of water/wastewater service.<sup>15</sup>  
16 More recently, NDWAC reports that different states have adopted different "affordability  
17 criteria" to use in determining whether a water system is eligible for grant and loan  
18 assistance to help with compliance with the federal Safe Drinking Water Act (SDWA).  
19 NDWAC reports that New York, Idaho, Washington state, Maine and Maryland all base  
20 their affordability criteria on a percentage of income between 1% and 2%.

21

---

<sup>14</sup> National Drinking Water Advisory Council (NDWAC), Small Systems Working Group (January 2003). *Information to States on Affordability Criteria*, US Environmental Protection Agency: Washington D.C.

<sup>15</sup> Environmental Protection Agency (1993). *Affordability of the 1986 Amendments to Community Water Systems*, U.S. Environmental Protection Agency: Washington D.C.

1 Other states have set similar standards. New Hampshire uses an affordability index that is  
2 calculated by dividing the estimated user rate by one percent (1.0%) of the median  
3 household income for the community. Oregon sets the affordable drinking water rate at  
4 1.75% of median household income for the area (city/county) in which the water system  
5 resides. South Carolina sets its definition of drinking water affordability as a target user  
6 rate of at or below 1.4% of the median household income for the community. In fact, the  
7 U.S. General Accounting Office (GAO) observed in 2002 that:

8 Of the 31 states with a disadvantaged community program, 27 have adopted  
9 criteria that consider local water rates, often in conjunction with a  
10 community's median household income. For example, seven states have  
11 determined that a community qualifies as "disadvantaged" if its water rates  
12 are at least 1 percent of its median household income. Another 11 states  
13 have established thresholds for local water rates ranging from 1.25 to 2  
14 percent of median household income. The remaining nine states use  
15 different thresholds depending on the community's median household  
16 income or a formula that considers other factors.<sup>16</sup>  
17

18 In 2002, the Environmental Economics Advisory Committee of the U.S. Environmental  
19 Protection Agency's (EPA) Science Advisory Board (SAB) was asked to review the  
20 current standard for affordability determinations made by the EPA for SDWA  
21 compliance. The EPA had determined that clean water compliance technologies were  
22 unaffordable if they resulted in rates that exceeded 2.5% of state household median  
23 income.<sup>17</sup>  
24

25 **Q. WHAT DOES PENNSYLVANIA USE TO MEASURE THE AFFORDABILITY**  
26 **OF WATER?**

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<sup>16</sup> GAO (January 2002). *Drinking Water: Key Aspects of EPA's Revolving Fund Program Need to be Strengthened*, at 16, General Accounting Office: Washington D.C.

1 A. Under the federal Safe Drinking Water Act amendments of 1996, Congress created the  
2 Drinking Water State Revolving Fund (DWSRF) to help fund the construction and  
3 upgrade of safe drinking water treatment facilities by local governments. The federal law  
4 provides that each state may allow “disadvantaged communities” to borrow money from  
5 the Fund with longer payback terms and possible principal forgiveness. Under the  
6 provisions of the Safe Drinking Water Act, states have the discretion on how to define a  
7 “disadvantaged community.”

8  
9 Pennsylvania is one of roughly 30 states that has chosen to adopt such “disadvantaged  
10 community” provisions. In implementing the “disadvantaged community” provisions,  
11 The Pennsylvania Infrastructure Development Authority (PENNVEST) has determined  
12 that affordability is to be measured by assessing whether the “target service charge”  
13 exceeds an annual burden (bill divided by income) of between one percent (1%) and two  
14 percent (2%) depending on the socioeconomic condition of the community.

15  
16 **Q. ARE YOU FAMILIAR WITH THE RECENT WORK OF PENNSYLVANIA’S**  
17 **SUSTAINABLE WATER INFRASTRUCTURE TASK FORCE?**

18 A. Yes. Governor Edward G. Rendell created the Sustainable Water Infrastructure Task  
19 Force through Executive Order 2008-02. The Task Force was charged with addressing  
20 the financing issues associated with the fact that Pennsylvania is facing nearly \$11 billion  
21 in unmet drinking water infrastructure needs and at least \$7.2 billion in unmet wastewater  
22 infrastructure needs, plus millions of dollars more in ongoing operation and maintenance

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<sup>17</sup>Environmental Protection Agency (February 1998). *Information for States on Developing Affordability Criteria for Drinking Water*, U.S. Environmental Protection Agency: Washington D.C.

1 costs. The final report of that Task Force found that water and wastewater rates could  
2 each be affordable at 1.5% of the community's median income. According to the  
3 November 1, 2008 final report, "... spending a total of 3% of median household income  
4 on water services is considered affordable by economists. . ."<sup>18</sup>

5  
6 **Q. HOW IS THE AFFORDABILITY OF HOUSING COSTS DETERMINED?**

7 A. Households are considered to be over-extended if they pay more than 30% of their  
8 income toward their shelter costs. "Shelter costs" include not only rent and mortgage  
9 payments, but include home utilities as well (excepting telephone).<sup>19</sup>

10  
11 Throughout HUD's affordable housing programs, the term "cost burden" is a term of art.  
12 It is defined as the percentage of household income spent for mortgage costs or gross  
13 rent. According to HUD programs, households spending more than 30 percent of income  
14 for these housing costs are considered to be "cost-burdened." Households spending more  
15 than 50 percent are considered to be "severely cost-burdened."<sup>20</sup>

16  
17 This 30-percent standard is generally accepted. Consider, for example, the annual survey  
18 of housing affordability published by the National Low-Income Housing Coalition  
19 (NLIHC).<sup>21</sup> NLIHC describes the contents of its report as follows: "For each jurisdiction,  
20 the report calculates the amount of money a household must earn in order to afford a

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<sup>18</sup> Governor's Sustainable Infrastructure Task Force (November 1, 2008). *Creating a Sustainable Solution for Pennsylvania: Governor's Sustainable Infrastructure Task Force Report*, at iii – iv, Pennsylvania Department of Environmental Protection: Harrisburg (PA).

<sup>19</sup> See e.g., 24 CFR §5.100 (2008).

<sup>20</sup> See, e.g., 24 CFR Subtitle A, Section 91.5 (definition of "cost burden").

<sup>21</sup> National Low-Income Housing Coalition (annual). *Out of Reach: Why Everyday People Can't Afford Housing*, NLIHC: Washington D.C.

1 rental unit at a range of sizes (0, 1, 2, 3, and 4 bedrooms) at the area's Fair Market Rent  
2 (FMR), based on the generally accepted affordability standard of paying no more than  
3 30% of income for housing costs."<sup>22</sup> That "generally accepted standard" of 30% of  
4 income for total shelter costs is mandated by the Cranston Gonzalez National Affordable  
5 Housing Act.<sup>23</sup>

6  
7 The Community Planning and Development (CPD) bureau with the U.S. Department of  
8 Housing and Urban Development explains the rationale for the 30% threshold. HUD's  
9 CPD states that "The generally accepted definition of affordability is for a household to  
10 pay no more than 30 percent of its annual income on housing. Families who pay more  
11 than 30 percent of their income for housing are considered cost burdened and may have  
12 difficulty affording necessities such as food, clothing, transportation and medical care."<sup>24</sup>

13  
14 **Q. DOES PENNSYLVANIA USE THESE PERCENTAGE OF INCOME HOUSING**  
15 **BURDENS TO DEFINE HOUSING AFFORDABILITY?**

16 A. Yes. In implementing state affordable housing initiatives funded through federal  
17 programs such as the federal Home Investment Partnership Program (HOME), the Low-  
18 Income Housing Tax Credit (LIHTC), and the Community Development Block Grant  
19 (CDBG), among others, Pennsylvania adopts this 30% affordability standard.

20  
21 **Q. WHAT DO YOU CONCLUDE?**

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<sup>22</sup> <http://www.nlihc.org/oor/oor2008> (accessed July 19, 2008).

<sup>23</sup> See, 42 U.S.C. §12745.

<sup>24</sup> <http://www.hud.gov/offices/cpd/affordablehousing/> (accessed September 17, 2008).

1 A. My conclusion here is not that any particular percentage of income level is appropriate by  
2 which to measure the affordability of home energy, water service, or housing costs.  
3 Rather, I find simply that in each instance, the affordability of the particular service at  
4 issue was measured by reference to household burdens, *i.e.*, bills as a percentage of  
5 income. I conclude that, in deciding upon the affordability of basic local telephone  
6 service, it would also be appropriate to establish that affordability threshold by reference  
7 to a percentage of income. This is not simply an academic discussion. Pennsylvania uses  
8 burdens (*i.e.*, bills as a percentage of income) to distribute hundreds of millions of dollars  
9 through home energy, water, and housing affordability programs.

10

11 **Q. HAS A PERCENTAGE OF INCOME BURDEN EVER BEEN DISCUSSED AS A**  
12 **MEASURE OF AFFORDABILITY FOR TELEPHONE SERVICE?**

13 A. Yes. In the *1997 Universal Service Order*, the Federal Communications Commission  
14 specifically referenced the use of a percentage of income approach in assessing the  
15 “affordability” of local telephone service. The “relative component” of affordability, the  
16 FCC said, “takes into account whether consumers are spending a disproportionate  
17 amount of their income on telephone service.” (emphasis added).<sup>25</sup> The FCC continued  
18 on to note that “subscriber levels do not reveal whether consumers are spending a  
19 disproportionate amount of income on telecommunications services.” (emphasis  
20 added).<sup>26</sup>

21

22

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<sup>25</sup> *1997 Universal Service Order* ¶ 110.  
<sup>26</sup> *Id.*, ¶ 113.

1                   **Part 2. The Local Telephone Service Affordability Threshold.**

2 **Q. PLEASE EXPLAIN THE PURPOSE OF THIS SECTION OF YOUR**  
3 **TESTIMONY.**

4 A. In this section of my testimony, I propose an affordability threshold for basic local  
5 telephone service. Not only do I articulate the affordability threshold as a percentage of  
6 income, but I explain the derivation of the percentage of income threshold.

7  
8 **Q. WHAT PERCENTAGE OF INCOME DO YOU USE TO DEFINE AN**  
9 **“AFFORDABLE” LOCAL TELEPHONE BILL?**

10 A. For all of the reasons I outline below, I have determined that a local rural telephone bill is  
11 affordable if it does not exceed 0.75% of Pennsylvania’s rural median household income.

12  
13 **Q. HOW DID YOU DERIVE YOUR PERCENTAGE FIGURE?**

14 A. I derive the affordable local telephone percentage of income through application of a  
15 market basket methodology. The market basket methodology is the accepted mechanism  
16 for assessing the affordability of household expenses in Pennsylvania. Through a market  
17 basket approach, I assess telephone expenditures in light of both total household income,  
18 and total household expenditures on other household necessities.

19  
20 **Q. UPON WHAT DO YOU BASE YOUR CONCLUSION THAT A MARKET**  
21 **BASKET APPROACH IS THE MOST APPROPRIATE BASIS UPON WHICH**  
22 **TO ASSESS THE AFFORDABILITY OF BASIC HOUSEHOLD SERVICES?**

1 A. I begin my analysis with the proposition that the Pennsylvania PUC should, to the extent  
2 practicable, use a methodology that is consistent with the methodology used by other  
3 Pennsylvania state government agencies to assess the affordability of basic household  
4 necessities. Accordingly, I used two primary sources of data. On the one hand, I  
5 examined the Self-Sufficiency Standard in Pennsylvania.<sup>27</sup> The 2008 Self-Sufficiency  
6 Standard was published as a cooperative effort between PathwaysPA and the  
7 Pennsylvania Department of Labor and Industry. According to Sandi Vito, Acting  
8 Secretary for the Department of Labor and Industry, “the 2008 Self-Sufficiency Standard  
9 of Pennsylvania helps businesses and industry sectors. . .by showing how much families  
10 need to earn to cover their basic expenses.”<sup>28</sup>

11  
12 Also, I used data from the American Chamber of Commerce Research Association  
13 (ACCRA).<sup>29</sup> Each quarter, ACCRA publishes data on the relative cost of living for more  
14 than 300 metropolitan areas throughout the United States. The Center for Rural  
15 Pennsylvania<sup>30</sup> uses the ACCRA data to periodically determine the relative cost of living  
16 in Pennsylvania’s rural and urban areas. More specifically, the Center for Rural  
17 Pennsylvania reported that: “Given the frequency and currency of the ACCRA database,  
18 it is surprising that more researchers have not made use of it. The fact that it is published

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<sup>27</sup> Pearce, Diana M., Ph.D, The Self-Sufficiency Standard for Pennsylvania 2008, (Aug. 2008, 6<sup>th</sup> ed.), prepared for and with support from PathWaysPA, the Pennsylvania Dept. of Labor & Industry, the University of Washington, and United Way of Southeastern Pennsylvania. Available at: <http://www.pathwayspa.org/Self-Sufficiency%20Standard.pdf>. The Self-Sufficiency Standard “measures how much income a family of a certain composition in a given place must earn to meet their basic needs.” The standard is intended to be used by legislators and policy makers to establish programs which lead to self-sufficiency for working families. Id. at v.

<sup>28</sup> Forward, The Self-Sufficiency Standard for Pennsylvania: 2008, PathwaysPA/Pennsylvania Department of Labor and Industry: Harrisburg (PA).

<sup>29</sup> The ACCRA database is available on a licensed basis through the ACCRA Historical Cost of Living Index. I have a license to use the ACCRA data for the full years of 2005, 2006 and 2007, and for the quarterly 2008 data available of the summer of 2008.

1 by a private firm may make it less widely known in the research community, or it may be  
2 the case that the cost of the data deters some researchers from using it.” The Center  
3 continued, however, to observe further: “In any case, [the ACCRA data base] has proven  
4 itself to be a solid foundation upon which to build a [cost of living] study such as ours.”<sup>31</sup>  
5 This legislative agency of the Pennsylvania General Assembly uses ACCRA data to help  
6 inform itself of the cost-of-living in Pennsylvania’s rural areas.

7  
8 **Q. DOES THE ACCRA DATA HAVE A PARTICULAR BENEFIT FOR YOUR**  
9 **CURRENT INQUIRY?**

10 A. Yes. My current inquiry involves a determination of the affordability of basic local  
11 telephone service. In order to obtain data on this, I need a source of data that confines its  
12 reporting exclusively to basic local telephone service (along with the appurtenant fees  
13 and taxes). The ACCRA survey explicitly limits its pricing data for “telephone service”  
14 to a “private residential line, basic local rate, fees and taxes.” The technical  
15 documentation for the ACCRA survey explicitly instructs local personnel collecting data  
16 that “the price you report must include monthly base rate, the federal long distance access  
17 fee, any other mandatory monthly charges (such as a “911” fee in many areas), the  
18 Touchtone fee, and all taxes. Don’t include *optional* features such as call-forwarding and  
19 call-waiting.”<sup>32</sup> (emphasis in original).

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<sup>30</sup> The Center for Rural Pennsylvania is a “bipartisan, bicameral legislative agency that serves as a resource for rural policy within the Pennsylvania General Assembly.” See Mission Statement at <http://www.ruralpa.org/mission.html>.

<sup>31</sup> Center for Rural Pennsylvania (July 2000). *Differences in the Cost of Living Across Pennsylvania’s 67 Counties*, at 14, Center for Rural Pennsylvania: Harrisburg (PA), updating *Differences in the Cost of Living Across Pennsylvania’s 67 Counties: 1992*, Center for Rural Pennsylvania: Harrisburg (PA) (also using ACCRA data).

<sup>32</sup> ACCRA Cost of Living Index, Manual, at 2.17 (May 2008). ACCRA further directs the personnel collecting telephone price data that “where the consumer can *choose* among base rates, price the base rate that allows the widest geographic coverage and the most non-toll calls. . . Exclude long distance calls beyond the area within which a family’s routine activities normally occur.” *Id.* (emphasis in original).

1 **Q. DOES THE ACCRA DATA STAND IN CONTRAST TO OTHER PUBLICLY**  
2 **AVAILABLE DATA IN THIS RESPECT?**

3 A. Yes. One major source of data on consumer spending commonly used by researchers is  
4 the U.S. Department of Labor’s annual Consumer Expenditures Survey (CEX). Because  
5 of the frequent use of CEX data for research purposes, I want to explain why I do *not* use  
6 this data for my purposes of assessing the affordability of local telephone service. The  
7 CEX data on “telephone” expenditures is *not* limited to basic local service. The  
8 *Information Book* published by the U.S. Department of Commerce for the Quarterly  
9 Interview Survey component of the Consumer Expenditures Survey<sup>33</sup> reports that  
10 included in “telephone expenses” are the following: residential service; mobile/cellular  
11 service; pager/beeper services; basic (local) service charge; domestic long distance  
12 charge; international long-distance charge; “telephone related services such as caller ID,  
13 call waiting, call forwarding, or voice mailboxes” (but not including data services);  
14 installation or repair of telephone line(s); telephone or pager purchases or rentals;  
15 internet access or data services; cable or satellite television services; DSL or ISDN  
16 charges; and non-telephone related rentals or purchases. As one can see, whether or not  
17 appropriate for other inquiries into consumer spending, for purposes of assessing the  
18 affordability of local telephone service, the CEX data is too broad to be helpful.

19  
20 **Q. PLEASE EXPLAIN THE DERIVATION OF YOUR RECOMMENDED**  
21 **AFFORDABLE TELEPHONE BURDEN OF 0.75% OF INCOME.**

22 A. As set forth in Schedule RDC-2, I obtained a local telephone bill (in dollars) for seven  
23 different metropolitan areas in Pennsylvania (Erie, Indiana County, Johnstown,

1 Lancaster, Philadelphia, Pittsburgh, York) from the ACCRA data. Combining these  
2 basic local telephone bills with self-sufficiency budgets for the counties in which these  
3 communities are located, I found that a Pennsylvania household would spend between  
4 0.75% and 1.0% of the county's self-sufficiency budget for basic local telephone  
5 service.<sup>34</sup>

6  
7 **Q. DID YOU APPLY THIS DATA TO PENNSYLVANIA'S RURAL COUNTIES IN**  
8 **PARTICULAR?**

9 A. Yes. I began by using the 48 counties that the Center for Rural Pennsylvania had  
10 identified as being "rural" as I have previously described above. For each of those rural  
11 counties, I used the Self-Sufficiency Standard I have previously described for a four-  
12 person household.<sup>35</sup> The results of these calculations are presented in Schedule RDC-3.  
13 Schedule RDC-2 shows that at a 0.75% level, the total local bills fell between \$25 and  
14 \$30 for 36 of Pennsylvania's 48 rural counties. At a 1.0% of income level, the total local  
15 bills fell between \$33 and \$41 for 39 of Pennsylvania's 48 rural counties.

16  
17 **Q. WHY DO YOU SELECT 0.75% OF INCOME RATHER THAN 1.0% OF**  
18 **INCOME?**

---

<sup>33</sup> April 1, 2004, at 15.

<sup>34</sup> County-specific self-sufficiency budgets are published by Pathways USA and the Pennsylvania Department of Labor and Industry. Diana Pearce, *The Self-Sufficiency Standard for Pennsylvania: 2008*, County Data Tables, at 9 – 50 (June 2008).

<sup>35</sup> I used a four-person household for two reasons. First, in assessing the affordability of housing, the generally-accepted standard for a typical or average household is a four-person household. Moreover, programs such as the LIHEAP program, in publishing median income for use in determining maximum program eligibility –by law, a state may not set LIHEAP eligibility in excess of 60% of state median income—uses a four-person household as its standard. I believe that maintaining some consistency with such norms of usage is conceptually fair. Moreover, after assessing the 2000 Census data for the rural Pennsylvania counties, I decided that it was substantively most reasonable to use a four-person household to reflect a typical or average household.

1 A. I performed two different “checks” on my conclusion that an affordable basic local  
2 telephone bill is 0.75% of income. First, I compared the results of an application of the  
3 0.75% of income standard for each county to the application of this standard to the  
4 average of county median incomes reported for rural Pennsylvania counties. The average  
5 of the median incomes reported for 2008 was \$50,261 for Pennsylvania’s rural counties.<sup>36</sup>  
6 The 0.75% of income standard yields a total local bill (including fees and surcharges) of  
7 \$31. This result was consistent with the applicability of the 0.75% of income standard  
8 using the self-sufficiency budget analysis I described above. I concluded that this  
9 consistency lends weight to the validity of the analysis.

