

COMMONWEALTH OF KENTUCKY  
KENTUCKY PUBLIC SERVICE COMMISSION

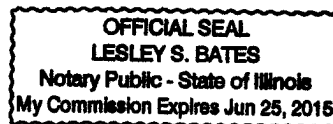
COUNTY OF Cook  
STATE OF Illinois

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Debra Aron, who being by me first duly sworn deposed and said that she is appearing as a witness on behalf of BellSouth Telecommunications, LLC d/b/a AT&T Kentucky, AT&T Communications of the South Central States, LLC, BellSouth Long Distance, Inc. d/b/a AT&T Long Distance Service, and TCG Ohio (collectively "AT&T") before the Kentucky Public Service Commission in Docket Number 2010-00398, *In the Matter of: An Investigation Into the Intrastate Switched Access Rates of All Kentucky Incumbent and Competitive Local Exchange Carriers*, and if present before the Commission and duly sworn, her statements would be set forth in the annexed rebuttal testimony consisting of 40 pages and 2 exhibits.

  
Debra Aron

SWORN TO AND SUBSCRIBED BEFORE ME  
THIS 7<sup>th</sup> DAY OF SEPTEMBER, 2011

  
Notary Public



My Commission Expires: June 25, 2015

**REBUTTAL TESTIMONY OF DR. DEBRA J. ARON**

**On Behalf of**

**BellSouth Telecommunications, LLC, d/b/a AT&T Kentucky,  
AT&T Communications of the South Central States, LLC, BellSouth Long Distance, Inc.  
d/b/a AT&T Long Distance Service, and TCG Ohio**

**BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION  
Administrative Case No. 2010-00398**

**September 30, 2011**

**\*\*\*\*\* EDITED VERSION \*\*\*\*\***

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**Rebuttal Exhibit DJA-1      Figure 2 (Revised to reflect revised data filed by TDS Telecom on September 8, 2011): Rural LEC Average Charges for Call Origination/Termination Services in Kentucky**

**Rebuttal Exhibit DJA-2      Rural LEC Average Charges for Call Origination/Termination Services in Kentucky (Revised to reflect revised data filed by TDS Telecom on September 8, 2011)**

1 **I. Introduction and Summary of Conclusions**

2 **Q: WHAT IS YOUR NAME?**

3 A: Debra J. Aron.

4 **Q: ARE YOU THE SAME DEBRA J. ARON WHO PROVIDED DIRECT**  
5 **TESTIMONY ON JULY 8, 2011, IN THIS PROCEEDING (“ARON DIRECT”)?**

6 A: Yes, I am.

7 **Q: WHAT DO YOU ADDRESS IN THIS REBUTTAL TESTIMONY?**

8 A: I respond to the Direct Testimony of Gregory Hale filed on behalf of the Rural Local  
9 Exchange Carriers (“RLECs”<sup>1</sup>) (“*Hale Direct*”); the Direct Testimony of Bruce H.  
10 Mottern on behalf of TDS Telecom (“*Mottern Direct*”); the Direct Testimony of Don  
11 Price on behalf of Verizon (“*Price Direct*”); the Direct Testimony of James A. Appleby  
12 on behalf of Sprint Nextel (“*Appleby Direct*”); the Direct Testimony of Cesar Caballero  
13 on Behalf of Windstream Kentucky East, LLC and Windstream Kentucky West, LLC  
14 (“*Caballero Direct*”); the Direct Testimony of Joseph Gillan on Behalf of the Kentucky  
15 Cable Telecommunications Association (“KCTA”), tw telecom, Level 3, and PAETEC  
16 (“*Gillan Direct*”); and the Direct Testimony of Patricia Rupich of Cincinnati Bell  
17 Telephone Company, LLC (“*Rupich Direct*”).

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<sup>1</sup> Consistent with my Direct Testimony, I refer to “the RLECs” as the group of carriers that have filed jointly in this case, and to “the Rural LECs” as the RLECs and the TDS companies.

1 **Q: DO YOU HAVE ANY COMMENTS REGARDING YOUR PREVIOUS**  
2 **TESTIMONY?**

3 A: Yes. In my Direct Testimony I showed in Figure 2 and in Exhibit DJA-2 the average  
4 access rates charged by the Rural LECs in Kentucky. After filing my testimony, TDS  
5 Telecom provided a revised response to the data request upon which I relied for  
6 computing TDS Telecom's rates.<sup>2</sup> Rebuttal Exhibit DJA-1 to this testimony is a revised  
7 version of Figure 2 and Rebuttal Exhibit DJA-2 is a revised version of Exhibit DJA-2  
8 presented in my Direct Testimony, which update my original numbers to reflect TDS  
9 Telecom's revised discovery response.