10  
11 Second, I compared the results of the 0.75% of income standard to the Standard Utility  
12 Allowance (SUA) offered for local telephone service by the Pennsylvania Food Stamp  
13 program.<sup>37</sup> The SUA is promulgated by states for Food Stamp recipients to use in  
14 determining whether they qualify for an “excess shelter deduction” under the Food Stamp  
15 program.<sup>38</sup> In making that determination, a household may use either its actual home  
16 utility bills or may use the SUA promulgated by the State. In comparing the results of  
17 my analysis to the SUA, I can assess whether there is consistency with an affordability

---

<sup>36</sup> The U.S. Department of Housing and Urban Development publishes annual median incomes for virtually all counties in the nation. Because of their rural nature, twelve Pennsylvania counties do not have such income published and were excluded from this calculation (Blair, Butler, Cambria, Carbon, Centre, Fayette, Lycoming, Mercer, Perry, Pike, Washington, Wyoming).

<sup>37</sup> The Food Stamp program is now referred to as the Supplemental Nutrition Assistance Program (SNAP). While the programs are identical, except for the name, for ease of reference, I use the historical program name (Food Stamps).

<sup>38</sup> Under the Food Stamp program, households do not use their gross household income for purposes of qualification. They instead use what is called “countable income.” Countable income is gross household income minus specific deductions. One such deduction is the “excess shelter deduction,” the extent to which shelter costs (shelter costs include all utilities, including telephone) exceed 50% of household income.

1 standard for limited income households. Food Stamp eligibility is, with some exceptions  
2 not relevant here, set at 130% of the Federal Poverty Level.

3  
4 The SUA is designed to address basic local telephone service (including fees and taxes)  
5 for Food Stamp recipients. The Pennsylvania telephone SUA for Fiscal Year 2008 was  
6 \$31.<sup>39</sup>

7  
8 **Q. HAVE YOU COMPARED YOUR AFFORDABILITY ANALYSIS TO EXISTING**  
9 **LOCAL RATES FOR PENNSYLVANIA'S RURAL CARRIERS?**

10 A. Yes. In response to OCA discovery, the Pennsylvania Telephone Association provided  
11 sample residential local telephone bills that individually itemize the unbundled charge for  
12 basic local exchange services as well as all taxes, fees, surcharges and the like that apply.  
13 The sample bills were to include "all such items that a customer has to pay in order to  
14 obtain basic local service." (OCA-V-1). The responses to this OCA discovery are  
15 summarized in Schedule RDC-4.<sup>40</sup> As can be seen in Schedule RDC-4, setting aside  
16 Citizens of Pennsylvania (Quaker Lake) at the lower end of monthly bills (having a total  
17 price for local service of only \$16.72), the basic monthly bills that need to be paid for  
18 local service fall in a range of \$20.07 (Citizens Telephone of Kecksburg) to \$27.10  
19 (Frontier Communications/Oswayo River). Of the 31 companies providing illustrative

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<sup>39</sup> The Fiscal Year 2008 SUAs are published on-line by the U.S. Department of Agriculture at:  
<http://www.fns.usda.gov/fsp/rules/Memo/SUAAAlpha.htm>

<sup>40</sup> Basic exchange rates for Citizens of New York's Little Meadows and Quaker Lake exchanges are included, as they have separate rate structures and service areas. Otherwise, if PTA's reply to OCA-V-1 provided multiple bills for one company to reflect different rate bands or exchanges, I used the bill with the higher basic exchange rate. It is possible that not all of the sample bills reflect the highest cost exchange for each company.

1 bills,<sup>41</sup> including the specified fees and surcharges, 18 had bills between \$20 and \$25 per  
2 month, while 13 had bills between \$25 and \$30 per month.

3  
4 **Q. WHY ARE THESE NUMBERS HIGHER THAT THE \$18.00 RATE “CAP”**  
5 **CURRENTLY IN PLACE IN PENNSYLVANIA?**

6 A. It is my understanding that the \$18.00 cap applies only to the basic exchange price that is  
7 set forth in Column 1 of Schedule RDC-4. That price is useful for determining  
8 “comparability” at basic exchange prices across companies. For purposes of determining  
9 “affordability,” however, it is necessary to include the current subscriber line charge  
10 (\$6.50 or less) as well as the mandatory fees and certain surcharges that must be paid by  
11 customers in order to obtain service.<sup>42</sup> These mandatory fees include, for example, the E-  
12 911 charge, the Federal Universal Service Fund surcharge, and the PA Telephone Relay  
13 Service (TRS) charge.

14  
15 **Q. WHAT DO YOU CONCLUDE?**

16 A. I conclude that the PUC should establish an affordability constraint on basic local  
17 telephone service (including fees and surcharges) based on a percentage of income. The  
18 appropriate percentage of income to use is 0.75% of the average statewide non-  
19 metropolitan median income published annually for each state by HUD.<sup>43</sup>

20  

---

<sup>41</sup> The OCA-V-1 Pennsylvania Telephone Company bill was for business service and so is not included. OCA obtained the Embarq bill informally.

<sup>42</sup> Schedule RDC-4 does not include billed amounts for taxes and the State Tax Adjustment Surcharge (STAS), which apply to all intrastate services, including optional or non-basic services.

<sup>43</sup> See, Notice PDR-2007-1, Estimated Median Family Incomes for FY2007 (March 19, 2007).

1 This proposed 0.75% of income standard is based on data that has been used, and found  
2 to be reliable, by other state agencies for official purposes. Moreover, the results of an  
3 application of the 0.75% of income standard are consistent with other officially published  
4 state standards that use (or incorporate) local telephone bills. Finally, the standard can be  
5 updated on an annual basis using annually-published, authoritative, government income  
6 figures. I will discuss the updating process further below.

7  
8 **Q. HOW DOES THE \$31 PRICE COMPARE TO CURRENT RATES FOR**  
9 **PENNSYLVANIA RURAL COMPANIES?**

10 A. As shown in Schedule RDC-4, all of the rural companies' monthly rates currently fall  
11 below the \$31 affordability line (0.75% of income). Thus, the affordability "constraint"  
12 would not come into play under current rates.

13  
14 **Part 3. Escalating the Affordability Threshold.**

15 **Q. PLEASE EXPLAIN THE PURPOSE OF THIS SECTION OF YOUR**  
16 **TESTIMONY.**

17 A. In this section of my testimony, I explain how I propose to escalate the calculation of an  
18 affordable local telephone bill so that the affordability determination adjusts  
19 appropriately with other changes. This would help avoid a frequent need to re-examine  
20 what level of local telephone service represents an "affordable burden." When one  
21 accepts the proposition that "affordability" is to be tied to the "burdens" imposed by local  
22 telephone service (i.e., bills as a percent of income), it becomes clear that the  
23 affordability of local service is not a static number. In the event that incomes increase,

1 the bill for local service that would be deemed to be “affordable” would increase as well.  
2 Should incomes decrease, the level at which a bill for local service is affordable would  
3 decrease as well.

4  
5 In calculating an affordable bill, therefore, I would use the following escalation factor:

6  
7 
$$ALB_{current} = (APIB \times NMSMI_{current})$$

8  
9 WHERE

10  
11  $ALB_{current}$  = Affordable Local Bill for current year (including fees and surcharges)

12  
13  $APIB$  = Affordable Percentage of Income Burden (constant = 0.75%)

14  
15  $NMSMI_{current}$  = Non-metropolitan State Median Income for the current year

16  
17 I have explained the derivation of the constant Affordable Percentage of Income Burden  
18 (0.75%) above. I explain the purpose of using the Pennsylvania non-metropolitan median  
19 income for the current year below.

20  
21 **Q. WHY DO YOU PROPOSE TO USE THE PENNSYLVANIA MEDIAN INCOME**  
22 **FOR YOUR CALCULATION?**

23 A. Chapter 30 supports the goal of universal telecommunications service at affordable rates  
24 for all Pennsylvanians. Since the calculation of the 0.75% burden was based on total  
25 median income, the escalation rate should be based on total Pennsylvania median income  
26 as well.

27  
28 **Q. DID YOU CONSIDER OTHER INCOME LEVELS AS A POSSIBLE**  
29 **REFERENCE POINT?**

1 A. Yes. Home energy and housing programs that tie “affordability” to a percentage of  
2 income are focused on deriving an affordable bill for *low-income* customers. For  
3 example, the Pennsylvania CAP programs (for natural gas and electric utilities) use the  
4 Federal Poverty Level (or some increment thereof) as the basis for the calculation. In  
5 contrast, the focus of this proceeding differs from programs such as CAP in that the goal  
6 is to determine how to assure affordable rates for all rural Pennsylvania telephone  
7 consumers. As the Commission noted in its April 9, 2008 Order commencing this  
8 proceeding (at 26), it seeks to “assur(e) that local service rates do not become  
9 unreasonably high in those incumbent service territories, and that there are always  
10 reasonably affordable phone carriers operating in all areas of this State.” In that Order  
11 (page 24), the Commission asked for information to help establish “the appropriate  
12 residential benchmark rate for maintaining and enhancing universal telephone service  
13 goals in Pennsylvania.” As can be seen, the Commission’s focus in this proceeding is on  
14 rural residential customers generally, not on low-income residential customers in  
15 particular.

16  
17 Even aside from the focus of this proceeding, use of the Federal Poverty Level would be  
18 inappropriate. The Federal Poverty Level is a uniform national number that would not  
19 reflect statewide conditions unique to Pennsylvania, let alone regional conditions unique  
20 to rural Pennsylvania.

21  
22 In addition, I decided not to use an increment of area median income such as the U.S.  
23 Department of Housing and Urban Development (HUD) uses for affordable housing

1 programs. HUD defines “moderate income,” for example, by reference to 80% of area  
2 median income (AMI).

3  
4 Finally, it is inappropriate to use the Consumer Price Index as an escalation factor for an  
5 affordable local telephone bill. This is true for five reasons.

- 6       ➤ First, the Consumer Price Index (CPI-U) is based on prices for *urban*  
7 consumers. What is generally referred to as the Consumer Price Index is, in  
8 fact, technically known as the Consumer Price Index for all *URBAN*  
9 consumers. This CPI-U would thus be inappropriate to use as an escalation  
10 factor for the affordability of *rural* local telephone bills.
- 11  
12       ➤ Second, the CPI-U applies to the price for goods and services. In our inquiry  
13 here, however, the price of the good (i.e., local telephone service) is the  
14 dependent variable. Income is the independent variable. The CPI-U does not  
15 reflect changes in income.
- 16  
17       ➤ Third, the CPI-U contains multiple components in it that are completely  
18 unrelated to telephone service, let alone to *local* telephone service, let alone to  
19 *rural* local telephone service. For example, increases in the CPI-U in recent  
20 years have largely been driven by increases in transportation energy (e.g.,  
21 gasoline), home energy (e.g., natural gas, fuel oil), and health care costs.  
22 Higher bills for rural local telephone service in Pennsylvania, however, do not  
23 become more affordable because the price of gasoline for a consumer’s  
24 automobile, the price for heating their home, or the price of their health care  
25 has increased.
- 26  
27       ➤ Fourth, the CPI-U nearly always escalates. Median income, however, may  
28 increase or decrease depending on underlying economic conditions. In  
29 Pennsylvania, for example, median income for non-metropolitan areas  
30 actually decreased from 2006 to 2007, before rebounding in 2008.<sup>44</sup> As  
31 discussed above, the affordability of local telephone service should reflect the  
32 burden that local bills impose as a percentage of income. The CPI-U does not  
33 contribute to that inquiry.
- 34  
35       ➤ Finally, the CPI-U is not available on a state-specific basis, let alone on a  
36 basis specific to rural areas within a state. The narrowest CPI-U that might be  
37 available is for Northeastern regional urban areas. Changes in the cost-of-  
38 living in these areas do not relate to the affordability of local telephone service

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<sup>44</sup> Indeed, median incomes may decrease precisely because of the economic conditions imposed by increased rates of inflation.

1 in rural Pennsylvania. The affordability of local telephone service should  
2 reflect local conditions to the maximum extent practicable.  
3

4 **Q. WHY DO YOU RECOMMEND USING THE NON-METROPOLITAN MEDIAN**  
5 **INCOME IN PARTICULAR AS THE BASIS FOR ESCALATING THE LOCAL**  
6 **BILL AFFORDABILITY?**

7 A. HUD publishes three statewide median income figures for every state each year. HUD  
8 publishes a statewide median income, a statewide metropolitan median income, and a  
9 statewide non-metropolitan median income.<sup>45</sup> The non-metropolitan median incomes are  
10 calculated each year by HUD using a process that takes into account the 2000 Census  
11 median income, the statewide median income calculated by the most recent ACS data and  
12 local Bureau of Labor Statistics (BLS) average wage changes for all employees.  
13

14 **Q. WHY IS IT IMPORTANT TO TAKE INTO ACCOUNT THESE LOCAL WAGE**  
15 **CHANGES FOR RURAL AREAS IN PENNSYLVANIA RATHER THAN**  
16 **SIMPLY USING STATEWIDE DATA?**

17 A. Income is not evenly distributed in Pennsylvania. Indeed, the gap between urban and  
18 rural areas is growing larger. In 2001, the per capita income in Pennsylvania's rural  
19 counties was \$24,941, compared to a per capita income in urban counties of \$32,578.  
20 This \$8,637 gap is higher than the \$4,700 income gap between urban and rural areas  
21 found in the 1980s. Indeed, between 1969 and 2001, rural income growth occurred only

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<sup>45</sup> There is not necessarily a complete confluence between the "non-metropolitan" counties identified by HUD and the "rural" areas identified by the U.S. Census Bureau. "Non-metropolitan" counties are identified as those counties that do not fall within a metropolitan area as defined by the Office of Management and Budget (OMB). Some non-metropolitan counties may, therefore, have some non-rural areas as those areas are defined by the Census Bureau.

1 during the period 1969 to 1979.<sup>46</sup> Since 1979, however, rural income stagnated while  
2 urban incomes continued to grow in Pennsylvania. By 2007, the income gap between  
3 rural and urban counties in Pennsylvania had grown to \$10,000. While in 1969, there was  
4 a 19 percent gap between rural and urban per capita incomes, over the next 32 years, that  
5 gap widened to 25 percent.

6  
7 **Q. IS THIS INCOME STAGNATION SIMPLY AN ATTRIBUTE OF HOUSEHOLDS**  
8 **IN POVERTY?**

9 A. No. The rate of Poverty in rural Pennsylvania is somewhat higher than in Pennsylvania's  
10 urban areas. Being "in poverty," in this sense, means that a household lives with income  
11 at or below 100% of the Federal Poverty Level. In 2007/2008, while 11% of rural  
12 Pennsylvania households were in Poverty, only 9% of urban households were. This is  
13 true even though fewer rural households receive public assistance through the Temporary  
14 Aid to Needy Families (TANF) program, a program generally thought of as "welfare."  
15 Indeed, 32% of adults in rural poverty households were employed (compared to 35% of  
16 urban poverty households). The percent of rural persons who were employed but still in  
17 poverty increased from 2005/2006 to 2007/2008 (from 29% to 32%).

18  
19 Aside from differences between urban and rural households in poverty, there are  
20 differences in the middle income families as well. The Center for Rural Pennsylvania  
21 specifically studied the attributes of middle income Pennsylvania residents. In this

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<sup>46</sup> C.A. Christofides et al (November 2006). *Examining the Rural-Urban Income Gap*, at 6, Center for Rural Pennsylvania: Harrisburg (PA). ("Total personal income initially grew faster in rural counties relative to urban counties between 1969 and 2001, decreasing the gap early on. However, most of the rural growth occurred between 1969 and 1979, after which rural growth slowed while urban income growth accelerated.")

1 analysis, the Center made clear that it distinguished between “middle-income” and  
2 “middle class.” Middle income is a term-of-art, referring to those households who live  
3 with annual incomes of between \$37,501 and \$50,000. This income range represents the  
4 middle one-fifth (quintile) of all households among the total range of household incomes  
5 in Pennsylvania. As compared to urban Pennsylvania households in the middle income  
6 range, rural middle-income households are more likely to have experienced  
7 unemployment within the previous 12 months (16% vs. 9%). Indeed, the Center found  
8 that the incomes of rural Pennsylvania residents are less stable than those of their urban  
9 counterparts. In addition to rural workers having higher unemployment and lower wages  
10 and salaries than in urban areas, Pennsylvania’s rural areas have fewer employers per  
11 capita and a sluggish growth in business. According to the Center, “with these factors as  
12 a backdrop, rural middle-income households may not have the same economic safety net  
13 as urban middle-income households.”<sup>47</sup>

14  
15 **Q. HAVE YOU REVIEWED THE DIFFERENCES IN AFFORDABLE BILLS THAT**  
16 **WOULD RESULT FROM THE USE OF VARIOUS ESCALATION RATES?**

17 A. Yes. Schedule RDC-5 sets forth the results of three escalation factors. Scenario #1 is the  
18 recommended scenario. This Scenario adjusts the affordable rural bill by reference to  
19 changes in the non-metropolitan median income reported annually for Pennsylvania. The  
20 Scenario is reflective of actual economic conditions as they exist for rural Pennsylvania.  
21 When median rural income decreased in 2007, for example, the rural local bill that was  
22 deemed to be “affordable” decreased as well. Since the base year for this analysis

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<sup>47</sup> Center for Rural Pennsylvania (2007). *A Comparison of Rural and Urban Middle-Income Households*, at 4, Center for Rural Pennsylvania: Harrisburg (PA).

1 (2004), the rural local bill that was calculated to be affordable has seen a modest increase,  
2 reflecting the modest increase in rural median income.

3  
4 In contrast, use of the state median income would result in a bill deemed to be  
5 “affordable,” yet that would not reflect the lower incomes of rural Pennsylvania. Indeed,  
6 as shown in Scenario #2, use of the state median income would result in a local bill that  
7 would be 20% higher ( $(\$36 - \$30) / \$30 = 0.20$ ) than would be appropriate at the rural  
8 income. Use of the state median income would result in an annual increase for rural local  
9 telephone service of more than \$70 per year by 2008 ( $\$458 - \$386 = \$72$ ).

10  
11 Finally, Schedule RDC-5 (Scenario #3) shows the impropriety of using the CPI-U as an  
12 escalation factor. Use of the CPI-U, simply over a four-year period (2004 through 2008),  
13 would have resulted in an increase in the bill deemed to be “affordable” of twice that  
14 merited by reference to changes in either state median income or rural median income.  
15 Moreover, use of the CPI-U would not have reflected the dip in median income during  
16 2007, which would have resulted in a decrease in the affordability of local rural telephone  
17 bills.

18  
19 **Q. IS THERE ANY FINAL REASON WHY IT IS IMPORTANT TO TAKE RURAL**  
20 **MEDIAN INCOME INTO ACCOUNT RATHER THAN STATEWIDE MEDIAN**  
21 **INCOME?**

22 A. Yes. In the *1997 Universal Service Order*, the FCC expressed concern about defining  
23 “affordability” through “establishing a formula based on percentages of consumers’

1 disposable income dedicated to telecommunications services.”<sup>48</sup> Such an approach, the  
2 FCC indicated, “would over-emphasize income levels in relation to other non-rate factors  
3 that may affect affordability and fail to reflect the effect of local circumstances on the  
4 affordability of a particular rate.”<sup>49</sup> The approach I have taken above, while based on a  
5 percentage of household income, seeks to address that concern. Using rural median  
6 income rather than statewide median income de-emphasizes the exclusive use of income  
7 levels in favor of taking into account other local circumstances. As I have described in  
8 detail above, the use of rural median income has the effect of taking into account “non-  
9 rate factors” such as cost-of-living, the economic stability of the underlying population,  
10 the relationship between income and external economic factors, and related “non-rate-  
11 factors.” The use of the non-metropolitan median income takes into account the impact  
12 of “local circumstances” rather than basing the affordability determination on larger  
13 geographic averages. The approach that I have outlined above is designed specifically to  
14 take into account the concerns expressed by the FCC in its 1997 order.

15  
16 **Q. WHAT DO YOU CONCLUDE?**

17 A. It would be inappropriate to base any escalation in the affordability of local rural  
18 telephone service based on statewide median income data. Statewide median income  
19 does not reflect median income in Pennsylvania’s rural areas. Not only are rural incomes  
20 lower than statewide incomes, but rural incomes are less stable and more subject to the  
21 vagaries of changes in local economic conditions. There is authoritative annual data  
22 published for non-metropolitan median incomes. These incomes are objective, publicly

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<sup>48</sup> 1997 Universal Service Order ¶ 115.

<sup>49</sup> *Id.*

1 available, and annually updated. These non-metropolitan median incomes should be used  
2 for any escalation in a determination of what constitutes an affordable bill.<sup>50</sup>

3  
4 **Part 4. The Interrelationship between Lifeline and Affordable Rural Rates.**

5 **Q. PLEASE EXPLAIN THE PURPOSE OF THIS SECTION OF YOUR**  
6 **TESTIMONY.**

7 A. This section of my testimony considers the relationship, between promoting affordable  
8 rural local telephone service and low-income telecommunications support programs such  
9 as the federal Telephone Lifeline program. I conclude that the telephone Lifeline  
10 program is not a substitute for the rural telephone price support mechanism.

11  
12 **Q. PLEASE EXPLAIN THE PURPOSE OF THE LIFELINE PROGRAM.**

13 A. The federal Lifeline program is a program that is designed to increase the penetration of  
14 low-income telephone service by providing monthly bill credits toward local service.  
15 Under the Lifeline program, local telephone companies provide a waiver of the  
16 Subscriber Line Charge, a waiver of the federal Universal Service Fund charge, and a  
17 reduction of local service charges. In Pennsylvania in particular, what is called the  
18 “Lifeline 135” program is available for customers of all qualified telephone service  
19 providers. Lifeline helps customers who have incomes at or below 135 percent of the  
20 federal poverty guidelines, as well as any customers who receive help from any of the  
21 following programs: General Assistance (GA), Supplemental Security Income (SSI),  
22 TANF, LIHEAP, Federal Public Housing Assistance, Medicaid, Food Stamps, or the  
23 National School Lunch Program’s Free Lunch Program.

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<sup>50</sup> The non-metropolitan median incomes can be accessed at <http://www.huduser.org/datasets/il.html>.

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As can be seen, the objectives of the high cost rural support fund and of the Lifeline programs are substantively different. Unlike the low-income benefits provided by Lifeline, the affordability provisions of the high cost rural support fund are directed toward all customers.

**Q. DO PENNSYLVANIA TELEPHONE COMPANIES GENERATE A HIGH ENROLLMENT IN THE TELEPHONE LIFELINE PROGRAM?**

A. No. A second problem with relying exclusively on the telephone Lifeline program as a mechanism for ensuring “affordability” under the statute is that Pennsylvania has a relatively low enrollment in its Lifeline program. Consider that in its most recent *Trends in Telephone Service* report (released in August 2008), the FCC reports that Pennsylvania had 143,824 Lifeline subscribers. This 2006 Lifeline subscription rate was a *decrease* from the 2005 subscription of 160,408 Lifeline customers. Indeed, the data reported in August 2008 shows a virtually constant subscription to the FCC Lifeline program as existed in 2004, when the Lifeline program reached 145,558 customers in Pennsylvania.

**Q. DO YOU BELIEVE THAT PENNSYLVANIA COULD DO BETTER IN ITS LIFELINE PROGRAM ENROLLMENT?**

A. Yes. Consider the Telephone Lifeline enrollment compared to the state’s enrollment of customers in the natural gas and electric Customer Assistance Programs (CAPs). In contrast to the roughly 145,000 telephone Lifeline subscribers, Pennsylvania’s *investor-owned* electric utilities have enrolled 225,691 customers in their CAP programs, while

1 the state's investor-owned natural gas utilities have enrolled 184,833 low-income  
2 customers in their CAP programs. There would be some, but not complete, overlap  
3 between the natural gas and electric CAP programs but, still, the Lifeline enrollment is as  
4 much as 35% lower than the electric CAP enrollment  $((225,691 - 145,000) / 145,000 =$   
5  $0.358)$ .

6  
7 Similarly, as of November 28, 2008, there were 558,939 households participating in the  
8 federal Food Stamp program, slightly more than the 530,243 that participated in 2007 and  
9 substantially more than the 431,664 that participated in 2004. Moreover, 284,000 low-  
10 income Pennsylvania households participated in Pennsylvania's LIHEAP heating  
11 program in Fiscal Year 2007.

12  
13 **Q. ARE THERE OTHER PROBLEMS THAT WOULD ARISE FROM AN**  
14 **EXCLUSIVE RELIANCE ON THE LIFELINE PROGRAM AS THE**  
15 **MECHANISM FOR ADDRESSING RURAL AFFORDABILITY PROBLEMS?**

16 A. Yes. The Lifeline program has insufficient performance goals and reporting mechanisms  
17 to use as an exclusive response to rural unaffordability. It is not possible for  
18 policymakers such as the FCC to track the impact of the Lifeline program on low-income  
19 affordability generally, let alone for policymakers to track the impact of the Lifeline  
20 program on rural unaffordability in particular. In its August 29, 2007 Report and Order  
21 with respect to the oversight and management of the Lifeline program, the FCC explicitly  
22 found that "the low-income program is designed to ensure that telecommunications  
23 services are available to low-income customers at just, reasonable, and affordable rates. .

1 .We do not have sufficient data at this time to establish goals for these low-income  
2 performance measurements.”<sup>51</sup> Even if one were to assume that Lifeline is structured to  
3 be an appropriate substitute for rural cost supports, the program has insufficient  
4 performance goals, and performance tracking capacity, for it to be used in such a way at  
5 this time.

6  
7 **Q. IS YOUR PURPOSE HERE TO PROPOSE CHANGES IN THE PENNSYLVANIA**  
8 **LIFELINE PROGRAM?**

9 A. No. This proceeding is neither the time nor the place to consider how to modify  
10 Pennsylvania’s Lifeline program. My only observation, at this juncture, is that of the  
11 availability of a low-income affordability program such as Lifeline does not stand as a  
12 substitute for adopting an affordability constraint on the reasonably comparable rates that  
13 are calculated for purposes of high cost rural support.

14  
15 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS WITH RESPECT TO THE**  
16 **HIGH COST SUPPORT MECHANISM FOR BASIC LOCAL TELEPHONE**  
17 **SERVICE IN PENNSYLVANIA.**

18 A. Based on the data and analysis presented above, I reach the following seven conclusions  
19 regarding high cost support for basic local rural telephone service in Pennsylvania:

- 20           ➤ The touchstone of high cost support involves the comparability of rural and  
21 non-rural rates. This comparability standard, however, must be implemented  
22 subject to an affordability constraint. If reasonably comparable rates yield  
23 unaffordable rural bills, the affordability standard serves as a limitation on  
24 those rates.  
25

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<sup>51</sup> *In the Matter of Comprehensive Review of the Universal Service Fund, Administration, and Oversight*, WC Docket No. 05-195, Report and Order, at ¶50 (Aug. 29, 2007).

- 1           ➤ “Affordability” should be defined using the same two elements as adopted by  
2           the FCC in its implementation of the affordability provisions of the  
3           Telecommunications Act of 1996. Affordability has both an absolute  
4           component (can households retain service?) and a relative component (can  
5           households retain service without undue detriment to the household?) to it.  
6  
7           ➤ The proper test for demarcating “affordable” local telephone service should be  
8           based on the “burden” imposed on households as a result of local telephone  
9           bills (including all taxes and fees). The local telephone burden is the bill for  
10          basic local service as a percentage of income.  
11  
12          ➤ Local rural telephone service should be deemed affordable so long as the bill  
13          for such service (including the subscriber line charge and all other mandatory  
14          taxes and fees) does not exceed 0.75% (three-quarters of one percent) of  
15          household income.  
16  
17          ➤ The appropriate “income” to use in applying the 0.75% standard is the non-  
18          metropolitan median income published annually for the Commonwealth of  
19          Pennsylvania.  
20  
21          ➤ The affordability of bills for local rural telephone service should be adjusted  
22          annually based on published data for non-metropolitan median income in  
23          Pennsylvania.  
24  
25          ➤ Low-income affordability programs, such as the FCC’s Lifeline program, are  
26          not a substitute for imposing an affordability constraint on reasonably  
27          comparable rates generated for purposes of rural high cost support.  
28

29   **Q.     DOES THIS CONCLUDE YOUR TESTIMONY?**

30   A.     Yes, it does.

31  
32   00107374.doc

# **ATTACHMENT RC-1**

## ROGER D. COLTON

### **BUSINESS ADDRESS:**

Fisher Sheehan & Colton  
Public Finance and General Economics  
34 Warwick Road, Belmont, MA 02478  
617-484-0597 (voice) \*\*\* 617-484-0594 (fax)  
roger@fsconline.com (e-mail)  
<http://www.fsconline.com>  
<http://www.HomeEnergyAffordabilityGap.com>

### **EDUCATION:**

J.D. (Order of the Coif), University of Florida (1981)

M.A. (Economics), McGregor School, Antioch University (1993)

B.A. Iowa State University (1975)

### **PROFESSIONAL EXPERIENCE:**

**Fisher, Sheehan and Colton, Public Finance and General Economics:** 1985 - present.

As a co-founder of this economics consulting partnership, Colton provides services in a variety of areas, including: regulatory economics, poverty law and economics, public benefits, fair housing, community development, energy efficiency, utility law and economics (energy, telecommunications, water/sewer) and planning and zoning.

**National Consumer Law Center (NCLC):** 1986 - 1994

As a staff attorney with NCLC, Colton worked on low-income energy and utility issues. He pioneered cost-justifications for low-income affordable energy rates, as well as developing models to quantify the non-energy benefits (*e.g.*, reduced credit and collection costs, reduced working capital) of low-income energy efficiency. He designed, implemented and evaluated low-income affordable rate and fuel assistance programs across the country.

**Community Action Research Group (CARG):** 1981 - 1985

As staff attorney for this non-profit research and consulting organization, Colton worked primarily on energy and utility issues. He provided legal representation to low-income persons on public utility issues; provided legal and technical assistance to consumer and labor organizations; and provided legal and technical assistance to a

variety of state and local governments nationwide on natural gas, electric, and telecommunications issues. He routinely appeared as an expert witness before regulatory agencies and legislative committees regarding energy and telecommunications issues.

### **PROFESSIONAL AFFILIATIONS:**

- Member: Board of Directors, Belmont Housing Trust, Inc.
- Member: Advisory Board: Fair Housing Center of Greater Boston.
- Past Member: Fair Housing Committee, Town of Belmont (MA)
- Past Member: Aggregation Advisory Committee, New York State Energy Research and Development Authority.
- Past Member: Board of Directors, Vermont Energy Investment Corporation.
- Past Member: Board of Directors, National Fuel Funds Network
- Past Member: National Advisory Committee, U.S. Department of Health and Human Services, Administration for Children and Families, Performance Goals for Low-Income Home Energy Assistance.
- Past Member: Editorial Advisory Board, International Library, *Public Utility Law Anthology*.
- Past Member: ASHRAE Guidelines Committee, GPC-8, *Energy Cost Allocation of Comfort HVAC Systems for Multiple Occupancy Buildings*
- Past Member: National Advisory Committee, U.S. Department of Housing and Urban Development, Calculation of Utility Allowances for Public Housing.
- Past Member: National Advisory Board: Energy Financing Alternatives for Subsidized Housing, New York State Energy Research and Development Authority.

### **PROFESSIONAL ASSOCIATIONS:**

- National Association of Housing and Redevelopment Officials (NAHRO)
- Association for Enterprise Opportunity (AEO)
- Iowa State Bar Association
- Energy Bar Association
- Association for Institutional Thought (AFIT)
- Association for Evolutionary Economics (AEE)
- Society for the Study of Social Problems (SSSO)
- International Society for Policy Studies
- Association for Social Economics

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**COLTON EXPERIENCE AS EXPERT WITNESS**

**1988 - PRESENT**

<b>CASE NAME</b>	<b>ROLE</b>	<b>CLIENT NAME</b>	<b>TOPIC</b>	<b>JURIS.</b>	<b>DATE</b>
I/M/O Equitable Gas Company	Witness	Office of Consumer Advocate	Low-income program	Pennsylvania	08
I/M/O Columbia Gas Company	Witness	Office of Ohio Consumers' Counsel	Rate design	Ohio	08
I/M/O Dominion East Ohio Gas Company	Witness	Office of Ohio Consumers' Counsel	Rate design	Ohio	08
I/M/O Vectren Energy Delivery Company	Witness	Office of Ohio Consumers' Counsel	Rate design	Ohio	08
I/M/O Public Service Company of North Carolina	Witness	NC Department of Justice	Rate design	North Carolina	08
I/M/O Piedmont Natural Gas Company	Witness	NC Department of Justice	Rate design	North Carolina	08
I/M/O National Grid	Witness	New Hampshire Legal Assistance	Low-income rate assistance	New Hampshire	08
I/M/O EmPower Maryland	Witness	Office of Peoples Counsel	Low-income energy efficiency	Maryland	08
I/M/O Duke Energy Carolinas Save-n-Watt Program	Witness	NC Equal Justice Foundation	Low-income energy efficiency	North Carolina	08
I/M/O Zia Natural Gas Company	Witness	Community Action New Mexico	Low-income/low-use rate design	New Mexico	08
I/M/O Universal Service Fund Support for the Affordability of Local Rural Telecomm Service	Witness	Office of Consumer Advocate	Telecomm service affordability	Pennsylvania	08
I/M/O Philadelphia Water Department	Witness	Public Advocate	Credit and Collections	Philadelphia	08
I/M/O Portland General Electric Company	Witness	Community Action--Oregon	General rate case	Oregon	08
I/M/O Philadelphia Electric Company (electric)	Witness	Office of Consumer Advocate	Low-income program	Pennsylvania	08
I/M/O Philadelphia Electric Company (gas)	Witness	Office of Consumer Advocate	Low-income program	Pennsylvania	08
I/M/O Columbia Gas Company	Witness	Office of Consumer Advocate	Low-income program	Pennsylvania	08
I/M/O Public Service Company of New Mexico	Witness	Community Action New Mexico	Fuel adjustment clause	New Mexico	08
I/M/O Petition of Direct Energy for Low-Income Aggregation	Witness	Office of Peoples Counsel	Low-income electricity aggregation	Maryland	07
I/M/O Office of Consumer Advocate et al. v. Verizon and Verizon North	Witness	Office of Consumer Advocate	Lifeline telecommunications rates	Pennsylvania	07
I/M/O Pennsylvania Power Company	Consultant	Office of Consumer Advocate	Low-income program	Pennsylvania	07
I/M/O National Fuel Gas Distribution Corporation	Consultant	Office of Consumer Advocate	Low-income program	Pennsylvania	07

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
I/M/O Public Service of New Mexico--Electric	Witness	Community Action New Mexico	Low-income programs	New Mexico	07
I/M/O Citizens Gas/NIPSCO/Vectren for Universal Service Program	Witness	Citizens Gas & Coke Utility/Northern Indiana Public Service/Vectren Energy	Low-income program design	Indiana	07
I/M/O PPL Electric	Witness	Office of Consumer Advocate	Low-income program	Pennsylvania	07
I/M/O Section 15 Challenge to NSPI Rates	Witness	Energy Affordability Coalition	Discrimination in utility regulation	Nova Scotia	07
I/M/O Philadelphia Gas Works	Witness	Office of Consumer Advocate	Low-income and residential collections	Pennsylvania	07
I/M/O Equitable Gas Company	Witness	Office of Consumer Advocate	Low-income program	Pennsylvania	07
I/M/O Section 11 Proceeding, Energy Restructuring	Witness	Office of Peoples Counsel	Low-income needs and responses	Maryland	06
I/M/O Citizens Gas/NIPSCO/Vectren for Universal Service Program	Witness	Citizens Gas & Coke Utility/Northern Indiana Public Service/Vectren Energy	Low-income program design	Indiana	06
I/M/O Public Service Co. of North Carolina	Witness	North Carolina Attorney General/Dept. of Justice	Low-income energy usage	North Carolina	06
I/M/O Electric Assistance Program	Witness	New Hampshire Legal Assistance	Electric low-income program design	New Hampshire	06
I/M/O Verizon Petition for Alternative Regulation	Witness	New Hampshire Legal Assistance	Basic local telephone service	New Hampshire	06
I/M/O Pennsylvania Electric Co/Metropolitan Edison Co.	Witness	Office of Consumer Advocate	Universal service cost recovery	Pennsylvania	06
I/M/O Duquesne Light Company	Witness	Office of Consumer Advocates	Universal service cost recovery	Pennsylvania	06
I/M/O Natural Gas DSM Planning	Witness	Low-Income Energy Network	Low-income DSM program	Ontario	06
I/M/O Union Gas Co.	Witness	Action Centre for Tenants Ontario (ACTO)	Low-income program design	Ontario	06
I/M/O Public Service of New Mexico merchant plant	Witness	Community Action New Mexico	Low-income energy usage	New Mexico	06
I/M/O Customer Assistance Program design and cost recovery	Witness	Office of Consumer Advocate	Low-income program design	Pennsylvania	06
I/M/O NIPSCO Proposal to Extend Winter Warmth Program	Witness	Northern Indiana Public Service Company	Low-income energy program evaluation	Indiana	05
I/M/O Piedmont Natural Gas	Witness	North Carolina Attorney General/Dept. of Justice	Low-income energy usage	North Carolina	05
I/M/O PSEG merger with Exelon Corp.	Witness	Division of Ratepayer Advocate	Low-income issues	New Jersey	05
Re. Philadelphia Water Department	Witness	Public Advocate	Water collection factors	Philadelphia	05
I/M/O statewide natural gas universal service program	Witness	New Hampshire Legal Assistance	Universal service	New Hampshire	05

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
I/M/O Sub-metering requirements for residential rental properties	Witness	Tenants Advocacy Centre of Ontario	Sub-metering consumer protections	Ontario	05
I/M/O National Fuel Gas Distribution Corp.	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	05
I/M/O Nova Scotia Power, Inc.	Witness	Dalhousie Legal Aid Service	Universal service	Nova Scotia	04
I/M/O Lifeline Telephone Service	Witness	National Ass'n State Consumer Advocates (NASUCA)	Lifeline rate eligibility	FCC	04
Mackay v. Verizon North	Witness	Office of Consumer Advocate	Lifeline rates—vertical services	Pennsylvania	04
I/M/O PECO Energy	Witness	Office of Consumer Advocate	Low-income rates	Pennsylvania	04
I/M/O Philadelphia Gas Works	Witness	Office of Consumer Advocate	Credit and collections	Pennsylvania	04
I/M/O Citizens Gas & Coke/Vectren	Witness	Citizens Action Coalition of Indiana	Universal service	Indiana	04
I/M/O PPL Electric Corporation	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	04
I/M/O Consumers New Jersey Water Company	Witness	Division of Ratepayer Advocate	Low-income water rate	New Jersey	04
I/M/O Washington Gas Light Company	Witness	Office of Peoples Counsel	Low-income gas rate	Maryland	04
I/M/O Washington Gas Light Company	Witness	Office of Peoples Counsel	Low-income gas rate	Maryland	03
Golden v. City of Columbus	Witness	Helen Golden	EOCA disparate impacts	Ohio	02
Huegel v. City of Easton	Witness	Phyllis Huegel	Credit and collection	Pennsylvania	02
I/M/O Universal Service Fund	Witness	Public Utility Commission staff	Universal service funding	New Hampshire	02
I/M/O Philadelphia Gas Works	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	02
I/M/O Washington Gas Light Company	Witness	Office of Peoples Counsel	Rate design	Maryland	02
I/M/O Consumers Illinois Water Company	Witness	Illinois Citizens Utility Board	Credit and collection	Illinois	02
I/M/O Public Service Electric & Gas Rates	Witness	Division of Ratepayer Advocate	Universal service	New Jersey	01
I/M/O Pennsylvania-American Water Company	Witness	Office of Consumer Advocate	Low-income rates and water conservation	Pennsylvania	01
I/M/O Louisville Gas & Electric Prepayment Meters	Witness	Kentucky Community Action Association	Low-income energy	Kentucky	01
I/M/O NICOR Budget Billing Plan Interest Charge	Witness	Cook County State's Attorney	Rate Design	Illinois	01
I/M/O Rules Re. Payment Plans for High Natural Gas Prices	Witness	Cook County State's Attorney	Budget Billing Plans	Illinois	01