10 **Q: WHAT IS YOUR OVERALL IMPRESSION OF THE PARTIES' DIRECT**  
11 **TESTIMONIES?**

12 A: As I read the testimonies, it appears to me that the major disagreement in this proceeding  
13 is not over whether access rates should be reduced, but rather over the speed of reform and  
14 over whether LECs should be permitted to recover the revenues forgone as a result of  
15 access rate reductions by drawing from a state Universal Service Fund ("USF").  
16 Certainly, no Party disputes the fact, as I explained in my Direct Testimony, that intrastate  
17 access rates were established to provide a subsidy to certain local exchange rates as part of  
18 the policy of universal service.<sup>3</sup> And no Party offered any dispute that, in passing the  
19 Telecommunications Act of 1996 ("TA96"), Congress required the FCC and state  
20 commissions to remove implicit subsidies and, if necessary, replace them with explicit

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<sup>2</sup> Leslie County Telephone Company, Lewisport Telephone Company, and Salem Telephone Company Revised Response to AT&T First Set of Data Requests No. 11.

<sup>3</sup> The RLECs bristle at the term "subsidy" but in fact specifically argue that access revenues do subsidize their operations. *Hale Direct*, pp. 8, 13-14.

1 subsidies. Rather, the fundamental differences among the Parties focus on the specifics of  
2 when and how those implicit subsidies should be reduced and replaced. For example,  
3 while Windstream asserts at length that its access rates are, from a legal standpoint, “just  
4 and reasonable,” Windstream admits in its testimony that it has generally been supportive  
5 of the FCC’s access reforms because it believes that “implicit subsidies need to be made  
6 explicit.”<sup>4</sup> The RLECs “understand that intrastate access reform should be addressed in  
7 time,”<sup>5</sup> but argue that AT&T’s plan is “too aggressive,” apparently because under  
8 AT&T’s plan, although some revenue recovery would come from a state USF, some of the  
9 forgone access revenues would be recoverable from the LECs’ own end users.<sup>6</sup> The  
10 RLECs want all forgone intrastate access revenues—and more—to be recovered from a  
11 state USF.<sup>7</sup> The TDS Companies admit that they “do not oppose a responsible and  
12 prudent approach to access reductions, which balances the interests of all parties,  
13 including the local ratepayers...” but emphasize that, in their view, the reductions should  
14 be “gradual.”<sup>8</sup> Sprint, for its part, advocates reductions in access rates, but no recovery  
15 from a state USF; rather, Sprint’s proposal requires all LECs to seek recovery of their  
16 forgone revenues from their own end users.<sup>9</sup> Verizon similarly proposes immediate access  
17 rate reductions, with no revenue replacement from a USF but rather the requirement that

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<sup>4</sup> *Caballero Direct*, Exhibit B, p. 40.

<sup>5</sup> *Hale Direct*, p. 4.

<sup>6</sup> *Hale Direct*, p. 7.

<sup>7</sup> *Hale Direct*, p. 14.

<sup>8</sup> *Mottern Direct*, p. 13.

<sup>9</sup> *Appleby Direct*, pp. 19-20, 23.

1 LECs recover their costs from their own end users.<sup>10</sup> The Kentucky Cable  
2 Telecommunications Association (“KCTA”), et al., appears to be pursuing a delay  
3 strategy by apparently acquiescing to the inevitability of access reform but urging the  
4 Commission to refrain from taking any action until the FCC acts.<sup>11</sup> Only Cincinnati Bell  
5 fails to acknowledge the need for and/or inevitability of intrastate access reform, and its  
6 position is based on the legal claim that the Commission lacks jurisdiction over its access  
7 rates.<sup>12</sup> As to whether the Commission should reduce the intrastate switched access rates  
8 of other Kentucky LECs, Cincinnati Bell declines to offer any opinion.<sup>13</sup>

9 In my Direct Testimony, I showed that consumers will benefit and economic efficiency  
10 will be enhanced by reducing intrastate access rates to interstate levels; and that LECs  
11 should be provided the opportunity to recover some or all of the forgone revenue from  
12 their own end user customers, with ILECs permitted to recover the balance, if any, from a  
13 state USF fund that will decline over time. AT&T’s proposal is therefore a balance  
14 between (i) Parties such as the Rural LECs who want to recover all forgone access  
15 revenues from a state USF, and (ii) Parties such as Verizon and Sprint, who oppose

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<sup>10</sup> *Price Direct*, p. 5.

<sup>11</sup> *Gillan Direct*, p. 3. The KCTA also encourages the Commission to exclude originating access rates from reform and restrict reform to terminating rates only. *Gillan Direct*, p. 4.

<sup>12</sup> *Rupich Direct*, p. 3. SouthEast Telephone also “is not opposed to some form of rational rate rebalancing and/or the formation of a new recovery fund.” (See, Direct Testimony of Carey Roesel filed on Behalf of the SE Acquisitions LLC d/b/a SouthEast Telephone, p. 5). SouthEast Telephone’s testimony pertains to a nuance of the FCC’s approach to interstate access rates for rural CLECs known as the “rural exemption.” I will not address SouthEast Telephone’s testimony, which Dr. Oyefusi addresses in his Rebuttal Testimony.

<sup>13</sup> *Rupich Direct*, p. 3.

1 establishing any state USF for revenue recovery, thereby requiring all LECs to recover  
2 any forgone revenue that they can recover from their own end users.