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
I/M/O Philadelphia Water Department	Witness	Office of Public Advocate	Credit and collections	Philadelphia	01
I/M/O Missouri Gas Energy	Witness	Office of Peoples Counsel	Low-income rate relief	Missouri	01
I/M/O Bell Atlantic--New Jersey Alternative Regulation	Witness	Division of Ratepayer Advocate	Telecommunications universal service	New Jersey	01
I/M/O T.W. Phillips Gas and Oil Co.	Witness	Office of Consumer Advocate	Ratemaking of universal service costs.	Pennsylvania	00
I/M/O Peoples Natural Gas Company	Witness	Office of Consumer Advocate	Ratemaking of universal service costs.	Pennsylvania	00
I/M/O UGI Gas Company	Witness	Office of Consumer Advocate	Ratemaking of universal service costs.	Pennsylvania	00
I/M/O PFG Gas Company	Witness	Office of Consumer Advocate	Ratemaking of universal service costs.	Pennsylvania	00
Armstrong v. Gallia Metropolitan Housing Authority	Witness	Equal Justice Foundation	Public housing utility allowances	Ohio	00
I/M/O Bell Atlantic--New Jersey Alternative Regulation	Witness	Division of Ratepayer Advocate	Telecommunications universal service	New Jersey	00
I/M/O Universal Service Fund for Gas and Electric Utilities	Witness	Division of Ratepayer Advocate	Design and funding of low-income programs	New Jersey	00
I/M/O Consolidated Edison Merger with Northeast Utilities	Witness	Save Our Homes Organization	Merger impacts on low-income	New Hampshire	00
I/M/O UtiliCorp Merger with St. Joseph Light & Power	Witness	Missouri Dept. of Natural Resources	Merger impacts on low-income	Missouri	00
I/M/O UtiliCorp Merger with Empire District Electric	Witness	Missouri Dept. of Natural Resources	Merger impacts on low-income	Missouri	00
I/M/O PacifiCorp	Witness	The Opportunity Council	Low-income energy affordability	Washington	00
I/M/O Public Service Co. of Colorado	Witness	Colorado Energy Assistance Foundation	Natural gas rate design	Colorado	00
I/M/O Avista Energy Corp.	Witness	Spokane Neighborhood Action Program	Low-income energy affordability	Washington	00
I/M/O TW Phillips Energy Co.	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O PECO Energy Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O National Fuel Gas Distribution Corp.	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O PFG Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O UGI Energy Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
Re. PSCO/NSP Merger	Witness	Colorado Energy Assistance Foundation	Merger impacts on low-income	Colorado	99 - 00
I/M/O Peoples Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
I/M/O Columbia Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
I/M/O PG Energy Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
I/M/O Equitable Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
Allerruzzo v. Klarchek	Witness	Barlow Allerruzzo	Mobile home fees and sales	Illinois	99
I/M/O Restructuring New Jersey's Natural Gas Industry	Witness	Division of Ratepayer Advocate	Universal service	Pennsylvania	99
I/M/O Bell Atlantic Local Competition	Witness	Public Utility Law Project	Lifeline telecommunications rates	New Jersey	99
I/M/O Merger Application for SBC and Ameritech Ohio	Witness	Edgemont Neighborhood Association	Merger impacts on low-income consumers	Ohio	98 - 99
Davis v. American General Finance	Witness	Thomas Davis	Damages in "loan flipping" case	Ohio	98 - 99
Griffin v. Associates Financial Service Corp.	Witness	Earlie Griffin	Damages in "loan flipping" case	Ohio	98 - 99
I/M/O Baltimore Gas and Electric Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
I/M/O Delmarva Power and Light Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
I/M/O Potomac Electric Power Co. Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
I/M/O Potomac Edison Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
VMHOA v. LaPierre	Witness	Vermont Mobile Home Owners Association	Mobile home tying	Vermont	98
Re. Restructuring Plan of Virginia Electric Power	Witness	VMH Energy Services, Inc.	Consumer protection/basic generation service	Virginia	98
Mackey v. Spring Lake Mobile Home Estates	Witness	Timothy Mackey	Mobile home fees	State ct. Illinois	98
Re. Restructuring Plan of Atlantic City Electric	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Re. Restructuring Plan of Jersey Central Power & Light	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Re. Restructuring Plan of Public Service Electric & Gas	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Re. Restructuring Plan of Rockland Electric	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Appleby v. Metropolitan Dade County Housing Agency	Witness	Legal Services of Greater Miami	HUD utility allowances	Fed. court. So. Florida	97 - 98
Re. Restructuring Plan of PECO Energy Company	Witness	Energy Coordinating Agency of Philadelphia	Universal service	Pennsylvania	97
Re. Atlantic City Electric Merger	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97
Re. IES Industries Merger	Witness	Iowa Community Action Association	Low-income issues	Iowa	97

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
Re. New Hampshire Electric Restructuring	Witness	NH Comm. Action Ass'n	Wires charge	New Hampshire	97
Re. Natural Gas Competition in Wisconsin	Witness	Wisconsin Community Action Association	Universal service	Wisconsin	96
Re. Baltimore Gas and Electric Merger	Witness	Maryland Office of Peoples Counsel	Low-income issues	Maryland	96
Re. Northern States Power Merger	Witness	Energy Cents Coalition	Low-income issues	Minnesota	96
Re. Public Service Co. of Colorado Merger	Witness	Colorado Energy Assistance Foundation	Low-income issues	Colorado	96
Re. Massachusetts Restructuring Regulations	Witness	Fisher, Sheehan & Colton	Low-income issues/energy efficiency	Massachusetts	96
Re. FERC Merger Guidelines	Witness	National Coalition of Low-Income Groups	Low-income interests in mergers	Washington D.C.	96
Re. Joseph Keliikuli III	Witness	Joseph Keliikuli III	Damages from lack of homestead	Honolulu	96
Re. Theresa Mahaulu	Witness	Theresa Mahaulu	Damages from lack of homestead	Honolulu	95
Re. Joseph Ching, Sr.	Witness	Re. Joseph Ching, Sr.	Damages from lack of homestead	Honolulu	95
Joseph Keaulana, Jr.	Witness	Joseph Keaulana, Jr.	Damages from lack of homestead	Honolulu	95
Re. Utility Allowances for Section 8 Housing	Witness	National Coalition of Low-Income Groups	Fair Market Rent Setting	Washington D.C.	95
Re. PGW Customer Service Tariff Revisions	Witness	Philadelphia Public Advocate	Credit and collection	Philadelphia	95
Re. Customer Responsibility Program	Witness	Philadelphia Public Advocate	Low-income rates	Philadelphia	95
Re. Houston Lighting and Power Co.	Witness	Gulf Coast Legal Services	Low-Income Rates	Texas	95
Re. Request for Modification of Winter Moratorium	Witness	Philadelphia Public Advocate	Credit and collection	Philadelphia	95
Re. Dept of Hawaii Homelands Trust Homestead Production	Witness	Native Hawaiian Legal Corporation	Prudence of trust management	Honolulu	94
Re. SNET Request for Modified Shutoff Procedures	Witness	Office of Consumer Counsel	Credit and collection	Connecticut	94
Re. Central Light and Power Co.	Witness	United Farm Workers	Low-income rates/DSM	Texas	94
Blackwell v. Philadelphia Electric Co.	Witness	Gloria Blackwell	Role of shutoff regulations	Penn. courts	94
U.S. West Request for Waiver of Rules	Witness	Wash. Util. & Transp. Comm'n Staff	Telecommunications regulation	Washington	94
Re. U.S. West Request for Full Toll Denial	Witness	Colorado Office of Consumer Counsel	Telecommunications regulation	Colorado	94
Washington Gas Light Company	Witness	Community Family Life Services	Low-income rates & energy efficiency	Washington D.C.	94
Clark v. Peterborough Electric Utility	Witness	Peterborough Community Legal Centre	Discrimination of tenant deposits	Ontario, Canada	94
Dorsey v Housing Auth. of Baltimore	Witness	Baltimore Legal Aide	Public housing utility allowances	Federal district court	93

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
Penn Bell Telephone Co.	Witness	Penn. Utility Law Project	Low-income phone rates	Pennsylvania	93
Philadelphia Gas Works	Witness	Philadelphia Public Advocate	Low-income rates	Philadelphia	93
Central Maine Power Co.	Witness	Maine Assn Ind. Neighborhoods	Low-income rates	Maine	92
New England Telephone Company	Witness	Mass Attorney General	Low-income phone rates	Massachusetts	92
Philadelphia Gas Co.	Witness	Philadelphia Public Advocate	Low-income DSM	Philadelphia	92
Philadelphia Water Dept.	Witness	Philadelphia Public Advocate	Low-income rates	Philadelphia	92
Public Service Co. of Colorado	Witness	Land and Water Fund	Low-income DSM	Colorado	92
Sierra Pacific Power Co.	<b>Witness</b>	Washoe Legal Services	Low-income DSM	Nevada	92
Consumers Power Co.	Witness	Michigan Legal Services	Low-income rates	Michigan	92
Columbia Gas	Witness	Office of Consumer Advocate (OCA)	Energy Assurance Program	Pennsylvania	91
Mass. Elec. Co.	Witness	Mass Elec Co.	Percentage of Income Plan	Massachusetts	91
AT&T	Witness	TURN	Inter-LATA competition	California	91
Generic Investigation into Uncollectibles	Witness	Office of Consumer Advocate	Controlling uncollectibles	Pennsylvania	91
Union Heat Light & Power	Witness	Kentucky Legal Services (KLS)	Energy Assurance Program	Kentucky	90
Philadelphia Water	Witness	Philadelphia Public Advocate (PPA)	Controlling accounts receivable	Philadelphia	90
Philadelphia Gas Works	Witness	PPA	Controlling accounts receivable	Philadelphia	90
Mississippi Power Co.	Witness	Southeast Mississippi Legal Services Corp	Formula ratemaking	Mississippi	90
Kentucky Power & Light	Witness	KLS	Energy Assurance Program	Kentucky	90
Philadelphia Electric Co.	Witness	PPA	Low-income rate program	Philadelphia	90
Montana Power Co.	Witness	Montana Ass'n of Human Res. Council Directors	Low-income rate proposals	Montana	90
Columbia Gas Co.	Witness	Office of Consumer Advocate	Energy Assurance Program	Pennsylvania	90
Philadelphia Gas Works	Witness	PPA	Energy Assurance Program	Philadelphia	89
Southwestern Bell Telephone Co.	Witness	SEMLSC	Formula ratemaking	Mississippi	90
Generic Investigation into Low-income Programs	Witness	Vermont State Department of Public Service	Low-income rate proposals	Vermont	89

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
Generic Investigation into Dmnd Side Management Measures	Consultant	Vermont DPS	Low-income conservation programs	Vernont	89
National Fuel Gas	Witness	Office of Consumer Advocate	Low-income fuel funds	Pennsylvania	89
Montana Power Co.	Witness	Human Resource Develop. Council District XI	Low-income conservation	Montana	88
Washington Water Power Co.	Witness	Idaho Legal Service Corp.	Rate base, rate design, cost-allocations	Idaho	88

# **SCHEDULE RDC-1**

## Schedule RDC-1

Pennsylvania PUMAs in which Telephone Penetration Decreased by 2% or more (2000 – 2006)					
Decrease >2% and <3%			Decrease 3% or more		
PUMA	County	Rural	PUMA	County	Rural
902	Luzerne (part)		801	Lackawanna (part)	
903	Luzerne (part)		1300	Center	X
1000	Lycoming	X	1600	Mercer	X
1100	Northumberland	X	1701	Allegheny (part)	
1200	Union	X	1702	Allegheny (part)	
1801	Allegheny (part)		1703	Allegheny (part)	
1802	Allegheny (part)		1900	Butler	X
1804	Allegheny (part)		2202	Greene	X
1806	Allegheny (part)		2400	Indiana	X
1807	Allegheny (part)		2501	Cambria	X
2600	Blair	X	2802	Franklin	X
3002	Dauphin (part)		3401	Berks (part)	
3102	Perry	X	3903	Bucks (part)	
3202	York (part)		3904	Bucks (part)	
3301	Lancaster (part)		4001	Montgomery (part)	
3302	Lancaster (part)		4003	Montgomery (part)	
3303	Lancaster (part)		4004	Montgomery (part)	
3500	Schuylkill	X	4005	Montgomery (part)	
3702	Carbon	X	4006	Montgomery (part)	
3801	Northampton (part)		4102	Philadelphia (part)	
3802	Northampton (part)		4103	Philadelphia (part)	
4202	Delaware (part)		4104	Philadelphia (part)	
4301	Chester (part)		4106	Philadelphia (part)	
			4107	Philadelphia (part)	
			4108	Philadelphia (part)	
			4109	Philadelphia (part)	
			4111	Philadelphia (part)	
			4204	Delaware (part)	
			3101	Cumberland (part)	
			3203	York (part)	

# **SCHEDULE RDC-2**

Local Telephone Bills as a Percentage of Income (Six Pennsylvania Communities) 2008 vs. 2006							
		2008 (1 <sup>st</sup> Quarter)			2006 (4 <sup>th</sup> Quarter)		
		Local Phone /a/	Cost of Living /b/	Percentage	Local Phone	Cost of Living	Percentage
Erie	Erie	\$27.95	\$4,112	0.68%	\$27.95	\$3,497	0.80%
Indiana	Indiana	\$29.42	\$3,941	0.75%	\$19.48	\$3,352	0.58%
Johnstown	Cambria	\$29.95	\$3,550	0.84%	\$24.05	\$3,121	0.77%
Lancaster	Lancaster	\$22.55	\$4,225	0.53%	\$22.84	\$3,574	0.64%
Philadelphia	Philadelphia	\$35.89	\$4,468	0.80%	\$35.79	\$3,900	0.92%
Pittsburgh	Allegheny	\$22.90	\$4,131	0.55%	\$22.90	\$3,638	0.63%
Williamsport	Lycoming	\$35.01	\$3,526	0.99%	\$26.65	\$2,324	1.15%
York	York	\$24.44	\$4,025	0.61%	\$23.47	\$2,584	0.91%
Average				0.72%			0.80%
NOTES							
/a/ Local phone bills were obtained from the ACCRA database described in the text.							
/b/ Cost of living figures were obtained from the Self-Sufficiency Standard for Pennsylvania for 2008 and 2006 respectively. The Self-Sufficiency Standard is published every two years.							

# **SCHEDULE RDC-3**

## Schedule RDC-3

Local Telephone Bills at 0.75% and 1.0% of Income (Rural Pennsylvania Counties)					
	Self-Sufficiency (2 adults/2 children) /a/	Local Bill at 0.75% of Income		Local Bill at 1.0% of Income	
		Local Phone Bill	Mid-Range (\$25 - \$30)	Local Phone Bill	Mid-Range (\$33 - 41)
Adams	\$46,667	\$29	Yes	\$39	Yes
Armstrong	\$45,484	\$28	Yes	\$38	Yes
Bedford	\$40,332	\$25	Yes	\$34	Yes
Blair	\$44,125	\$28	Yes	\$37	Yes
Bradford	\$41,614	\$26	Yes	\$35	Yes
Butler	\$50,876	\$32		\$42	
Cambria	\$42,595	\$27	Yes	\$35	Yes
Cameron	\$40,551	\$25	Yes	\$34	Yes
Carbon	\$47,466	\$30	Yes	\$40	Yes
Centre	\$59,920	\$37		\$50	
Clarion	\$43,724	\$27	Yes	\$36	Yes
Clearfield	\$40,141	\$25	Yes	\$33	Yes
Clinton	\$40,463	\$25	Yes	\$34	Yes
Columbia	\$43,994	\$27	Yes	\$37	Yes
Crawford	\$43,615	\$27	Yes	\$36	Yes
Elk	\$42,963	\$27	Yes	\$36	Yes
Fayette	\$42,258	\$26	Yes	\$35	Yes
Forest	\$44,012	\$28	Yes	\$37	Yes
Franklin	\$43,977	\$27	Yes	\$37	Yes
Fulton	\$38,620	\$24		\$32	
Greene	\$49,751	\$31		\$41	
Huntingdon	\$44,423	\$28	Yes	\$37	Yes
Indiana	\$47,296	\$30	Yes	\$39	Yes
Jefferson	\$42,342	\$26	Yes	\$35	Yes
Juniata	\$39,531	\$25		\$33	
Lawrence	\$47,613	\$30	Yes	\$40	Yes
Lycoming	\$42,313	\$26	Yes	\$35	Yes
McKean	\$42,466	\$27	Yes	\$35	Yes
Mercer	\$48,756	\$30		\$41	Yes

Local Telephone Bills at 0.75% and 1.0% of Income (Rural Pennsylvania Counties)					
	Self-Sufficiency (2 adults/2 children) /a/	Local Bill at 0.75% of Income		Local Bill at 1.0% of Income	
		Local Phone Bill	Mid-Range (\$25 - \$30)	Local Phone Bill	Mid-Range (\$33 - 41)
Mifflin	\$40,312	\$25	Yes	\$34	Yes
Monroe	\$52,578	\$33		\$44	
Montour	\$49,439	\$31		\$41	
Northumberland	\$40,511	\$25	Yes	\$34	Yes
Perry	\$46,845	\$29	Yes	\$39	Yes
Pike	\$55,960	\$35		\$47	
Potter	\$40,375	\$25	Yes	\$34	Yes
Schuylkill	\$40,718	\$25	Yes	\$34	Yes
Snyder	\$41,846	\$26	Yes	\$35	Yes
Somerset	\$39,333	\$25		\$33	
Sullivan	\$42,573	\$27	Yes	\$35	Yes
Susquehanna	\$45,198	\$28	Yes	\$38	Yes
Tioga	\$45,522	\$28	Yes	\$38	Yes
Union	\$41,817	\$26	Yes	\$35	Yes
Venango	\$48,057	\$30		\$40	Yes
Warren	\$44,448	\$28	Yes	\$37	Yes
Washington	\$49,156	\$31		\$41	Yes
Wayne	\$47,692	\$30	Yes	\$40	Yes
Wyoming	\$44,461	\$28	Yes	\$37	Yes

# **SCHEDULE RDC-4**

Schedule RDC-4: Basic Local Exchange Rates									
Companies	Basic Exchange	SLC	E-911 Charge	Fed Univ Svc Chg	PA Relay	T-tone	Other	Total	Basic Exchange as % Total
Citizens of PA: Quaker Lake	\$7.52	\$6.50	\$1.50	\$0.78	\$0.08	\$0.00	\$0.34	\$16.72	45%
Citizens Telephone of Kecksburg	\$11.00	\$6.50	\$1.25	\$0.74	\$0.08	\$0.50	\$0.00	\$20.07	55%
Laurel Highland Telephone Co.	\$12.45	\$6.50	\$1.25	\$0.74	\$0.08	\$0.00	\$0.00	\$21.02	59%
Bentleyville Telephone Co.	\$13.50	\$6.50	\$1.25	\$0.74	\$0.08	\$0.00	\$0.00	\$22.07	61%
North Penn Telephone Co.	\$12.84	\$6.50	\$1.50	\$0.74	\$0.08	\$1.25	\$0.00	\$22.91	56%
Ironton Telephone Company	\$13.50	\$6.50	\$1.25	\$0.75	\$0.08	\$1.00	\$0.00	\$23.08	58%
Armstrong Telephone Company North	\$13.50	\$6.50	\$1.50	\$0.00	\$0.08	\$1.50	\$0.00	\$23.08	58%
Armstrong Telephone Company - PA	\$13.50	\$6.50	\$1.25	\$0.74	\$0.08	\$1.25	\$0.00	\$23.32	58%
Lackawaxen Telecommunications Services	\$13.50	\$6.50	\$1.50	\$0.74	\$0.08	\$1.00	\$0.00	\$23.32	58%
North-Eastern Pennsylvania Telephone Co.	\$14.72	\$6.50	\$1.50	\$0.74	\$0.08	\$0.00	\$0.00	\$23.54	63%
Conestoga Telephone Company	\$15.53	\$6.50	\$1.25	\$0.75	\$0.08	\$0.00	\$0.00	\$24.11	64%
Buffalo Valley Telephone Company	\$15.80	\$6.50	\$1.25	\$0.75	\$0.08	\$0.10	\$0.00	\$24.48	65%
Windstream Pennsylvania	\$16.00	\$6.30	\$1.50	\$0.72	\$0.08	\$0.00	\$0.00	\$24.60	65%
Embarq	\$18.00	\$4.86	\$1.25	\$0.55	\$0.08	\$0.00	\$0.00	\$24.74	73%
Pymatuning Telephone Company	\$14.97 /a/	\$6.50	\$1.25	\$0.74	\$0.08	\$1.25	\$0.00	\$24.79	60%
Venus Telephone Company	\$15.00	\$6.50	\$1.50	\$0.74	\$0.07	\$1.00	\$0.00	\$24.81	60%
Yukon--Waltz Telephone Company	\$16.00	\$6.50	\$1.25	\$0.00	\$0.08	\$1.00	\$0.00	\$24.83	64%
Mahanoy & Mahantango Telephone Co.	\$16.00 /b/	\$6.50	\$1.25	\$0.77	\$0.08	\$0.00	\$0.24	\$24.84	64%
Frontier Commonwealth	\$16.18	\$6.50	\$1.25	\$0.75	\$0.08	\$0.00	\$0.13	\$24.89	65%
TDS Telecom/Sugar Valley Telephone Co.	\$16.00 /b/	\$6.50	\$1.50	\$0.77	\$0.08	\$0.00	\$0.24	\$25.09	64%
South Canaan Telephone Co.	\$16.40	\$6.50	\$1.50	\$0.74	\$0.08	\$0.00	\$0.00	\$25.22	65%
Frontier Communications of PA	\$16.49	\$6.50	\$1.25	\$0.77	\$0.08	\$0.00	\$0.26	\$25.35	65%
Marianna & Scenery Hill Telephone Co.	\$16.00	\$6.50	\$1.25	\$0.77	\$0.08	\$1.00	\$0.00	\$25.60	63%
Palmerton Telephone Company	\$16.68	\$6.50	\$1.50	\$0.74	\$0.08	\$0.00	\$0.12	\$25.62	65%
Hickory Telephone Company	\$17.27	\$6.50	\$1.25	\$0.73	\$0.08	\$0.00	\$0.00	\$25.83	67%
Frontier Communications/Lakewood	\$16.99	\$6.50	\$1.25	\$0.77	\$0.08	\$0.00	\$0.26	\$25.85	66%
Consolidated Communications	\$17.54	\$6.50	\$1.25	\$0.74	\$0.08	\$0.00	\$0.00	\$26.11	67%

**Schedule RDC-4: Basic Local Exchange Rates**

Companies	Basic Exchange	SLC	E-911 Charge	Fed Univ Svc Chg	PA Relay	T-tone	Other	Total	Basic Exchange as % Total
Citizens of PA: Little Meadows	\$16.00 /c/	\$6.50	\$1.50	\$0.78	\$0.08	\$1.20	\$0.34	\$26.40	61%
Frontier Communications/Breezewood	\$17.96	\$6.50	\$1.50	\$0.74	\$0.08	\$0.00	\$0.00	\$26.78	67%
Frontier Communications/Canton	\$18.00	\$6.50	\$1.50	\$0.74	\$0.08	\$0.00	\$0.00	\$26.82	67%
Denver & Ephrata	\$18.30	\$6.50	\$1.25	\$0.76	\$0.08	\$0.00	\$0.14	\$27.03	68%
Frontier Communications/Oswayo River	\$18.00	\$6.50	\$1.50	\$0.76	\$0.08	\$0.00	\$0.26	\$27.10	66%

**NOTE:**

/a/ Pymatuning local service R1 charge of \$15.65 minus "RES PA USF CREDIT" of \$0.68.

/b/ M&M and Sugar Valley bills each show one-party residence access line charge of \$18.50 minus "Global Settlement Credit" of \$2.50.

/c/ Citizens NY – Little Meadows local exchange rate of \$17.73 minus "PA USF CREDIT – RES" of \$1.73.

**NOTE 2:**

A Pennsylvania Telephone Company residential bill was not provided in OCA-V-1.

# **SCHEDULE RDC-5**

Applicability of Different Escalation Rates to Affordable Rural Local Telephone Bills  
(Pennsylvania)

**Scenario #1: Adjusted for Annual Change in Non-Metropolitan Median Income**

	2008	2007	2006	2005	2004
Non-metro Median Income	\$51,500	\$49,800	\$50,600	\$48,450	\$47,700
Affordable burden	0.0075	0.0075	0.0075	0.0075	0.0075
Affordable bill (annual)	\$386	\$374	\$380	\$363	\$358
Months in year	12	12	12	12	12
Affordable bill (monthly)	\$32	\$31	\$32	\$30	\$30

**Scenario #2: Adjusted for Annual Change in Statewide Median Income**

	2008	2007	2006	2005	2004
State Median Income	\$61,100	\$59,100	\$60,000	\$57,400	\$57,300
Affordable burden	0.0075	0.0075	0.0075	0.0075	0.0075
Affordable bill (annual)	\$458	\$443	\$450	\$430	\$430
Months in year	12	12	12	12	12
Affordable bill (monthly)	\$38	\$37	\$38	\$36	\$36

**Scenario 3: Adjusted by Annual Changes in CPI-U**

	2008	2007	2006	2005	2004
2004 bill	\$30	\$30	\$30	\$30	\$30
January CPI-U (all items)	212.516	201.8	198.3	190.7	185.2
Adjusted bill	\$34	\$32	\$32	\$31	\$30

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

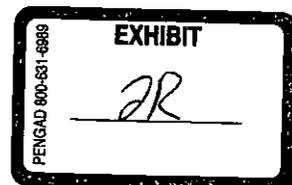
Investigation Regarding Intrastate Access )  
Charges and IntraLATA Toll Rates of Rural ) Docket No. I-00040105  
Carriers, and the Pennsylvania Universal )  
Service Fund )

REBUTTAL TESTIMONY OF ROGER D. COLTON

ON BEHALF OF  
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

January 15, 2009

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MAR 26 2009  
PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU



1 **Q. PLEASE STATE YOUR NAME AND ADDRESS FOR THE RECORD.**

2 A. My name is Roger Colton. My address is Fisher, Sheehan & Colton, Public  
3 Finance and General Economics (FSC), 34 Warwick Road, Belmont, MA 02478.

4

5 **Q. ARE YOU THE SAME ROGER COLTON WHO PREVIOUSLY**  
6 **APPEARED AND SUBMITTED WRITTEN DIRECT TESTIMONY IN**  
7 **THIS PROCEEDING?**

8 A. Yes.

9

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. The purpose of my rebuttal testimony is to respond to the Direct Testimony of  
12 AT&T, Embarq and the Office of Small Business Advocate (OSBA) with respect  
13 to the manner in which to preserve and enhance the affordability of local  
14 telephone service in rural Pennsylvania.

15

16

17

**I. Competition and the Affordability of Local Service.**

18 **Q. WHAT IS THE FIRST ISSUE TO WHICH YOU WISH TO RESPOND?**

19 A. AT&T urged in the prefiled Direct Testimony of E. Christopher Nurse and Ola  
20 Oyefusi that competition in the telecommunications industry is sufficient to  
21 preserve and enhance the affordability of local telephone service. The AT&T  
22 witnesses urge that the Pennsylvania communications market has become  
23 increasingly competitive, even in rural areas. They then urge that “market forces  
24 will ensure that rates are kept just and reasonable.” (Direct Testimony of Nurse

1 and Oyefusi, at 7). They conclude that “with the amount of competition that  
2 exists in Pennsylvania, and that continues to grow, it is no longer necessary for  
3 the Commission to impose a regulatory rate cap on retail rates.” (Direct  
4 Testimony of Nurse and Oyefusi, at 10).

5  
6 **Q. DO YOU AGREE THAT COMPETITION IS “CONTINUING TO GROW”**  
7 **FOR BASIC LOCAL TELEPHONE SERVICE IN PENNSYLVANIA?**

8 A. No. Local exchange carriers in Pennsylvania generally do not “compete” for  
9 customers seeking to subscribe to basic local service on a stand-alone basis.  
10 Support for this conclusion comes from a search for information as though a  
11 customer were shopping for local telephone service in Pennsylvania. In  
12 performing this search, I accessed the Pennsylvania Public Utility Commission’s  
13 (PUC) Utility Choice web site ([www.UtilityChoice.org](http://www.UtilityChoice.org)). No plan was generated  
14 through that search that offered a choice of taking basic local service as a stand-  
15 alone service. A search for competitive local telephone service through the  
16 [UtilityChoice.org](http://UtilityChoice.org), in other words, turned up no references to local telephone  
17 service that was not packaged with other services. This site for shopping for local  
18 telephone service in Pennsylvania ([UtilityChoice.org](http://UtilityChoice.org)) provides no references to  
19 unbundled, unpackaged, basic local telephone service.

20 There may be basic local service offerings available through various  
21 telecommunications carriers serving rural service territories in Pennsylvania. The  
22 information above, however, demonstrates that carriers do not aggressively  
23 market basic local service which is to be supported through the Pennsylvania  
24

1 Universal Service Fund (Pa USF). In approving local competition for  
2 Pennsylvania, the state legislature (as well as the Pennsylvania PUC) underscored  
3 the purpose of making competitive local telephone service available to all the  
4 people of the Commonwealth.

5  
6 AT&T's witnesses do not establish that there is competition for the type of  
7 service that is to be supported through the Pa USF. Accordingly, I conclude that  
8 their assertion that competition can serve to keep basic local service rates  
9 affordable is not well-grounded.

10

11 **Q. DO YOU HAVE ANY FURTHER CONCERNS WITH THE ASSERTION**  
12 **THAT COMPETITION CAN KEEP BASIC LOCAL RATES**  
13 **AFFORDABLE?**

14 A. Yes. AT&T witnesses Nurse and Oyefusi argue "it is not necessary to cap retail  
15 rates to assure their affordability." (Direct Testimony of Nurse and Oyefusi at 7).  
16 These witnesses further argue that "in such a competitive marketplace, if one  
17 carrier chooses to set rates that are too high, then market forces will ensure that  
18 rates are kept just and reasonable." (Direct Testimony of Nurse and Oyefusi, at 7).  
19 In making this statement, the AT&T witnesses never define what they mean by  
20 the term "too high."

21

22 In assessing whether basic local telephone rates are "affordable," I have  
23 recommended that the Pennsylvania PUC adopt the Federal Communications

1 Commission (FCC) two-part definition of “affordability.” In its implementation of  
2 the affordability provisions of the Telecommunications Act of 1996, the FCC  
3 found that affordability has both an absolute component (can households retain  
4 service?) and a relative component (can households retain service without undue  
5 detriment to the household?).<sup>1</sup>

6  
7 If nothing else, the competitive markets do not take into account the second  
8 component of affordability (can households retain service without undue  
9 detriment to the household?). Numerous competitive markets exist that do not  
10 necessarily result in affordable prices. Two such markets that I discuss in my  
11 Direct Testimony include the housing market and the home energy (bulk fuel)  
12 market.

13  
14 **Q. DOES AT&T OFFER ANY EVIDENCE OF THE CONTINUING**  
15 **AFFORDABILITY OF BASIC LOCAL EXCHANGE SERVICE?**

16 A. The only empirical evidence offered by AT&T was a brief reference to telephone  
17 penetration rates. (Direct Testimony of Nurse and Oyefusi, at 13). In offering this  
18 testimony on subscribership levels, however, the AT&T witnesses did not  
19 acknowledge that the FCC has rejected the use of subscribership levels as the  
20 exclusive means of testing affordability. The FCC has noted that telephone  
21 “subscribership levels do not address the second component of affordability,

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<sup>1</sup> In the Matter of the Federal-State Joint Board on Universal Service, Report and Order, 12 FCC Rcd 8776, ¶ 110 (rel. May 8, 1997) (“1997 Universal Service Report”).

1           namely whether paying the rates charged for the service impose a hardship for  
2           those who subscribe.”<sup>2</sup>

3  
4           Office of Small Business Advocate (OSBA) witness Allen Buckalew makes a  
5           similar mistake. Mr. Buckalew assumes that the exclusive purpose of ensuring an  
6           affordable rate is that “rural consumers would be dropped off the telephone  
7           system without it.” (OSBA Statement No. 1, at 11). Mr. Buckalew’s testimony is  
8           simply another way of stating that testing whether telephone rates are affordable  
9           should be tied to penetration rates, an approach that has been considered and  
10          rejected by the FCC.

11

12           **II. The Ad Hoc Determination of Affordability of Local Service in Rural Areas.**

13           **Q.     WHAT IS THE SECOND ISSUE TO WHICH YOU WISH TO RESPOND?**

14           A.     Embarq witness Russell Gutshall urged in his prefiled Direct Testimony that the  
15           affordability of local telephone service should be determined on a case-by-case  
16           basis as local exchange carriers seek rate increases. According to Mr. Gutshall,  
17           the Commission should require a local exchange carrier to demonstrate that its  
18           proposed rates are affordable at the time it seeks to increase basic local rates.  
19           (Embarq Statement 1.0, at 11). Mr. Gutshall further stated that he had conducted  
20           no economic study regarding affordable rate levels for basic service. He said  
21           there was “no need to produce such a study” until Embarq seeks permission to  
22           raise rates above the current \$18.00 benchmark. (Embarq Statement 1.0, at 16).

23

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<sup>2</sup> 1997 *Universal Service Report*, at ¶ 113.

1 I conclude that this proposal does not serve to preserve and enhance the  
2 affordability of local telephone service.

3  
4 **Q. DO YOU HAVE CONCERNS WITH THE APPROACH TO**  
5 **DETERMINING AFFORDABILITY ADVANCED BY EMBARQ?**

6 A. Yes. Mr. Gutshall's proposal seeks to institutionalize an ad hoc approach to the  
7 determination of the affordability of basic local telephone service. Under the  
8 Embarq proposal, each individual rural carrier would be responsible for  
9 developing its own test of affordability for customers of that service territory.  
10 Each carrier could use a different methodology, different data, and a different  
11 affordability threshold. Indeed, some carriers might aver that there is no need for  
12 an affordability benchmark in their service territory. The result of this ad hoc  
13 approach would be that different carriers could make very different demands on  
14 the Pa USF based on very different core affordability determinations.

15  
16 There is a geographic problem with this proposal for a case-by-case determination  
17 of the affordability of local service as well. Embarq witness Gutshall urged that a  
18 determination of the affordability of local telephone service for rural local  
19 exchange carriers be limited only to the customers of the specific carrier before  
20 the Commission at any given time. (Embarq Statement 1.0, at 11). Under this  
21 Embarq proposal, North Penn Telephone Company could argue for a  
22 substantively different affordability threshold than would Armstrong Telephone  
23 Company. Accordingly, the determination of affordability could well result in  
24 different affordability determinations for different geographic areas.

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Since a rural customer in the northwest part of the state may well be in a different service territory than a rural customer in the southeast part of the state, those customers could have identical incomes, and face identical bills, but still be subject to a different affordability threshold based upon what affordability threshold was presented by the local exchange carrier from whom these customers take service.

**III. Defining the Affordability of Rural Local Service.**

**Q. WHAT IS THE THIRD ISSUE TO WHICH YOU WISH TO RESPOND?**

A. OSBA witness Buckalew urged in his prefiled Direct Testimony that “the idea behind rural ‘affordable’ rates is to have rates similar to urban areas services and rates.” (OSBA Statement No. 1, at 10). Based on this assertion, Mr. Buckalew urges that “Verizon’s *urban* rates be averaged to determine an ‘affordable’ rural rate, or that the rates of all carriers operating *in major cities* be averaged to determine an ‘affordable’ rural rate.” (OSBA Statement No. 1, at 10) (emphasis added).

Mr. Buckalew’s conclusions are supported neither by policy nor by data. The issues of “comparability” and “affordability” present distinct issues. While OCA witness Loube addresses comparability, I address affordability. Contrary to what Mr. Buckalew states, however, the affordability of rural rates cannot be tied to whether those rates are “similar to urban areas services and rates.”

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Mr. Buckalew's assertion is not supported by data either. As I describe in detail in my Direct Testimony, both the cost-of-living in rural areas, and the income of Pennsylvania's rural residents, differ sharply from the cost-of-living and income within Pennsylvania's urban areas. In addition, certain non-rate attributes of Pennsylvania's rural areas, as I describe in my Direct Testimony, make clear that real differences exist between Pennsylvania's urban and rural areas. Accordingly, the use of a comparison between urban and rural rates is inappropriate for establishing an affordability benchmark.

**Q. WHAT IS YOUR OVERALL CONCLUSION?**

A. No methodology has been advanced by other parties in this proceeding describing an appropriate way to establish an accurate benchmark for an affordable rural rate. I conclude that the proposal that rural rates that are comparable to non-rural rates, within an affordability constraint, as outlined by my Direct Testimony and that of Mr. Loube, is a necessary and appropriate response to implementation of the Pa USF.

**Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes, it does.

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

SURREBUTTAL TESTIMONY OF ROGER D. COLTON

ON BEHALF OF  
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

RECEIVED

MAR 26 2009

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

February 10, 2009



1 Q. PLEASE STATE YOUR NAME AND ADDRESS FOR THE RECORD.

2 A. My name is Roger Colton. My address is Fisher, Sheehan & Colton, Public Finance and  
3 General Economics (FSC), 34 Warwick Road, Belmont, MA 02478.

4

5 Q. ARE YOU THE SAME ROGER COLTON WHO PREVIOUSLY APPEARED  
6 AND SUBMITTED WRITTEN DIRECT AND REBUTTAL TESTIMONY IN  
7 THIS PROCEEDING?

8 A. Yes.

9

10 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

11 A. The purpose of my surrebuttal testimony is to respond to the Rebuttal Testimony of  
12 Verizon, AT&T and the Office of Small Business Advocate (OSBA) with respect to the  
13 manner in which to preserve and enhance the affordability of local telephone service in  
14 rural Pennsylvania.

15

16 I. Specific Comments on My Direct Testimony.

17 Q. PLEASE DESCRIBE THE PURPOSE OF THIS SECTION OF YOUR  
18 TESTIMONY.

19 A. In this section of my testimony, I respond to the specific comments that witnesses for  
20 Verizon, AT&T and OSBA made about my Direct Testimony. I demonstrate how those  
21 specific comments are not well-founded.

22

1 **A. Verizon's Rebuttal Testimony.**

2 **Q. PLEASE RESPOND TO THE VERIZON COMMENTS ABOUT YOUR DIRECT**  
3 **TESTIMONY.**

4 A. Verizon witness Price argues in his rebuttal testimony that my determination that a  
5 household can afford to spend 0.75% of its income for basic local telephone service is "at  
6 odds with the actual facts." (Verizon Statement 1.1, at 25). Verizon witness Price uses  
7 data provided in the FCC's 2008 "Reference Book of Rates, Price Indices, and  
8 Household Expenditures for Telephone Services," in addition to a variety of unsupported  
9 assumptions provided on his part, to build an argument that Pennsylvania's rural  
10 customers can afford to spend more than \$43 a month for basic local service. (Verizon  
11 Statement 1.1, at 25 – 26). The calculations and conclusions provided by Mr. Price are  
12 not well-founded.

13  
14 The FCC "Reference Book" that Mr. Price cites makes clear that the FCC relies upon  
15 data generated through the U.S. Bureau of Labor Statistics (BLS) Consumer  
16 Expenditures Survey (CEX).<sup>1</sup> The CEX data on telecommunication expenditures,  
17 however, is not limited to local telephone service. The *Information Book* published by  
18 BLS for the Quarterly Interview Survey component of the Consumer Expenditures  
19 Survey (April 1, 2004, at 15)<sup>2</sup> reports that included in "telephone expenses" are the  
20 following:

21 ➤ Residential service;

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<sup>1</sup> Reference Book, at page 2-1 (2008).

<sup>2</sup> According to the Bureau of Labor Statistics: "The Consumer Expenditure Survey (CE) program consists of two surveys collected for the Bureau of Labor Statistics by the Census Bureau — the quarterly Interview survey and the

- 1           ➤ Mobile/cellular service;
- 2           ➤ Pager/beeper services;
- 3           ➤ Basic (local) service charge;
- 4           ➤ Domestic long distance charge;
- 5           ➤ International long-distance charge;
- 6           ➤ “Telephone related services such as caller ID, call waiting, call forwarding, or voice
- 7           mailboxes” (but not including data services);
- 8           ➤ Installation or repair of telephone line(s);
- 9           ➤ Telephone or pager purchases or rentals;
- 10          ➤ Internet access or data services;
- 11          ➤ Cable or satellite television services;
- 12          ➤ DSL or ISDN charges; and
- 13          ➤ Non-telephone related rentals or purchases.