3 **Q: PLEASE EXPLAIN THE ORGANIZATION OF YOUR TESTIMONY.**

4 A: My testimony is organized by witness in the order stated above. In each section I identify  
5 what I believe are the major points of agreement and respond to what I believe are the  
6 major points of disagreement with each of those witnesses.

7 **II. Response to Gregory Hale on Behalf of the RLECs**

8 **Q: ARE THERE ANY POINTS OF AGREEMENT BETWEEN MR. HALE'S**  
9 **TESTIMONY AND AT&T'S POSITION IN THIS MATTER?**

10 A: Yes, at a very high level. First, it appears that Mr. Hale acknowledges that access reform  
11 is necessary, testifying that "the RLECs understand that intrastate access reform should be  
12 addressed in time."<sup>14</sup> In addition, like AT&T, Mr. Hale supports the establishment of a  
13 state USF if access rates are reduced.<sup>15</sup> And finally, Mr. Hale acknowledges that access  
14 reform must promote consumer interests.<sup>16</sup>

15 **Q: WHAT ARE THE KEY POINTS OF DISAGREEMENT BETWEEN AT&T AND**  
16 **MR. HALE'S POSITION?**

17 A: Mr. Hale urges the Commission to delay reform rather than take steps now to modernize  
18 an archaic, outmoded system. In addition, he argues that if there are to be any access  
19 reductions, all of the forgone access revenues should be recovered from a state USF, and

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<sup>14</sup> *Hale Direct*, pp. 3-4.

<sup>15</sup> *Hale Direct*, p. 14.

<sup>16</sup> *Hale Direct*, p. 4.



1 RLECs should have no responsibility to recover any share of the implicit subsidies from  
2 their own end users.

3 **Q: WOULD IT BE IN THE PUBLIC INTEREST AND CONSISTENT WITH THE**  
4 **WELFARE OF KENTUCKY CONSUMERS TO FOLLOW MR. HALE'S**  
5 **RECOMMENDATIONS?**

6 A: No. Although Mr. Hale acknowledges the need for access reform “in time,” his testimony  
7 nevertheless amounts to a plea to preserve the RLECs’ existing subsidy levels indefinitely.  
8 It is understandable that the companies Mr. Hale represents in this proceeding would seek  
9 to preserve a subsidy stream that is borne by the customers of other companies (i.e.,  
10 customers of wireline long distance providers), so that the RLECs can maintain artificially  
11 low retail prices that are not only below cost but are below the retail prices that those same  
12 subsidizing customers elsewhere in the state pay for local exchange service. But it is not  
13 justifiable because the current system is damaging to consumers as a whole and is  
14 unsustainable. Mr. Hale’s position entirely fails to justify why rural customers, who are  
15 being subsidized by customers across the state—rich and poor alike—should pay less for  
16 local telephone service than the customers who are providing the subsidies. After all,  
17 many of the consumers in those other areas of the state paying the subsidies to the RLECs  
18 may also be below the poverty level.

19 Mr. Hale fails to acknowledge that poverty in Kentucky is not confined to rural areas or  
20 the territories of rural LECs. In fact, approximately half of the population of Kentucky

1 that lives below the poverty line resides in AT&T's territory.<sup>17</sup> Yet AT&T has already  
2 reduced its intrastate access rates to interstate levels and rebalanced local service prices.  
3 As a result, AT&T's local exchange customers not only pay higher prices for their own  
4 local service than do the customers of the Rural LECs<sup>18</sup> that seek continued access  
5 subsidies, but they also pay long distance prices that are higher than they otherwise would  
6 be in order to provide those subsidies to the Rural LECs. While Mr. Hale focuses on the  
7 poverty in rural territories, he provides no policy rationale—and I am aware of none—that  
8 justifies burdening one set of low income consumers for the benefit of others who happen  
9 to reside in Rural LEC territories. Moreover, Mr. Hale fails to explain why impoverished  
10 Kentucky customers throughout the Commonwealth who rely on wireline long distance  
11 service should be required to subsidize rural local exchange customers' uneconomically  
12 low retail prices for local exchange service, given that many of those rural users have  
13 higher incomes and pay lower prices than the customers providing the subsidy.<sup>19</sup> Mr.  
14 Hale also fails to explain why the affordability of local service would be threatened by

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<sup>17</sup> Estimates based on ILEC's geographic territory by county, available at <http://psc.ky.gov/agencies/psc/images/lecbycounty.pdf>, and on data by county from the U.S. Census Bureau's 2005-2009 American Community Survey, available [http://factfinder.census.gov/servlet/CTGeoSearchByListServlet?ds\\_name=ACS\\_2009\\_5YR\\_G00\\_&\\_lang=en&\\_ts=334007227339](http://factfinder.census.gov/servlet/CTGeoSearchByListServlet?ds_name=ACS_2009_5YR_G00_&_lang=en&_ts=334007227339).

<sup>18</sup> The midpoint between AT&T's lowest and highest tariffed rates for residential standalone basic local exchange service is \$16.80 which is higher than the tariffed rate of all Rural LECs except South Central Rural Telephone.