14          Verizon’s comments acknowledge that the “telephone services” expenditures reported in  
15          the CEX are not only for local telephone service. Mr. Price states that “I recognize that  
16          some of the expenditures accounted for by the FCC may be for wireless service and long-  
17          distance or other non-basic services.” (Verizon Statement 1.1, at 26). He then asserts that  
18          “*if* only half of the average rural household expenditures were for basic local service it  
19          would still be 1.3% of total expenditures, or \$43.25 per month.” (Verizon Statement 1.1,  
20          at 26). (emphasis added). Mr. Price, however, does not seek to support his assumption  
21          that half of all rural telecommunication expenditures are for basic local service.

22

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Diary survey — that provide information on the buying habits of American consumers, including data on their expenditures, income, and consumer unit (families and single consumers) characteristics.”

1 In fact, Mr. Price's assumption that basic local service is "half of the average rural  
2 household expenditures" would require the PUC to find, with no empirical basis, that the  
3 monthly price of basic local telephone service, standing alone, would be equal to the  
4 combined monthly price of wireless service, domestic long-distance service, internet  
5 access, cable television service, and non-basic telephone service (e.g., call waiting, call  
6 forwarding, caller ID, voice mail), amongst other items.

7  
8 **Q. DOES MR. PRICE MAKE ANY OTHER ERROR IN HIS ANALYSIS OF THE**  
9 **FCC'S REPORT ON TELECOMMUNICATION EXPENDITURES?**

10 A. Yes. As I note in my Direct Testimony, according to the FCC, there are two inquiries in a  
11 determination of "affordability." One of those inquiries involves the "relative" aspect of  
12 affordability. This inquiry examines the extent to which expenditures can be made  
13 without undue hardship to the household. Mr. Price's analysis does not even attempt to  
14 address that aspect of an affordability determination.

15  
16 **B. AT&T's Rebuttal Testimony.**

17 **Q. PLEASE COMMENT ON AT&T'S REBUTTAL TESTIMONY REGARDING**  
18 **THE AFFORDABILITY OF BASIC LOCAL TELEPHONE SERVICE.**

19 A. AT&T witnesses Nurse/Oyefusi reject the need for a rate cap to promote the affordability  
20 of basic local telephone service. The AT&T witnesses argue that "it is clear that  
21 consumers are willing to pay more than \$18 for their telephone services." (Nurse/Oyefusi  
22 Rebuttal, at 9). They argue that "a large portion of . . . customers will not even be

1 affected, or are already voluntarily paying substantially higher rates for their bundles of  
2 telephone service.” (Nurse/Oyefusi Rebuttal, at 10).

3  
4 This line of reasoning has a fatal flaw. It may well be that many residential customers  
5 shop for bundled packages of telecommunications service. This case is not about them.  
6 This case focuses on basic local service. If people want to shop, and have options from  
7 which to choose, that is appropriate. However, this case is designed to “maintain and  
8 enhance universal service” in high cost rural areas. This case is about people who rely on  
9 their ILEC for basic local exchange service and may have no other affordable option. .  
10 not wireless, not CLEC, not cable. Merely because there are, in the words that  
11 Nurse/Oyefusi themselves use, “a large portion” of customers that will not be affected by  
12 this proceeding does not detract from those customers who will be affected.

13  
14 **Q. PLEASE DESCRIBE AT&T’S COMMENTS REGARDING TELEPHONE**  
15 **PENETRATION RATES IN PENNSYLVANIA.**

16 A. In his Direct Testimony, PTA witness Laffey noted that Pennsylvania telephone  
17 penetration rates had dropped for several years. (PTA St. 1 at 16). AT&T witnesses  
18 Nurse/Oyefusi argue in their rebuttal testimony that the decline cited by Mr. Laffey is due  
19 to a problem with the survey question. In discussing FCC Telephone Subscribership  
20 data, the AT&T witnesses argue that “the FCC realized. . .that the phrasing of [its pre-  
21 2005] question may have caused respondents to focus exclusively on traditional wireline  
22 phone service and not include wireless services in their responses.” (Nurse/Oyefusi  
23 Rebuttal, at 6). They assert further that “once the FCC’s survey question was changed to

1 capture both wireline and wireless service, the FCC's data shows that an increasing  
2 percentage of Pennsylvania households have telephone service." (Nurse/Oyefusi  
3 Rebuttal, at 6 – 7).

4  
5 **Q. DOES AT&T'S REBUTTAL DIMINISH THE VALUE OF YOUR ANALYSIS OF**  
6 **THE CHANGE OF TELEPHONE PENETRATION RATES WITHIN**  
7 **PENNSYLVANIA AS ONE MEASURE OF UNIVERSAL SERVICE?**

8 A. No. As I discussed in my Direct Testimony, the FCC's Telephone Subscribership Report  
9 data only reports penetration rates for Pennsylvania statewide. To look at telephone  
10 penetration rates within Pennsylvania, I used a different Census Bureau resource:  
11 Pennsylvania Public Use Microdata Areas (PUMAs) data. The PUMAs data is  
12 developed from American Community Surveys conducted by the Census Bureau.  
13 According to the Census Bureau, beginning in 2004, "instructions that accompanied the  
14 ACS mail questionnaire advised respondents to answer that the house, apartment or  
15 mobile home had telephone service if cell phones were used by household members."<sup>3</sup>  
16 The new directions accompanying the ACS survey told survey respondents to "mark the  
17 'yes' box if 1) there is a telephone in working order; and you receive your service at your  
18 house, apartment or mobile home; *or* 2) if you have a cell phone from which you can  
19 both make and receive calls." (emphasis added).<sup>4</sup>

20  

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<sup>3</sup> U.S. Department of Commerce, U.S. Census Bureau. American Community Survey/Puerto Rico Survey, 2007 Subject Definitions, at 23, Census Bureau: Washington D.C.

<sup>4</sup> U.S. Department of Commerce, U.S. Census Bureau, Your Guide for the American Community Survey, at 7, Census Bureau: Washington D.C.

1 Q. IN YOUR DIRECT TESTIMONY, YOU CITE AMERICAN COMMUNITY  
2 SURVEY DATA FROM 2006. IS THERE UPDATED ACS DATA?

3 A. Yes. Since the time I prepared my Direct Testimony, the Census Bureau's Ferrett  
4 database has made available the 2007 ACS data. This 2007 ACS data represents the most  
5 recent telephone penetration data for Pennsylvania and its geographic components.  
6 Pennsylvania is divided into 92 geographic areas or PUMAs. My Schedule RDC-1S  
7 (attached) includes the newest 2007 ACS data for Pennsylvania PUMAs.

8

9 Note that for Pennsylvania as a whole, telephone penetration decreased from 2005 to  
10 2007. While in 2005, Pennsylvania had a penetration rate of 96.6%, by 2007, that  
11 penetration rate had decreased to 96.0%. Looking at statewide figures, however, tells an  
12 incomplete story. Of Pennsylvania's 92 PUMAs, 40 experienced a decrease in telephone  
13 penetration rates between 2006 and 2007. In addition, of those 92 PUMAs, 52  
14 experienced a decrease in penetration rates from 2005 to 2007. Of the 52 PUMAs that  
15 experienced decreased telephone penetration rates from 2005 to 2007, 29 experienced a  
16 decrease of two percent (2%) or less; in addition, 20 more experienced a decrease in  
17 telephone penetration rates of between 2% and 5%, while three experienced a decrease in  
18 telephone penetration of 5% or more.

19

20 Again, it is important to remember that this decreased penetration rate is not attributable  
21 to an increase in cell phone penetration. ACS survey respondents are specifically directed  
22 to report having telephone service if someone in the home has a cell phone on which they  
23 can both send and receive calls.

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**Q. DOES THE AT&T REBUTTAL TESTIMONY ERR IN ANY OTHER WAY?**

A. Yes. AT&T witnesses Nurse/Oyefusi contend that eliminating or increasing the rate cap above \$18 will not lead to decreased penetration rates. (Nurse/Oyefusi Rebuttal at 5). As I have noted elsewhere, the affordability of local telephone service cannot be measured exclusively by reference to penetration rates. In addition to whether consumers can afford to have service at all, according to the FCC, one test of affordability is whether consumers can afford to have local telephone service without undue hardship. The Nurse/Oyefusi testimony fails to acknowledge this second aspect of affordability.

In addition, however, the Nurse/Oyefusi testimony fails to acknowledge the dynamic nature of the affordability constraint I recommend in my testimony. As I note in my Direct Testimony, it is likely that the affordability of local telephone service will vary over time. In my Direct Testimony, I discuss in some detail the fact that *incomes* will vary over time. In some years, incomes will increase while in other years incomes will decrease. My Direct Testimony presents an easy-to-apply mechanism for adjusting the affordability constraint in response to these changes in income.

What AT&T witnesses Nurse/Oyefusi fail to acknowledge is that the affordability constraint also comes into play because of potential changes not only in the underlying rates for basic local service, but in the underlying fees and miscellaneous charges as well. For example, should the FCC order reductions in interstate or intrastate access charges, with a corresponding increase in the federal Subscriber Line Charge (SLC), the

1 affordability constraint may be implicated even if there were no changes in the basic local  
2 service rates of the rural carriers. There are, in other words, multiple aspects to the  
3 affordability constraint that I have recommended. The testimony of Nurse/Oyefusi does  
4 not acknowledge those multiple aspects.

5  
6 **C. OSBA's Rebuttal Testimony.**

7 **Q. PLEASE EXPLAIN YOUR RESPONSE TO THE OSBA TESTIMONY**  
8 **REGARDING AFFORDABILITY.**

9 A. OSBA witness Buckalew argues that affordability assistance should be provided  
10 exclusively to low-income customers and not to all customers through high cost rural  
11 support. According to Mr. Buckalew, "the OCA treats all residential customers as though  
12 they are low-income." (OSBA Statement 2, at 10). Mr. Buckalew's comments are  
13 misplaced. The affordability constraint I calculated for rural basic local service was  
14 based on median income data. Median income data reports that income level at which  
15 half of all households are above and half of all households are below. The affordability  
16 constraint is not an indirect mechanism for delivering low-income assistance. It is  
17 instead an explicit response to the legislative mandate that local rates be sufficiently  
18 affordable so as to maintain and enhance universal service.

19  
20 **Q. PLEASE EXPLAIN YOUR RESPONSE TO MR. BUCKALEW'S TESTIMONY**  
21 **REGARDING THE NEED TO PROMOTE COMPETITION.**

22 A. Mr. Buckalew states that "the state can't impose an affordability constraint on all rural  
23 rates while expecting competition to exist." (OSBA Statement 2, at 10). He argues that

1 “the entire telecommunications industry has shifted to relying on competition. . .” (OSBA  
2 Statement 2, at 10). Mr. Buckalew treats a public policy in support of competition in the  
3 telecommunications industry as though it is the only policy to consider. He  
4 inappropriately neglects the legislatively-articulated policies favoring the promotion of  
5 universal service in favor of the promotion of competition. There is, in fact, no reason to  
6 give a policy promoting competition priority over a policy promoting universal service.

7  
8 Public policy, including telecommunications policy today, recognizes that universal  
9 service mechanisms that are designed to increase subscribership by keeping rates  
10 affordable will benefit everyone in the country, including those who can afford basic  
11 telephone service. At its simplest level, increasing the number of people connected to the  
12 telecommunications network makes the network more valuable to all of its users by  
13 increasing the usefulness of the network to them. Increasing subscribership also benefits  
14 society in ways unrelated to the value of the network per se; for example, everyone  
15 benefits from the widespread availability of basic public safety services (e.g., 911).

16  
17 Moreover, it should be clear that universal service in Pennsylvania’s rural areas do not  
18 benefit only those persons who live in rural areas. The legislative policy that the PUC  
19 should “maintain and enhance” universal service benefits not simply the rural customer  
20 who wants to call his or her family in Pittsburgh, but also the urban family in Pittsburgh  
21 that wants to call a relative in Elk County.

1 In short, the Pennsylvania General Assembly has said that the obligation of the PUC is to  
2 maintain and enhance universal service while promoting competition and deploying a  
3 modern network. Mr. Buckalew seems all too willing to edit that legislation to focus  
4 exclusively on promoting competition.  
5

6 **Q. IS MR. BUCKALEW’S TESTIMONY THAT POLICIES DESIGNED TO**  
7 **PROMOTE COMPETITION SHOULD PREDOMINATE OVER POLICIES**  
8 **DESIGNED TO PROMOTE UNIVERSAL SERVICE CONSISTENT WITH**  
9 **PENNSYLVANIA’S REGULATORY POLICY?**

10 A. No. Mr. Buckalew asserts that “the entire telecommunications industry has shifted to  
11 relying on competition, not government regulation, for pricing telecommunications  
12 service.” (OSBA Statement 2, at 10). This testimony by Mr. Buckalew fails to  
13 acknowledge, let alone seek to implement, the extended history, both at the federal level  
14 and in Pennsylvania, of promoting universal service as an important public policy.  
15

16 Universal telephone service principles have been at the heart of telecommunications  
17 policy for the United States for more than 75 years. In the Federal Communications Act  
18 of 1934,<sup>5</sup> Congress proclaimed federal policy to be that as many Americans as possible  
19 should have access to reasonably priced telephone service. The interdependence of the  
20 value of telephone service between all end users makes telephone service unique. As  
21 additional users are connected to the telephone network, the network becomes more

---

<sup>5</sup> 47 U.S.C. § 151. Section 151 provides, in relevant part: “*Purposes of Act; Federal Communications Commission created.* For the purpose of regulating interstate and foreign commerce in communication by wire and radio *so as to make available, so far as possible, to all the people of the United State.* . . a rapid, efficient, nationwide, and world-

1 valuable to all users. The value arises both to persons making calls and to persons  
2 receiving calls.

3  
4 When Congress enacted the Telecommunications Act of 1996, that legislation articulated  
5 a particular concern about the high cost to provide telephone service to rural areas.  
6 Congress recognized in that legislation that telephone service is considerably more  
7 expensive to provide in rural areas. Consistent with the universal service provisions of the  
8 1996 Act, the FCC has continued and modified universal service support for high cost  
9 areas as part of the federal Universal Service Fund. This is in addition to, not in lieu of,  
10 the federal Universal Service Fund support for low-income customers provided through  
11 the Lifeline program.

12  
13 At the state level, the Pennsylvania legislature has similarly declared its support for a  
14 policy supporting universal service. In the original Chapter 30 legislation (Act 67 of  
15 1993), the Pennsylvania General Assembly stated the policy of Pennsylvania to include  
16 efforts to:

17 (1) Maintain universal telecommunications service at affordable  
18 rates while encouraging the accelerated deployment of a  
19 universally available, state-of-the-art, interactive, public-switched  
20 broadband telecommunications network in rural, suburban and  
21 urban areas, including deployment of broadband facilities in or  
22 adjacent to the public rights-of-way abutting public schools,  
23 including the administrative offices supporting public schools;  
24 industrial parks; and health care facilities, as defined in the act of  
25 July 19, 1979 (P.L.130, No.48), known as the Health Care  
26 Facilities Act.<sup>6</sup>  
27

---

wide wire and radio communication service with adequate facilities at reasonable charges...". 47 U.S.C. § 151  
(emphasis added).

<sup>6</sup> 66 Pa. C.S. §3001(1) (repealed).

1 Subsequent to that legislation, the PUC established the Pennsylvania Universal Service  
2 Fund (Pa USF). The Pa USF was designed not only to keep rural rates comparable to  
3 non-rural rates, but to maintain and enhance affordable universal service. When the  
4 Pennsylvania legislature repealed the original Chapter 30 in 2004, it re-enacted  
5 legislation that contained the same universal service provision contained in the original  
6 legislation.<sup>7</sup>

7  
8 In short, Mr. Buckalew's testimony that the entire telecommunications industry relies  
9 exclusively on competition to set prices is inconsistent with a long-standing public policy  
10 in Pennsylvania (as elsewhere) that specific public actions must be taken to maintain and  
11 enhance universal service. His testimony that competition can and should be the  
12 exclusive tool to be used to maintain and enhance universal service should be rejected.  
13 There is nothing unreasonable, nor even particularly novel, about the use of an external  
14 fund funded by other companies to maintain the reasonableness of rural telephone rates.

15  
16 **Q. IS THERE ANY FINAL ASPECT OF OSBA'S REBUTTAL TESTIMONY TO**  
17 **WHICH YOU WISH TO RESPOND?**

18 A. Yes. Mr. Buckalew argues that low-income telephone assistance and high cost rural  
19 support are mutually exclusive. He states that "assuming that there is some rate for  
20 telephone service which is a 'burden' relative to income, the subsidy should be directed  
21 to the low-income consumer and not to all consumers." (OSBA Statement 2, at 10). Mr.  
22 Buckalew fails to acknowledge that his argument has been rejected at the federal level.  
23 The FCC has made clear that the Lifeline program is to work in conjunction with high

---

<sup>7</sup> 66 Pa. C.S. §3011(2).

1 cost rural support to deliver affordable rates. According to the FCC, “as for commenters  
2 concerned about the amount of support for low-income individuals living in high cost  
3 areas, we are confident that the support mechanisms we adopt today for high cost, rural,  
4 and insular areas combined with Lifeline, will achieve sufficient assistance for low-  
5 income consumers in high cost areas.”<sup>8</sup> Mr. Buckalew’s argument should be rejected as  
6 well.

## 8 II. Relationship between Lifeline and High Cost Rural Support.

9 **Q. PLEASE DESCRIBE THE PURPOSE OF THIS SECTION OF YOUR**  
10 **TESTIMONY.**

11 A. Several comments were made in rebuttal testimony indicating that the federal Lifeline  
12 program is a substitute for rural universal service support. OSBA witness Buckalew, for  
13 example, argues that “federal rules. . . provide low-income customers with direct support.  
14 There is no need for a general subsidy program for all rural ILECs.” (OSBA Statement 2,  
15 at 11). He argues that “OCA has not presented an analysis of the contention that low-  
16 income customers need an additional low-income plan (in that a federal program,  
17 Lifeline, already exists).” (OSBA Statement 2, at 3). Similarly, Verizon witness Price  
18 opposes “keep(ing) basic local service for all customers artificially low. . . as a substitute  
19 for Lifeline service.” (Verizon Statement 1.1, at 31).

20  
21 **Q. IS THE FEDERAL COMMUNICATION COMMISSION’S (FCC) LIFELINE**  
22 **PROGRAM A SUBSTITUTE FOR RURAL UNIVERSAL SERVICE SUPPORT?**

---

<sup>8</sup> 1997 Universal Service Order, at ¶ 360.

1 A. No. The FCC's Lifeline program is not intended to be, and does not serve as, a substitute  
2 for the state rural Universal Service Fund. The Lifeline eligibility income criterion, for  
3 example, is quite narrow. Lifeline eligibility extends to 135% of the Federal Poverty  
4 Level, or the participation in a designated low-income program such as TANF. While the  
5 aggregated American Community Survey (ACS) data does not report data for that precise  
6 income range (up to 135% of Poverty Level), it does provide data for up to 125% of the  
7 Federal Poverty Level. While Pennsylvania has 1.7 million people living at or below  
8 125% of the Federal Poverty Level, the state has an *additional* 1.5 million people living  
9 between 125% and 200% of Poverty Level. The 200% benchmark is important in that  
10 the Pennsylvania self-sufficiency standard for Pennsylvania's rural counties is somewhat  
11 over that 200% mark. More than 1.5 million Pennsylvania residents who do not earn  
12 enough income to be self-sufficient nonetheless may not even qualify for the FCC's  
13 Lifeline telephone program, unless they are also receiving assistance from another low-  
14 income assistance program.

15  
16 Moreover, as I discussed in my Direct Testimony, only a fraction of those customers who  
17 do qualify for Lifeline actually are enrolled in the program in Pennsylvania. The Lifeline  
18 program is not a substitute for, and is not intended to be a substitute for, state universal  
19 support for rural, high cost areas.

20

21 **Q. IS THE LIFELINE PROGRAM MIS-REPRESENTED IN ANY OTHER WAY?**

22 A. Yes. AT&T witnesses Nurse/Oyefusi argue that a rate cap is not needed. They assert  
23 that "as to . . . those low-income customers who subscribe to Lifeline services, increasing

1 the basic local service cap should not affect them, because even if basic local service  
2 rates increase with the cap, the Commission can (and should) direct that Lifeline rates  
3 remain unchanged.” (Nurse/Oyefusi Rebuttal, at 5). This statement is in error. The  
4 FCC’s Lifeline program does not set local rates at a prescribed level. Instead, the  
5 Lifeline program provides a bill credit at a specified level. Simply because local rates  
6 increase does not mean that Lifeline credits increase as a result. The Lifeline discount is  
7 equal to the Federal Subscriber Line Charge plus a \$1.75 reduction in the basic bill, or a  
8 total of about \$8.25. If basic local service rates increased from \$18.00 to \$36.00, the  
9 customer would still receive the same \$8.25 Lifeline discount. AT&T’s argument that  
10 the PUC somehow independently establishes an affordable Lifeline rate for low-income  
11 customers is wrong.