<sup>19</sup> Most rural Kentucky residents are not living below the poverty line. According to census data, approximately 77 percent of the population in counties served by Rural LECs in Kentucky is at or above the poverty line. Estimates based on ILEC's geographic territory by county, available at <http://psc.ky.gov/agencies/psc/images/lecbycounty.pdf>, and on data by county from the U.S. Census Bureau's 2005-2009 American Community Survey, available [http://factfinder.census.gov/servlet/CTGeoSearchByListServlet?ds\\_name=ACS\\_2009\\_5YR\\_G00\\_&\\_lang=en&\\_ts=334007227339](http://factfinder.census.gov/servlet/CTGeoSearchByListServlet?ds_name=ACS_2009_5YR_G00_&_lang=en&_ts=334007227339).

1 even a small increase in Rural LECs' local service rates, when the Rural LECs have not  
2 changed their rates for several years<sup>20</sup> and their rates have therefore not even kept up with  
3 inflation.

4 Mr. Hale asserts that the ability of RLECs to provide high-quality, affordable telephone  
5 service is "at stake" if AT&T's access reform plan is approved.<sup>21</sup> Mr. Hale provides  
6 absolutely no supporting evidence for his rhetoric. The reality is that AT&T has proposed  
7 a holistic plan that provides each ILEC the opportunity to recover intrastate access  
8 revenues that would be forgone as a result of reduced access rates, through a combination  
9 of explicit subsidies and moderate retail rate increases for basic local service up to an  
10 approved benchmark. It is the same conceptual approach the FCC has taken when it has  
11 reformed interstate access rates, and AT&T's proposed plan only catches Kentucky up to  
12 the reform that occurred in the interstate arena a decade ago.

13 Even as Mr. Hale exhorts the Commission to reject AT&T's proposed reform, he provides  
14 no alternative reform proposal. His testimony essentially amounts to an entreaty for  
15 unlimited delay. Delay is not in the public interest because consumers and the economy  
16 benefit from access reform. The U.S. Congress required in passing the  
17 Telecommunications Act of 1996 that implicit subsidies be made explicit. All LECs  
18 should have been preparing for access reform since that time. There is nothing precipitous  
19 about AT&T's proposal, which not only comes 15 years after the requirements of TA96

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<sup>20</sup> See *Oyefusi Direct*, Exhibit OAO-7 (showing that carriers' rates would be higher if they had kept up with inflation since the last time they were changed).

<sup>21</sup> *Hale Direct*, p. 3.

1 (and years after the state’s largest ILEC, AT&T Kentucky, implemented similar reforms),  
2 but which includes a revenue neutral glide path for the transition to reformed and  
3 rebalanced rates.

4 **Q: ARE THERE OTHER FACTORS THAT MR. HALE FAILS TO CONSIDER**  
5 **THAT PROVIDE PROTECTIONS FOR LOW INCOME CONSUMERS IN**  
6 **KENTUCKY?**

7 A: Yes. Reform must be understood in the context of the fact that targeted programs that  
8 provide low-cost telephone service to low-income residents, such as Lifeline and Link-up  
9 programs exist in Kentucky to address affordability for low income customers. I  
10 understand that the Lifeline program currently provides up to \$13.45 per household in  
11 monthly Lifeline credits for local service.<sup>22</sup> I understand that AT&T does not intend for  
12 its plan to be implemented in any way that will put added pressure on low income  
13 consumers.

14 **Q: MR. HALE ARGUES THAT KENTUCKY SHOULD NOT BE COMPARED TO**  
15 **OTHER STATES THAT HAVE ALREADY IMPLEMENTED ACCESS REFORM**  
16 **BECAUSE IT IS “UNIQUE.” IS HE CORRECT?**

17 A: No. Mr. Hale argues that Kentucky is “unique” because it has sparsely populated areas  
18 and high poverty levels. There is no question that Kentucky has higher than average  
19 poverty rates. But it is not unique, even among states that have already required rural  
20 companies to mirror their interstate access rates. For example, several states that are more  
21 sparsely populated than Kentucky, including Kansas, New Mexico, and Maine, require  
22 rural LECs to mirror their interstate access rates. Of those, New Mexico, in fact, is far

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<sup>22</sup> See *In the Matter of: Universal Service and Funding Issues*, Admin. Case No. 360, Order at 3-4 (Nov. 16, 1998). See also AT&T Kentucky General Subscriber Services Tariff (GSST) Section A3.31.

1 more sparsely populated *and* has a higher percentage of its population below the poverty  
2 level than does Kentucky.<sup>23</sup> Yet universal service does not appear to have been harmed in  
3 New Mexico since it conducted intrastate access reform. All LECs are required to mirror  
4 their intrastate access rates to their interstate rates in New Mexico,<sup>24</sup> yet telephone  
5 penetration rates (the percentage of the population that subscribes to telephone service) in  
6 New Mexico, one of the poorest and most rural states in the country, are higher now than  
7 they were before the reform was instituted.<sup>25</sup>

8 **Q: SHOULD STATES WITH HIGHER LEVELS OF POVERTY OR MORE RURAL**  
9 **AREAS AVOID ACCESS REFORM?**

10 A: No. States with greater economic challenges should be particularly attentive to  
11 opportunities to improve the efficiency of their economy for the benefit of all consumers.  
12 They should be particularly motivated to remove archaic, legacy policies that impose  
13 subsidy burdens on some residents for the benefit of others, who receive the subsidies  
14 purely on the basis of where they live, not individual economic need.

15 A holistic plan of access reform such as that proposed by AT&T—which recognizes the  
16 regulatory history of the access system and provides for replacement of forgone access  
17 subsidies through a combination of reasonable retail rate increases and explicit  
18 subsidies—does not undermine universal service. To the contrary, it makes the universal

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<sup>23</sup> Based on U.S. Census' population density and income data available at <http://factfinder.census.gov>.

<sup>24</sup> N.M. ADMIN. CODE tit. 17, Chapter II, §§ 10.6, 10.8.C (current though July I, 2008).

<sup>25</sup> “Telephone Subscribership in the United States,” Federal Communications Commission, Industry Analysis and Technology Division, Wireline Competition Bureau, May 2011, (hereafter *2011 Subscribership Report*), Table 3.

1 service system more efficient, transparent, and sustainable for all companies, including  
2 companies that serve high cost areas and/or low income populations.

3 **Q: MR. HALE ARGUES THAT AT&T'S PLAN WOULD CONSTITUTE A "DE**  
4 **FACTO REPEAL OF UNIVERSAL SERVICE."**<sup>26</sup> **IS THAT CORRECT?**

5 A: No, it would not threaten universal service. Mr. Hale's hyperbole is incorrect for several  
6 reasons. First, Mr. Hale mischaracterizes the AT&T Plan when he claims that the AT&T  
7 Plan requires rural customers to "absorb [the costs of providing service in rural Kentucky]  
8 alone".<sup>27</sup> On the contrary, under the AT&T Plan, rural carriers, in addition to having the  
9 opportunity to recover reduced access revenues through phased-in increases to retail rates,  
10 would be entitled to draw from the USF to replace the remainder of the access revenues  
11 that these companies would forgo as a result of access reform. But unlike in the current  
12 system, those USF payments would be financed by customers of a variety of  
13 telecommunications services around the Commonwealth, rather than just customers of  
14 wireline long distance companies. Hence, for Mr. Hale to claim that AT&T's proposed  
15 plan would require rural telephone customers in Kentucky to bear the entire cost of their  
16 telephone service, and impose none of that cost burden on other citizens of Kentucky, is  
17 incorrect. The proposed plan allows for a continued level of subsidies to rural telephone  
18 companies; it transforms some of the current implicit subsidies to explicit subsidies, as  
19 required by Congress when it passed TA96. Those explicit subsidies are more broadly  
20 funded and thus more sustainable and more competitively neutral. And even under

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<sup>26</sup> *Hale Direct*, p. 8.

<sup>27</sup> *Hale Direct*, p.8.

1 AT&T's proposal some implicit contributions would remain in the resulting access rates,  
2 because the proposal reduces intrastate access rates only to interstate levels, not all the  
3 way to the incremental cost of providing switched access service.

4 The proposed plan is similar to the plan implemented for rural carriers by the FCC almost  
5 10 years ago in the FCC's *MAG Order*.<sup>28</sup> In that Order, these same rural carriers had to  
6 reduce their interstate access rates, and they were given opportunities to instead draw from  
7 federal subsidy funds, and to recover some of the forgone revenues from their retail  
8 customers. Despite the fact that some of the subsidies were converted to end-user charges,  
9 telephone penetration is higher in Kentucky today than it was before the federal reforms  
10 were instituted.<sup>29</sup>

11 Second, the proposed retail rate increases are not unduly burdensome. Dr. Oyefusi  
12 showed in his Direct Testimony that AT&T's Plan can be implemented using reasonable  
13 benchmarks that are well within the range of what other states have adopted and below  
14 rates that consumers pay voluntarily elsewhere in Kentucky.<sup>30</sup> In addition, Dr. Oyefusi  
15 explained that AT&T's Plan does not *require* carriers to raise rates, giving them instead

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<sup>28</sup> Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166, *In the Matter of Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers and Federal-State Joint Board on Universal Service et al.*, FCC 01-304, (rel. November 8, 2001), (hereafter *MAG Order*).

<sup>29</sup> *2011 Subscriber Report*, Table 3.

<sup>30</sup> *Oyefusi Direct*, pp. 50-51.