12  
13 **Q. CAN YOU SUMMARIZE YOUR OWN REFERENCE TO LIFELINE RATES IN**  
14 **YOUR DIRECT TESTIMONY?**

15 A. Yes. In my Direct Testimony, I observe that the FCC Lifeline Program is not a substitute  
16 for high cost rural support. I note first that the objectives of the high cost rural support  
17 fund and of the Lifeline program are substantively different. I note further that  
18 Pennsylvania has a relatively low enrollment in its Lifeline program, which, while it is a  
19 problem that should be addressed, is beyond the scope of this proceeding. The rebuttal  
20 testimony of neither OSBA nor AT&T addressed these documented problems with  
21 relying on Lifeline as a substitute for high cost rural support.

22  
23 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

1 A. Yes, it does.

2 108990

Telephone Penetration by Public Use Micro-Data Areas (PUMAs) (Pennsylvania)							
Public Use Micro- data Area	County	Rural County?	Penetration Rate			Change in Telephone Penetration Rate	
			2005	2006	2007	2007 vs. 2005	2007 vs. 2006
Total State	---	---	96.6%	95.9%	96.0%	-0.6%	0.1%
PUMA #00100	Eric	No	93.9%	96.1%	96.7%	2.7%	0.5%
PUMA #00200	Eric		98.9%	97.7%	97.4%	-1.5%	-0.3%
PUMA #00300	Crawford, Warren		96.6%	96.0%	96.1%	-0.5%	0.2%
PUMA #00400	McKean, Potter, Elk, Cameron		97.4%	99.1%	96.8%	-0.6%	-2.2%
PUMA #00500	Bradford, Tioga, Sullivan	Yes	97.5%	97.3%	98.1%	0.5%	0.8%
PUMA #00600	Susquehanna, Wayne, Pike		97.4%	98.4%	98.0%	0.6%	-0.4%
PUMA #00700	Monroe		99.1%	97.3%	94.5%	-4.6%	-2.8%
PUMA #00801	Lackawanna		96.8%	94.6%	94.4%	-2.4%	-0.3%
PUMA #00802	Wyoming, Lackawanna	WY: Yes/LA: No	97.5%	97.8%	98.0%	0.4%	0.1%
PUMA #00901	Luzerne		99.2%	97.3%	96.1%	-3.2%	-1.2%
PUMA #00902	Luzerne	No	97.3%	97.0%	99.0%	1.7%	2.0%
PUMA #00903	Luzerne, Columbia	LU: No/CO: Yes	94.2%	97.0%	97.4%	3.2%	0.3%
PUMA #01000	Lycoming	Yes	96.4%	96.5%	97.2%	0.8%	0.7%
PUMA #01100	Northumberland, Montour		99.0%	95.7%	95.5%	-3.5%	-0.1%
PUMA #01200	Clinton, Union, Snyder, Mifflin, Juniata		97.1%	95.1%	95.7%	-1.3%	0.7%
PUMA #01300	Centre	Yes	89.9%	90.6%	91.2%	1.3%	0.6%
PUMA #01400	Jefferson, Clearfield		98.0%	97.4%	97.0%	-1.0%	-0.4%

Telephone Penetration by Public Use Micro-Data Areas (PUMAs)  
(Pennsylvania)

Public Use Micro- data Area	County	Rural County?	Penetration Rate			Change in Telephone Penetration Rate	
			2005	2006	2007	2007 vs. 2005	2007 vs. 2006
PUMA #01500	Venango, Clarion, Forest		97.8%	96.1%	96.9%	-0.9%	0.8%
PUMA #01600	Mercer		96.9%	92.8%	94.6%	-2.3%	1.8%
PUMA #01701	Allegheny	No	93.7%	88.3%	93.9%	0.3%	5.6%
PUMA #01702	Allegheny	No	94.2%	90.7%	95.6%	1.4%	4.9%
PUMA #01703	Allegheny	No	93.9%	95.6%	95.9%	2.0%	0.3%
PUMA #01801	Allegheny		97.2%	97.3%	96.6%	-0.6%	-0.7%
PUMA #01802	Allegheny	No	96.8%	97.1%	98.4%	1.6%	1.2%
PUMA #01803	Allegheny		96.0%	98.3%	97.2%	1.2%	-1.1%
PUMA #01804	Allegheny	No	96.5%	96.7%	96.7%	0.2%	0.0%
PUMA #01805	Allegheny		97.0%	98.2%	97.3%	0.3%	-1.0%
PUMA #01806	Allegheny		99.4%	97.1%	98.4%	-1.0%	1.3%
PUMA #01807	Allegheny		97.9%	96.5%	96.3%	-1.6%	-0.2%
PUMA #01900	Butler	Yes	94.9%	94.6%	96.1%	1.1%	1.5%
PUMA #02001	Lawrence		97.6%	97.0%	94.8%	-2.9%	-2.2%
PUMA #02002	Beaver	No	97.5%	97.4%	98.0%	0.5%	0.6%
PUMA #02101	Westmoreland		97.8%	97.6%	96.8%	-0.9%	-0.8%
PUMA #02102	Westmoreland	No	94.8%	97.2%	98.1%	3.3%	0.9%
PUMA #02103	Westmoreland	No	96.0%	98.1%	98.6%	2.6%	0.4%
PUMA #02201	Washington		99.1%	98.3%	96.8%	-2.3%	-1.5%
PUMA #02202	Greene		96.8%	94.6%	96.6%	-0.2%	2.0%
PUMA #02300	Fayette		97.4%	99.2%	97.8%	0.4%	-1.4%
PUMA #02400	Armstrong, Indiana	Yes	93.9%	93.9%	94.6%	0.6%	0.7%

**Telephone Penetration by Public Use Micro-Data Areas (PUMAs)  
(Pennsylvania)**

Public Use Micro- data Area	County	Rural County?	Penetration Rate			Change in Telephone Penetration Rate	
			2005	2006	2007	2007 vs. 2005	2007 vs. 2006
PUMA #02501	Cambria		96.7%	94.1%	94.4%	-2.3%	0.2%
PUMA #02502	Somerset		97.2%	96.0%	95.1%	-2.1%	-0.9%
PUMA #02600	Blair	Yes	96.4%	96.0%	97.5%	1.1%	1.5%
PUMA #02700	Bedford, Fulton, Huntingdon	Yes	97.1%	96.3%	97.2%	0.1%	0.8%
PUMA #02801	Adams		97.3%	98.4%	96.1%	-1.2%	-2.3%
PUMA #02802	Franklin		96.4%	95.1%	95.9%	-0.6%	0.7%
PUMA #02900	Lebanon	No	97.1%	97.1%	97.7%	0.6%	0.6%
PUMA #03001	Dauphin		92.6%	96.7%	95.0%	2.4%	-1.7%
PUMA #03002	Dauphin		96.7%	96.5%	96.3%	-0.4%	-0.2%
PUMA #03101	Cumberland		97.0%	92.4%	93.8%	-3.3%	1.4%
PUMA #03102	Perry, Cumberland		95.6%	95.3%	94.4%	-1.1%	-0.9%
PUMA #03201	York		95.8%	97.6%	96.6%	0.8%	-0.9%
PUMA #03202	York		96.3%	96.0%	95.5%	-0.8%	-0.5%
PUMA #03203	York	No	91.7%	93.0%	95.4%	3.7%	2.4%
PUMA #03301	Lancaster	No	93.1%	96.0%	96.2%	3.0%	0.2%
PUMA #03302	Lancaster		97.3%	97.3%	94.6%	-2.6%	-2.7%
PUMA #03303	Lancaster		93.0%	92.4%	89.9%	-3.1%	-2.5%
PUMA #03401	Berks		95.5%	94.4%	92.8%	-2.7%	-1.6%
PUMA #03402	Berks		99.4%	98.4%	97.2%	-2.2%	-1.2%
PUMA #03500	Schuylkill	No	96.8%	95.9%	97.7%	0.9%	1.8%
PUMA #03600	Northampton		98.3%	95.8%	96.7%	-1.6%	0.9%
PUMA #03701	Northampton		99.4%	99.1%	98.4%	-1.0%	-0.7%

**Telephone Penetration by Public Use Micro-Data Areas (PUMAs)  
(Pennsylvania)**

Public Use Micro- data Area	County	Rural County?	Penetration Rate			Change in Telephone Penetration Rate	
			2005	2006	2007	2007 vs. 2005	2007 vs. 2006
PUMA #03702	Carbon, Lehigh		98.0%	96.6%	97.9%	-0.1%	1.3%
PUMA #03801	Northampton		97.4%	96.5%	96.8%	-0.6%	0.3%
PUMA #03802	Northampton	No	98.8%	97.3%	98.9%	0.1%	1.6%
PUMA #03901	Bucks	No	98.5%	98.0%	99.1%	0.6%	1.0%
PUMA #03902	Bucks		99.4%	98.3%	98.5%	-0.9%	0.2%
PUMA #03903	Bucks	No	97.4%	95.4%	98.7%	1.3%	3.3%
PUMA #03904	Bucks	No	91.0%	93.8%	96.1%	5.1%	2.3%
PUMA #04001	Montgomery		99.6%	93.2%	95.0%	-4.5%	1.9%
PUMA #04002	Montgomery	No	97.8%	98.0%	98.3%	0.5%	0.3%
PUMA #04003	Montgomery		97.5%	96.2%	97.4%	-0.1%	1.1%
PUMA #04004	Montgomery		97.9%	94.6%	93.9%	-4.0%	-0.8%
PUMA #04005	Montgomery		98.2%	95.3%	96.8%	-1.4%	1.5%
PUMA #04006	Montgomery		97.5%	95.1%	96.3%	-1.2%	1.2%
PUMA #04101	Philadelphia		98.5%	97.8%	98.1%	-0.4%	0.2%
PUMA #04102	Philadelphia		99.2%	96.4%	92.4%	-6.8%	-4.0%
PUMA #04103	Philadelphia	No	97.0%	92.3%	99.3%	2.3%	7.0%
PUMA #04104	Philadelphia		98.9%	95.6%	92.6%	-6.3%	-3.0%
PUMA #04105	Philadelphia		95.8%	91.9%	91.6%	-4.2%	-0.3%
PUMA #04106	Philadelphia		98.9%	94.1%	94.9%	-3.9%	0.8%
PUMA #04107	Philadelphia		90.8%	87.3%	89.7%	-1.1%	2.4%
PUMA #04108	Philadelphia		90.4%	88.9%	85.2%	-5.3%	-3.8%
PUMA #04109	Philadelphia		92.8%	92.1%	88.9%	-3.9%	-3.2%

**Telephone Penetration by Public Use Micro-Data Areas (PUMAs)  
(Pennsylvania)**

Public Use Micro- data Area	County	Rural County?	Penetration Rate			Change in Telephone Penetration Rate	
			2005	2006	2007	2007 vs. 2005	2007 vs. 2006
PUMA #04110	Philadelphia		91.6%	95.2%	91.7%	0.1%	-3.5%
PUMA #04111	Philadelphia		93.9%	92.6%	90.8%	-3.1%	-1.8%
PUMA #04201	Delaware	No	97.1%	97.9%	98.4%	1.3%	0.5%
PUMA #04202	Delaware	No	95.3%	96.5%	98.8%	3.6%	2.3%
PUMA #04203	Delaware		96.9%	94.1%	95.7%	-1.2%	1.6%
PUMA #04204	Delaware	No	96.9%	98.7%	98.7%	1.8%	0.0%
PUMA #04301	Chester		96.9%	97.3%	96.3%	-0.5%	-1.0%
PUMA #04302	Chester		97.5%	98.0%	96.5%	-1.1%	-1.6%
PUMA #04303	Chester		96.6%	98.9%	96.9%	0.2%	-2.1%

SOURCE: 2007 American Community Survey. U.S. Census Bureau's Ferrett database. Accessed February 3, 2008. Rural Counties identified by Center for Rural Pennsylvania.

NOTES:

Shaded cells are PUMAs with negative growth rate in telephone penetration for stated periods.

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

OCA Cross-Examination Exhibit No. OC1

Dated Entered: 2/17/09

OC1

PM  
JK  
TIP

**OSBA STATEMENT NO. 1**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>2006 Annual Price Stability Index/ Service Price Index filing of Buffalo Valley Telephone Company</b>	<b>:</b>	<b>Docket Nos. P-00981428F1000 R-00061375</b>
<b>2006 Annual Price Stability Index/ Service Price Index filing of Conestoga: Telephone &amp; Telegraph Company</b>	<b>:</b>	<b>Docket Nos. P-00981429F1000 R-00061376</b>
<b>2006 Annual Price Stability Index/ Service Price Index filing of Denver &amp; Ephrata Telephone &amp; Telegraph Company</b>	<b>:</b>	<b>Docket Nos. P-00981430F1000 R-00061377</b>

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**Rebuttal Testimony of**

**ALLEN G. BUCKALEW**

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**On Behalf of the**

**Office of Small Business Advocate**

**Date Served: January 5, 2007**

**Date Submitted for the Record: \_\_\_\_\_**

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1 I. **QUALIFICATIONS AND INTRODUCTION**

2 Q. **PLEASE STATE YOUR NAME, OCCUPATION, AND**  
3 **BUSINESS ADDRESS.**

4 A. My name is Allen G. Buckalew. I am an Economist specializing in  
5 the telecommunications industry at J.W. Wilson & Associates, Inc.  
6 Our offices are at 1601 N. Kent Street, Rosslyn Plaza C - Suite 1104,  
7 Arlington, VA 22209.

8 Q. **PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.**

9 A. I hold an A.A. and a B.S. degree with high honors, both from the  
10 University of Florida, and an M.S. degree from George Washington  
11 University. My major areas of concentration were economics and  
12 telecommunications.

13 Q. **HOW HAVE YOU BEEN EMPLOYED IN THE PAST?**

14 A. Before I entered the University of Florida, I worked for four years in  
15 Naval Telecommunications. After graduating from the University of  
16 Florida, I worked for four years at the Federal Communications  
17 Commission ("FCC") as an Industry Economist in the Common  
18 Carrier Bureau and was employed extensively in areas involving  
19 telecommunications, economics, accounting, engineering, and policy  
20 matters. For example, one of my major projects was "The Economic  
21 Implications and Interrelationships Arising from Policies and  
22 Practices Relating to Customer Interconnection, Jurisdictional  
23 Separations and Rate Structures" (Docket 20003). This case opened  
24 the terminal equipment (e.g., telephone sets, and private branch  
25 exchanges ("PBXs")) market in the United States to competition. I  
26 also provided economic analysis in several rate cases, including, for  
27 example, "Communications Satellite Corporation, Investigation into  
28 Charges, Practices, Classifications, Rates and Regulations" (Docket  
29 16070). My major responsibility was to serve as an economic advisor  
30 and analyst for the Common Carrier Bureau.

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After the FCC, I was appointed Associate Director for Telecommunications Research of the National Regulatory Research Institute ("NRRI") at Ohio State University. My responsibilities at NRRI focused on telecommunications policy as seen from an analytical perspective that combined accounting, engineering, and economic disciplines. During my employment at the Institute, I completed several studies for state public utility commissions, including "The Impact of Measured Telephone Rates on Telephone Usage of Government and Nonprofit Organizations" for the Public Utilities Commission of Ohio and "Toward An Analysis of Telephone License Contracts and Measured Rates" for the Maryland Public Service Commission. In addition, I have provided several state Commissions with on-site technical and economic assistance. This assistance was related to identifying, explaining, and analyzing major issues in telephone cases. Since joining J.W. Wilson & Associates, Inc. in May 1980, I have provided economic analysis in numerous proceedings in most of the states of the United States, as well as in Canada, Bolivia, Nepal, Egypt, and Tanzania. I have provided analysis for the Federal Communications Commission and the United States Department of Justice. For example, I testified on behalf of the Department of Justice in the case that broke up the Bell System. In addition, I have worked for numerous state Attorneys General. For example, I evaluated the Bell Atlantic and NYNEX merger proposal for the National Association of Attorneys General and the Bell Atlantic and GTE merger proposal for the Pennsylvania Attorney General. I also analyzed the MCI and WorldCom merger proposal for the California Public Utilities Commission.

29

30

**Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS AND HONOR SOCIETIES?**

31

32

33

A. Yes. I am a member of the Society of Depreciation Professionals, the American Economic Association, Life Member of The Institute of Business Appraisers, The Institute of Electrical and Electronics

1 Engineers, Omicron Delta Epsilon (an international honor society in  
2 economics), and Beta Gamma Sigma (an honor society in business).

3 **Q. COULD YOU BRIEFLY SUMMARIZE YOUR**  
4 **PROFESSIONAL RESPONSIBILITIES TO DATE?**

5 A. Yes. My primary responsibilities have been to supervise and actively  
6 participate in public utility regulatory policy research, especially in  
7 the telecommunications field. These responsibilities required the use  
8 and application of economic, accounting, and engineering analyses.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
10 **PROCEEDING?**

11 A. The OSBA asked me to analyze the price change opportunity (“PCO”)  
12 filings (including access rate changes) originally proposed by Buffalo  
13 Valley Telephone Company, Conestoga Telephone and Telegraph  
14 Company, and Denver & Ephrata Telephone and Telegraph Company  
15 (“Companies”).

16 I found that the proposed change in access rates was appropriate. The  
17 Companies’ new Chapter 30 Plans allow them an annual PCO, which  
18 is an opportunity to increase rates based on presumed cost changes.  
19 The general level of inflation was used as a measure for these cost  
20 changes. The Companies demonstrated that they were allowed to  
21 increase noncompetitive service rates based on their respective PCO  
22 mechanisms, and therefore they increased access rates and local  
23 network rates.

24 Access service is one of the Companies’ main costs and revenue  
25 sources. Access revenues were a major cause for the PCO revenue  
26 increase. Therefore, it would not be reasonable to presume that the  
27 overall costs for these Companies have increased simply due to  
28 inflation and then exclude access from the rate increase.

29

1 **II. SUMMARY**

2 **Q. ACCESS RATES WERE INCREASED IN THE COMPANIES'**  
3 **PCO FILINGS. WAS THAT APPROPRIATE AND**  
4 **REASONABLE?**

5 A. Yes. The Companies were allowed an increase in noncompetitive  
6 service revenue through their respective PCO mechanisms in order to  
7 compensate them for presumed increased costs due to inflation. The  
8 Companies proposed to increase rates for access and local network  
9 services to recover the additional noncompetitive service revenue.

10 The Commission approved the Companies' PCO filings, and then  
11 required a hearing to re-examine the issue of increases to the  
12 Companies' access rates.

13 Verizon was the only party filing testimony against the increase.  
14 Verizon's direct testimony claims that increasing access rates is  
15 wrong and against Commission policy (see page 12 of Mr. Price's  
16 testimony). I believe that Verizon has misrepresented the  
17 Commission's orders and rules. I agree that the recent trend has been  
18 a decline in access rates for Verizon; however, that was during a  
19 period when costs were stable or declining. Furthermore, that trend  
20 occurred prior to the new Chapter 30, which allows the Companies to  
21 pass through rate-of-inflation rate increases without productivity  
22 offsets (or with only minimal productivity offsets).

23 Consequently, I do not believe that it is reasonable to continue to  
24 lower access rates if it is presumed that costs (including access costs)  
25 are increasing at or about the rate of inflation.<sup>1</sup> To continue to lower  
26 the access rates, while overall costs are presumed to be increasing,  
27 simply transfers the cost of access away from toll consumers (the cost  
28 causers who have numerous competitive choices) and onto basic local

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<sup>1</sup> The cost of access includes the cost of switching a toll call in the local telephone companies' networks, the cost of transporting the call, and the cost of using the local loop facilities that were designed for toll services.

1 exchange consumers, who have very little choice in either carriers or  
2 services.

3 Furthermore, Verizon's direct testimony did not do any analysis of the  
4 cost of access in order to rebut the Companies' proposed access rates.  
5 There is no evidence in this case that access costs have declined.  
6 Verizon simply wants to perpetuate the moving of revenue generation  
7 to the least elastic service, basic local exchange service.