1 the flexibility to do so.<sup>31</sup> AT&T's Plan also proposes a mechanism to phase in increases  
2 to monthly local exchange prices by limiting them to \$2.00 per line each year.<sup>32</sup>

3 **Q: HAS MR. HALE OFFERED ANY EVIDENCE THAT TELEPHONE**  
4 **PENETRATION IS LOWER IN PARTS OF KENTUCKY WHERE LOCAL**  
5 **SERVICE RATES ARE HIGHER, OR THAT POVERTY IS HIGHER IN AREAS**  
6 **WHERE LOCAL SERVICE RATES ARE LOWER?**

7 A: No. None of the RLEC witnesses provided any evidence regarding telephone penetration  
8 rates or evidence that non-Lifeline-eligible customers would be unable to afford telephone  
9 rate increases of the modest sort provided for in AT&T's Plan. In fact, based on my  
10 review of Rural LECs' tariffs, in some cases the lowest local service prices in Kentucky  
11 are offered in areas of above-median incomes. For example, Brandenburg Telephone  
12 Company serves Meade County, which ranks 27 (from the highest) in median income (out  
13 of 120) and charges the lowest basic local service rates of the rural companies. Also  
14 among the lowest rates are those charged by Ballard Telephone and Windstream West.  
15 The counties they serve, Ballard County and Bullitt County, rank 32 and 8 in median  
16 income in Kentucky, respectively.<sup>33</sup>

17 **Q: MR. HALE CLAIMS THAT THE SUBSIDIES IN ACCESS RATES ARE**  
18 **SACROSANCT BECAUSE THEY ARE "NO LESS THAN CONGRESS"**

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<sup>31</sup> *Oyefusi Direct*, p. 38.

<sup>32</sup> *Oyefusi Direct*, p. 44.

<sup>33</sup> Estimates based on ILEC's geographic territory by county, available at <http://psc.ky.gov/agencies/psc/images/lecbcounty.pdf>, and on data by county from the U.S. Census Bureau's 2005-2009 American Community Survey, available [http://factfinder.census.gov/servlet/CTGeoSearchByListServlet?ds\\_name=ACS\\_2009\\_5YR\\_G00\\_&\\_lang=en&\\_ts=334007227339](http://factfinder.census.gov/servlet/CTGeoSearchByListServlet?ds_name=ACS_2009_5YR_G00_&_lang=en&_ts=334007227339). Price comparisons are based on company tariffs.



1           **DECISION TO ENSCONCE UNIVERSAL TELEPHONE SERVICE IN THE**  
2           **TELECOM ACT ITSELF.”<sup>34</sup> IS THAT TRUE?**

3    A:    No, quite the contrary.  The Telecommunications Act of 1996 requires that implicit  
4           subsidies embedded in access rates be replaced with explicit subsidies, as I documented in  
5           my Direct Testimony.  The FCC has conducted access reform at the federal level to reduce  
6           subsidies embedded in access rates, and continues to pursue further access reform in light  
7           of the requirements of TA96.  AT&T’s proposal simply mirrors on the intrastate side the  
8           most recent interstate rates established since TA96 was passed.

9    **Q:    MR. HALE TOUTS THE BROADBAND DEPLOYMENTS THE RLECS HAVE**  
10           **MADE. <sup>35</sup> DO THE RLECS’ BROADBAND DEPLOYMENTS JUSTIFY**  
11           **CONTINUATION OF EXCESSIVE INTRASTATE SWITCHED ACCESS RATES?**

12   A:    No, on the contrary, the fact that the RLECs have taken steps to position themselves for  
13           the transition to all-broadband networks, as envisioned by the FCC,<sup>36</sup> is a positive  
14           development that will make their businesses more robust as consumers’ reliance on legacy  
15           technologies continues to decline.  As the Kentucky RLECs have clearly recognized, a  
16           business model that relies entirely on circuit switched wireline communications services is  
17           backward looking.  Consumers increasingly favor wireless and broadband services and  
18           both retail local service lines and switched access minutes are declining, as a result of  
19           which the historic business model of relying on implicit subsidies from switched access  
20           rates is, as I explained in my Direct Testimony, no longer sustainable.  The fact that

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<sup>34</sup>       *Hale Direct*, p. 8.

<sup>35</sup>       *Hale Direct*, pp. 11-12.

<sup>36</sup>       Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, *In the Matter of Connect America Fund et al.*, FCC 11-13, (rel. February 9, 2011), (hereafter *2011 NPRM*), ¶ 10.

1 RLECs are looking forward and have created the infrastructure for a more progressive  
2 business model that would rely on broadband demand and broadband revenue should be  
3 understood as part of the transition away from the legacy, outdated system of implicit  
4 subsidies from switched access rates.

5 **Q: SHOULD THE CURRENT ACCESS SYSTEM BE PERPETUATED IN ORDER**  
6 **TO COMPENSATE RLECS FOR BROADBAND INVESTMENTS THEY HAVE**  
7 **ALREADY MADE?**

8 No. First, under the AT&T plan, the proposed access rate reductions provide the  
9 opportunity for revenue neutrality—recovery of the forgone access revenues through a  
10 combination of explicit subsidies and the opportunity for phased-in increases in basic local  
11 service rates—and that is without taking into account any revenues that the RLECs will  
12 receive from their broadband infrastructure. Second, companies that make broadband  
13 investment will in fact receive revenues from those new services. If the revenues from  
14 those services are not expected to be adequate to justify the costs incurred to make the  
15 investment, the FCC has expressed as its current policy that it expects to transition the  
16 current universal service support system to one that specifically supports broadband  
17 deployment.<sup>37</sup> And third, intrastate access reform has been a long time coming and should  
18 have been anticipated by the RLECs. It would not have been rational (and the RLECs do  
19 not claim) to have assumed that access rate subsidies would continue in the same form  
20 forever.

21 **Q: MR. HALE ASSERTS THAT BY LOWERING INTRASTATE ACCESS RATES,**  
22 **AT&T’S LONG DISTANCE BUSINESS WILL “SQUEEZE WHAT PROFIT IT**

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<sup>37</sup> See, e.g., *2011 NPRM*, ¶ 80.

1           **CAN MUSTER OUT OF THE CITIZENS OF KENTUCKY,” AND THAT “WE DO**  
2           **NOT BELIEVE AT&T WILL PASS ON THE SAVINGS TO CONSUMERS.”<sup>38</sup> IS**  
3           **MR. HALE’S BELIEF CONSISTENT WITH THE EVIDENCE?**

4    A:    No, Mr. Hale does not purport to have any evidence for his “belief,” which is in fact the  
5           opposite of what AT&T has explicitly committed to in this state, the opposite of what the  
6           competitive long distance market necessarily will require providers to do, and the opposite  
7           of what the data clearly show that IXCs, including AT&T, have in fact done in both the  
8           interstate and intrastate arenas. As I demonstrated in my Direct Testimony, interstate long  
9           distance prices fell by far more than the reduction in interstate access rates from 1996 to  
10          2007 (the most recent year with available information).<sup>39</sup> I also showed that, considering  
11          the evidence state-by-state, in states in which AT&T pays lower intrastate switched access  
12          rates, AT&T charges lower intrastate long distance prices.<sup>40</sup> In fact, looking simply at the  
13          nationwide aggregates in the years in which I have data (2004-2008), average intrastate  
14          access rates nationwide paid by AT&T fell by ██████ per minute, and during that same  
15          time period, AT&T’s average intrastate long distance prices nationwide fell by far more—  
16          ██████ per minute. The facts show that competition has been a very powerful force on  
17          intrastate long distance rates nationwide, a phenomenon that is evident in the overall  
18          nationwide trend, as well as in the details of my state-by-state data analysis showing that

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<sup>38</sup>       *Hale Direct*, p. 12. Mr. Staurulakis makes similar erroneous arguments (See Prefiled Direct Testimony of Emmanuel Staurulakis filed on Behalf of the RLECs, pp. 4-5), all of which should have been answered by the evidence supplied in my Direct Testimony.

<sup>39</sup>       *Aron Direct*, pp. 47-48.

<sup>40</sup>       *Aron Direct*, pp. 49-51. My analysis of AT&T’s data also found that the observed pass-through is not statistically different from 100 percent. See Debra J. Aron *et al.*, “An Empirical Analysis of Regulator Mandates on the Pass Through of Switched Access Fees for In-State Long-Distance Telecommunications in the U.S.,” (October 14, 2010), available at SSRN: <http://ssrn.com/abstract=1674082>.

1 the reductions in long distance prices have occurred disproportionately in states and years  
2 with lower intrastate access rates. All of these results are consistent with the elementary  
3 economic principle that any carrier, even an unregulated monopolist, will reduce prices in  
4 response to a reduction in wholesale costs because that is the course that maximizes  
5 profits.

6 Moreover, according to the Direct Testimony of Dr. Oyefusi, AT&T has committed to  
7 eliminating its ISCF (in state-connectivity fee) charged in Kentucky, and to reduce the  
8 intrastate calling card decrement (i.e., make the calling card per minute price charged for  
9 intrastate calls the same as the per minute calling card price charged for interstate calls)  
10 when all ILECs are mirroring their interstate switched access rates, and CLECs are  
11 mirroring the intrastate rate of the ILEC with which they compete.<sup>41</sup> Clearly, Mr. Hale's  
12 "belief" is in direct contradiction to the evidence.

13 **Q: MR. HALE FURTHER ARGUES THAT AT&T STANDS TO GAIN FROM**  
14 **INTRASTATE ACCESS REFORM BECAUSE "RETAIL RATES FOR**  
15 **LANDLINE SERVICE WOULD BE REQUIRED TO INCREASE**  
16 **DRASTICALLY," THEREBY "FORCING" KENTUCKIANS TO DROP THEIR**  
17 **LANDLINE SERVICE IN FAVOR OF WIRELESS, OF WHICH AT&T IS A**  
18 **PROVIDER.<sup>42</sup> PLEASE COMMENT.**

19 **A:** There are a number of errors with this argument. First, as a factual matter, AT&T's  
20 proposed plan involves modest retail rate increases (if carriers choose to exercise them)  
21 for basic local service from levels that incur significant subsidies to levels that incur  
22 slightly less subsidies—levels which according to the testimony of Dr. Oyefusi are

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<sup>41</sup> *Oyefusi Direct*, p. 26.

<sup>42</sup> *Hale Direct*, pp. 12-13.