8 Verizon's actions and recommendation are motivated by the desire to  
9 make more money. For example, Verizon's 2006 PCO filing used  
10 access revenue to increase the overall total noncompetitive service  
11 revenue, but refused to increase access charges in order to help pay  
12 for that increase. This is classic monopoly behavior.

13 Furthermore, Verizon is trying to hide behind Commission orders that  
14 don't exist. For example, Verizon says that the Companies must not  
15 be allowed to increase access rates because it's against the  
16 Commission's policy. There is no Commission policy that states that  
17 access rates cannot be increased. In fact, the Companies' proposed  
18 increase in access rates was already approved by the Commission.

19 **Q. WHAT WAS THE PURPOSE OF NEW CHAPTER 30?**

20 A primary reason for enacting the new Chapter 30 was to accelerate  
21 broadband development in Pennsylvania. The Legislature did not  
22 carve out access as a service that was excluded from new Chapter 30  
23 increases; in fact, access was included as a protected service that is  
24 part of the new Chapter 30 revenue stream. Clearly the Legislature  
25 included access in its broadband development plan under new Chapter  
26 30 and expected access service to contribute to the development of the  
27 broadband network, not get a free ride.

28 Verizon's proposal to not increase its access rates in its 2006 PCO  
29 filing was unjust and unreasonable for the same reason it is unjust and  
30 unreasonable in this case to exclude access from any increase. Access  
31 rates generated the access revenue that is used to calculate the

1 noncompetitive service revenue increase. Access rates are paid by toll  
2 carriers to provide toll services to consumers; toll carriers and toll  
3 consumers should contribute to broadband development in  
4 Pennsylvania. If the Verizon philosophy is adopted, then toll carriers  
5 will get the direct benefit of a broadband system without paying any  
6 of the costs to create the system.

7 In addition, Verizon's claim that access cannot be increased is  
8 contrary to the movement to market competition. Both federal and  
9 state legislatures want competition and have set various standards in  
10 place to develop competition. I don't believe we are at a point of  
11 workable competition. However, the FCC, in its lifting of many of  
12 the UNE requirements, and the Pennsylvania legislation, by enacting  
13 the new Chapter 30, **allow companies, prices, and markets** to  
14 interact. New Chapter 30 allows companies in Pennsylvania to set  
15 their rates where they believe they need to be as long as those rates are  
16 just, reasonable, and nondiscriminatory.

### 17 **III. ACCESS RATES**

#### 18 **Q. WHAT ARE ACCESS RATES?**

19 A. Access rates are the charges to toll companies for the use of the local  
20 exchange company's network.<sup>2</sup> Toll carriers include these access  
21 charges as a cost in their toll rates that they charge to consumers for  
22 toll services.

23 Access rates are designed to recover a portion of the loop and  
24 switching costs of the local telephone company. The local telephone  
25 company is the main facilities-based provider of access to the  
26 consumers' telephones. Local telephone companies have spent  
27 billions of dollars to develop a system that is cost effective and  
28 efficient to deliver all forms of telephone traffic: local, domestic and  
29 international toll, cellular, and Voice over Internet Protocol ("VOIP").  
30 The network facilities allow the interconnection of all traffic because

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<sup>2</sup> For example, Verizon is a toll carrier in the Companies' service territory.

1 they were designed for all traffic, not simply local telephone calls. In  
2 addition, with very little added investment in these network facilities,  
3 local telephone companies have been able to provide broadband  
4 access through Digital Subscriber Line (“DSL”) using the very same  
5 facilities.

6 **Q. VERIZON SUGGESTS THAT ANY INCREASE IN ACCESS**  
7 **RATES IS WRONG. DO YOU AGREE?**

8 A. No. Inherent in Verizon’s argument is that access is free and that the  
9 only real price for access should be zero. In other words, Verizon’s  
10 view would transfer all of the cost of access onto basic exchange  
11 customers. This is a good monopolist strategy, but it would not be the  
12 outcome if the market were competitive. If the market were actually  
13 competitive, then no local telephone company, with millions of  
14 dollars of investment in loop and switches, would allow a competitor  
15 free use of its facilities.

16 The loop is the major investment cost for every telephone company  
17 and is the major cost for access. Commissions, including this one,  
18 have historically moved access rates lower in an attempt to spur toll  
19 competition. Some would argue that toll was recovering too much of  
20 the cost of access. I have always disagreed with that claim based on  
21 the fact that the cost of the loop was directly impacted by the  
22 provision of toll service. In any case, the price of access has gone  
23 down substantially in recent years under the philosophy that toll was  
24 recovering too much.

25 The question now is: does access need to decline any further? The  
26 Companies say “no”. The Companies claim that moving additional  
27 costs to basic local exchange jeopardizes their ability to compete in  
28 the market. The Commission agreed when it let these rates go into  
29 effect. The Commission also agrees that the price of access is not  
30 zero, because access is a joint cost and must be shared with all  
31 services. The Commission addressed this issue in *In Re: Formal*  
32 *Investigation to Examine and Establish Updated Universal Service*  
33 *Principles and Policies for Telecommunications Services in the*

1 *Commonwealth*, Docket No. I-00940035 (Order entered January 28,  
2 1997), wherein it explained that interexchange carriers (“IXCs”) use  
3 the local network for access. Specifically, the Commission stated as  
4 follows:

5  
6 We reaffirm our findings in our September 5, 1995  
7 Order at Docket No. L-00950105 that the local  
8 loop is a ‘joint cost’, not a direct cost of providing  
9 only those services included in the definition of  
10 BUS [Basic Universal Service]. It is used for a  
11 variety of services other than BUS and must be  
12 allocated among the services which utilize it. For  
13 universal service funding purposes, not allocating  
14 a portion of the local loop to all the services which  
15 utilize it fails to give recognition to the fact that the  
16 loop is used to provide many services in addition  
17 to BUS.

18  
19 This finding is consistent with our earlier rulings  
20 including *Pennsylvania Public Utility Commission*  
21 *v. Breezewood Telephone Company*, 74 Pa P.U.C.  
22 431 (1991) wherein we stated:

23  
24 ...[W]e consider the costs associated with the  
25 loop from the central office to the customers  
26 premises a non-traffic sensitive joint cost.

27  
28 \* \* \*

29  
30 We reject the ILECs’ arguments that the local loop  
31 is not a joint cost because other services which use  
32 the loop do not result in any additional cost. We  
33 do not find the arguments of Bell’s expert witness  
34 Dr. Kahn persuasive on this point. In particular,  
35 we do not accept the basis of Dr. Kahn’s argument  
36 that because the loop is needed for local service  
37 and the incremental cost of the loop does not  
38 increase to provide other services, that its full cost  
39 must be attributed to local services. This same

1 argument could be made with respect to toll  
2 service. Since the loop is necessary to provide toll  
3 service, it could at the same time be argued that the  
4 full cost should be allocated to toll, and in so doing  
5 the incremental cost to provide local service would  
6 be zero. Moreover, since the installation of an  
7 additional subscriber loop increases the capacity  
8 available for placing and receiving all three types  
9 of calls, the telephone company cannot increase  
10 the capacity for local calls without concurrently  
11 increasing the capacity for toll calls.

12  
13 *Universal Service Investigation*, at 82-83.

14 The Commission has found that the loop is part of the integrated  
15 telephone network and was built to serve both local and toll usage. In  
16 fact, today's loops are of such good quality that they are being put to  
17 all kinds of uses, e.g., DSL. Verizon's testimony implies that the  
18 Commission has somehow ruled that access is a "supra" protected  
19 service isolated from any changes except downward movement to  
20 zero. That testimony is wrong.

21 **Q. HAS THE ECONOMIC RATIONALE FOR REDUCING**  
22 **ACCESS CHANGED?**

23 **A.** Yes. In addition to the fact that the loop is a shared cost, that is, toll  
24 must recover some of the costs, the economic environment has  
25 changed. The economic rationale for access reductions was that toll  
26 services were paying more than their fair share of the cost of the local  
27 network. This was claimed to hinder the development of competitive  
28 toll services and local exchange services, but this is no longer true.  
29 The competitive market, at least for toll, has sorted itself out. Toll  
30 carriers have been merged into local exchange companies. Indeed,  
31 Verizon acquired MCI and SBC acquired AT&T (and then retained  
32 the AT&T corporate name for all of its operations).

33 In addition, there is some local exchange competition, but most of the  
34 competition rides over the local exchange companies' loop facilities.

1 In other words, there is very little facilities-based competition for  
2 loops.

3 The two biggest competitive threats to telephone companies are over  
4 different networks: wireless carriers over their own networks, and  
5 VOIP over broadband networks. In the FCC's February 5, 2006,  
6 Remand Order of the Triennial Review Order (commonly called the  
7 "TRRO"), the FCC made it clear that markets were open and moving  
8 toward competition: "we recognized the marketplace realities of  
9 robust broadband competition and increasing competition from  
10 intermodal sources, and thus eliminated most unbundling  
11 requirements for broadband architectures serving the mass market."  
12 (Page 2 of the TRRO.)<sup>3</sup> Telephone companies, like these Companies,  
13 need the ability to set their rates with these new "marketplace  
14 realities" in mind. Furthermore, one could argue that forcing local  
15 exchange consumers to pay for broadband development is subsidizing  
16 VOIP competition. In any case, the economics that were once used to  
17 push costs onto local consumers has changed as local exchange  
18 consumers recover most of the costs of the local network.

19 **Q. WHY IS IT REASONABLE, IN YOUR OPINION, TO CHARGE**  
20 **TOLL CARRIERS LIKE VERIZON, A PORTION OF THE**  
21 **LOOP COSTS THROUGH ACCESS RATES?**

22 A. Toll carriers, like Verizon, should be required to support the loop.  
23 Toll carriers use the loop; without the loop, there is no connection to  
24 the customer. The loop was designed to provide quality toll service.  
25 One of the reasons we have a telecommunications system that  
26 connects to virtually everyone and everywhere in this country is due  
27 to the sharing of the loop costs by all services that use the loop.

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<sup>3</sup> See the *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers; Implementation of the Local Competition Provisions of the Telecommunications Act of 1996; Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket Nos. 01-338, 96-98, 98-147, Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, 18 FCC Rcd 16978, 17145, para. 278 (2003) (*Triennial Review Order*), corrected by Errata, 18 FCC Rcd 19020 (2003) (*Triennial Review Order Errata*), vacated and remanded in part, affirmed in part, *United States Telecom Ass'n v. FCC*, 359 F.3d 554 (D.C. Cir. 2004) (*USTA II*) cert. denied, 125 S.Ct. 313, 316, 345 (2004).

1 **Q. WOULD CROSS-SUBSIDIZATION BE INHERENT IN THE**  
2 **VERIZON RECOMMENDATION TO FREEZE OR LOWER**  
3 **ACCESS RATES FOR THESE COMPANIES?**

4 A. Yes. First, the existing rates for access are already too low, and  
5 therefore contribute little to pay for the use of the facilities that are  
6 required to provide toll services. This causes other services and  
7 ratepayers to pay more of the loop cost.

8 Second, there is a subsidy that flows from these Companies'  
9 customers to Verizon's customers. Specifically, Verizon's access  
10 rates reflect the lower costs due to Verizon's size and more urban  
11 distribution of customers. In contrast, rural carriers like the  
12 Companies have higher costs for the local network because they have  
13 fewer customers per square mile when compared to Verizon's more  
14 urban areas. Therefore, keeping the access rates the same or  
15 decreasing them allows Verizon's toll customers to access the  
16 Companies' rural local network without paying cost-based rates.  
17 Therefore, Verizon's toll customers do not pay their fair share towards  
18 the broadband upgrades to those rural networks. Thus, the  
19 Companies' local exchange customers will be forced to pay higher  
20 rates for local service so that Verizon's toll customers can reduce their  
21 costs for accessing the more rural network of these Companies. In  
22 addition, toll carriers, like Verizon, will simply pocket more money  
23 by not passing through the reductions in toll access.

24 **Q. HAS NEW CHAPTER 30 CHANGED THE WAY THE**  
25 **COMPANIES ARE REGULATED?**

26 A. Yes. Over the last few years, the proposals to shift access costs from  
27 toll services to local services has found favor with telephone  
28 companies eager to recover more of their costs from captive local  
29 customers. This is especially true since ILECs, like Verizon, are in  
30 the toll business themselves.

31 However several things have changed. First, we have a new Chapter  
32 30 that was designed to increase broadband deployment in

1 Pennsylvania. New Chapter 30 did *not* exclude access rates from  
2 contributing to the development of broadband.

3 Second, competition is more prevalent in Pennsylvania and rural  
4 carriers like the Companies are exposed to that competition (even with  
5 a rural exemption for unbundled network elements). Furthermore, the  
6 Companies in this case claim that they can't shift more revenue to the  
7 local exchange customers and keep their customers. New Chapter 30  
8 does allow these Companies to collect the PCO increase in any  
9 manner that is just, reasonable, and nondiscriminatory. The  
10 Companies' proposals to include access in the PCO increase meet  
11 those criteria. In fact, to exclude access would not be just and  
12 reasonable.

13 Third, the shift of most of the loop cost to local exchange service has  
14 been accomplished; access rates do not need to be decreased any  
15 further. One need only look at Mr. Beurer's Exhibit 1 to see the  
16 massive changes in access that have already taken place.

17 Finally, it is time to step back and examine the policies that the  
18 legislature created in the new Chapter 30. The legislature did not  
19 exclude access from increases, did not treat access as something  
20 special outside of the protected category, and did not say that access  
21 and toll users are exempt from contributing to the broadband network  
22 it hoped to create. New Chapter 30 eliminated most, if not all, of the  
23 productivity offset even though the telecommunications industry  
24 continues to have declining per unit costs. Therefore, the annual PCO  
25 revenue increase is not cost-based in the traditional regulatory sense.  
26 In essence, new Chapter 30 imposes a "broadband tax" to help finance  
27 the development of broadband. Because all protected services benefit  
28 from the development of broadband, all protected services should bear  
29 part of the cost of developing broadband. By including access as a  
30 protected service for purposes of calculating the PCO revenue  
31 increase and not excluding access from the resulting rate increase, the  
32 legislature recognized that access should help pay for the development  
33 of broadband.

1 The only way for toll to contribute to the development of broadband  
2 in Pennsylvania is through access rates. If access is excluded, then  
3 toll users get a free ride over the new broadband system. In addition,  
4 new Chapter 30 allows the carriers to set their rates and allows others  
5 to challenge the rates as unjust or unreasonable. The rates proposed  
6 by the Companies are reasonable and Verizon filed no objection when  
7 they were originally proposed and allowed to go into effect.  
8 Proposals to reduce access charges or hold them constant, or to shift  
9 these costs to local subscribers are wrong from an economic  
10 standpoint and in a new Chapter 30 environment.

11 **Q. VERIZON (ON PAGE 10 OF MR. PRICE'S TESTIMONY)**  
12 **LISTS THE REASONS WHY THE COMPANIES' ACCESS**  
13 **RATES INCREASE IS AGAINST LONG-STANDING**  
14 **COMMISSION POLICY. DO YOU AGREE?**

15 A. No, there is no long-standing policy to only decrease access charges.  
16 Verizon provided no evidence that there is such a policy. There may  
17 be some history and a trend to decrease access rates for Verizon, but  
18 actual experience demonstrates that access rates have increased and  
19 decreased for other carriers. The Companies have pointed out in their  
20 testimony that there have been many increases in access rates. This is  
21 shown in Mr. Beurer's Exhibit 1. More to the point, if there were  
22 such a policy, then the Commission would not have approved the  
23 original proposal. However, the most important point is that things  
24 have changed with Chapter 30: companies can raise rates, with no  
25 restriction on increasing access rates, as long as the resulting rates are  
26 just, reasonable, and nondiscriminatory.

27 **Q. VERIZON CLAIMS THAT INCREASING ACCESS RATES**  
28 **WOULD BE "HIGHLY DISCRIMINATORY" AND FAVOR**  
29 **PARTICULAR CARRIERS. DO YOU AGREE?**

30 A. No. Nothing could be further from the truth than this Verizon claim.  
31 Any carrier wanting to use the local network of the Companies pays

1

2 exactly the same rates. There is no discrimination if all carriers pay  
3 the same rate.

4 **Q. VERIZON NEXT CLAIMS THAT:**  
5 **“THE SWITCHED ACCESS INCREASES UNDERMINE**  
6 **COMPETITION BY KEEPING THEIR LOCAL RATES**  
7 **ARTIFICIALLY LOW AND THUS DISCOURAGING ENTRY**  
8 **BY WOULD-BE COMPETITORS IN THE COMPANIES’**  
9 **SERVICE TERRITORIES.” (Page 10 of Mr. Price’s testimony)**  
10 **DOES VERIZON HAVE ANY BASIS FOR THIS CLAIM?**

11 A. None that it presented. However, there is evidence that shows this  
12 claim to be without any foundation. Mr. Beurer demonstrates on page  
13 49 through 52 that there is competition. However, more to the point,  
14 local exchange rates are not being kept artificially low; in fact, local  
15 rates have had substantial increases. Exhibit 4 of Mr. Beurer’s  
16 testimony shows that local exchange rates have increased by as much  
17 as 126% since 2000. What has been kept artificially low is access  
18 rates.

19 Continued local exchange rate increases will impact these rural  
20 carriers in a way that is counterproductive and negative: the  
21 Companies have stated increasing local exchange rates will cause  
22 them to lose customers (see Mr. Beurer’s testimony on pages 54 and  
23 55).

24 **Q. VERIZON NEXT CLAIMS THAT:**  
25 **“THE SWITCHED ACCESS RATE INCREASES WOULD**  
26 **SHARPEN RATHER THAN DIMINISH THE HISTORICAL**  
27 **RURAL/URBAN DISPARITY IN RATES THAT KEEPS**  
28 **URBAN CUSTOMERS’ RATES HIGHER SO AS TO LESSEN**  
29 **UPWARD PRESSURE ON RURAL CUSTOMERS’ RATES.”**  
30 **(Page 10 of Mr. Price’s testimony)**  
31 **DO YOU AGREE?**

1 A. Once again, Verizon offers no proof to support the statement. The  
2 truth is that local exchange rates have increased because of the  
3 constant pressure of toll carriers to lower access rates.

4 In addition, as the Companies point out, the universal service fund is  
5 there to help rural ILECs retain customers in high cost areas. And  
6 again, we should not forget that Chapter 30 allows the Companies the  
7 opportunity to change rates based on their assessment of the market,  
8 not on the assessment of a competitor such as Verizon.

9

10 **Q. VERIZON'S FINAL ARGUMENT IS THAT:**  
11 **"THE SWITCHED ACCESS RATE INCREASES WOULD**  
12 **HARM INTEREXCHANGE CARRIERS ('IXCS') WHO SERVE**  
13 **BOTH RURAL AND URBAN SUBSCRIBERS, BECAUSE OF**  
14 **THEIR GENERAL TENDENCY TO CHARGE**  
15 **GEOGRAPHICALLY AVERAGED TOLL RATES."** (Page 10 of  
16 **Mr. Price's testimony)**  
17 **DO YOU AGREE?**

18 A. No. First, other than Verizon, none of the IXC's has intervened,  
19 complained, or alleged harm in this case. Second, local carriers  
20 should be charging different access rates based on their costs. Third,  
21 local exchange carriers have no control over the rate structure charged  
22 by an IXC.

23

24 **IV. RECOMMENDATIONS AND CONCLUSIONS**

25 **Q. WOULD YOU SUMMARIZE YOUR RECOMMENDATIONS?**

26 A. Yes. Local loops are part of the integrated switched  
27 telecommunications network – they are not a customer-specific  
28 facility such as a gas lateral or an electric drop, on which regulatory  
29 commissions may reasonably choose to impose only minimal  
30 customer charges. Charging a portion of access costs to toll carriers  
31 and allowing them to innovate and experiment in recovering these

1 costs through their own competitive pricing arrangements is  
2 reasonable, and is the law under Chapter 30.

3 There is not a single "correct" solution to the access cost pricing issue,  
4 but there are some wrong ones. Declaring all access costs to be  
5 customer costs (so as to rationalize their total attribution to a fixed  
6 local subscriber charge) is unwarranted and harmful, especially in the  
7 case of higher cost rural carriers like these Companies.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes, it does.