1 consistent with local service prices paid by the very customers elsewhere in Kentucky who  
2 are providing the subsidies to the Rural LECs.<sup>43</sup> It also involves retail rate *decreases* for  
3 wireline long distance services, as I have also already discussed.

4 Second, as I explained in my Direct Testimony, nearly all residents of the Commonwealth  
5 of Kentucky already have cell phones. To the extent that any Kentucky residents drop  
6 their landline service, it follows that very few if any of them will be adding wireless  
7 service—whether AT&T’s or any other cell phone provider’s—because they already have  
8 it. Moreover, if they drop their wireline local service, they will also be dropping their  
9 wireline long distance service, even if their wireline long distance service is provided by  
10 AT&T.

11 What AT&T *will* gain as a result of access reform is the opportunity for its wireline long  
12 distance service to compete on a more level playing field with wireless long distance,  
13 email, social networking, Skype, and other forms of long distance communications that  
14 are not subject to or are less subject to intrastate access charges; and a reduced  
15 vulnerability to being victimized by arbitrage schemes that play on the difference between  
16 interstate and intrastate access rates. What consumers will gain—the more relevant  
17 consideration for this Commission—is the opportunity to pay less for long distance  
18 services, and a more equitable distribution of the subsidy burden that will remain for rural  
19 local exchange service.

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<sup>43</sup> *Oyefusi Direct*, pp. 39, 49.

1 **Q: MR. HALE URGES THE COMMISSION TO TAKE INTO ACCOUNT AND**  
2 **RESTORE NOT ONLY THE ACCESS REVENUES THAT RLECS WOULD**  
3 **FORGO DUE TO INTRASTATE ACCESS REFORM, BUT THOSE DUE TO**  
4 **POSSIBLE “LOOMING REDUCTIONS IN INTERSTATE REVENUE.”** <sup>44</sup>  
5 **PLEASE COMMENT.**

6 A: The FCC has reformed and seeks to continue to reform access rates because the current  
7 system is inefficient, harms consumers, and is not sustainable.<sup>45</sup> However, the FCC has  
8 explicitly recognized the policy issues surrounding revenue recovery for future interstate  
9 access reductions and is assessing whether carriers’ other revenues, from sources such as  
10 the special access revenues that carriers receive from wireless and other providers as I  
11 mentioned earlier, are adequate to compensate for reductions in interstate switched access  
12 revenues. The FCC has always provided for revenue recovery in the past when it  
13 conducted access reform, and it appears that if the FCC conducts further access reform, it  
14 intends to address revenue recovery again. The recovery may not be entirely (or at all) in  
15 the form of explicit funds or entitlements, but may be in the form of a finding on the basis  
16 of evidence that carriers have adequate alternative revenue sources to recover some or all  
17 of the forgone interstate revenues. In either case there is no indication and no basis in past  
18 experience to suggest that the FCC will impose responsibility for revenue recovery for  
19 federal reforms on this Commission. For Mr. Hale to argue that Kentucky should not at  
20 least catch up with decade-old federal reforms, and should perpetuate the inefficient,  
21 harmful access subsidy system in Kentucky, *because* the FCC believes the current level of  
22 federal reforms is still not adequately benefiting consumers and competition and therefore

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<sup>44</sup> *Hale Direct*, p. 14.

<sup>45</sup> *2011 NPRM*, ¶¶ 7, 502, 505.

1 plans to continue its reform efforts, is a delay tactic that is inconsistent with the objectives  
2 of economic efficiency, facilitation of competition, and consumer welfare.

3 **Q: MR. HALE URGES THE COMMISSION TO NOT ADOPT A “ONE SIZE FITS**  
4 **ALL” SOLUTION TO ACCESS REFORM.<sup>46</sup> IS AT&T’S PROPOSAL A “ONE**  
5 **SIZE FITS ALL” PLAN?**

6 A: No. AT&T’s proposal takes into account differences in the types of territories served by  
7 different LECs, and differences between price cap and rate-of-return carriers, in the same  
8 way that the FCC did when it established interstate access rates. As I discussed in my  
9 Direct Testimony, for price-cap carriers, the FCC established three different target access  
10 rates, depending on whether the carrier was rural, non-rural, or an RBOC or former GTE  
11 company. The FCC established a different methodology for rate-of-return carriers than  
12 for price-cap carriers that differentiated by carrier. Because AT&T proposes that each  
13 ILEC’s intrastate rates mirror its interstate rates, AT&T’s proposal preserves the  
14 distinctions that the FCC built into the federal rates to reflect different circumstances of  
15 different types of carriers in different types of territories.

16 **Q: MR. HALE CONCLUDES BY URGING THE COMMISSION TO “TAKE ITS**  
17 **TIME AND GET IT RIGHT.”<sup>47</sup> SHOULD THIS COMMISSION DELAY ACCESS**  
18 **REFORM AT THIS TIME?**

19 A: No. The Telecommunications Act of 1996 directed state commissions 15 years ago to  
20 undo the implicit subsidies contained in access rates and to replace implicit subsidies with  
21 explicit subsidies. The FCC has been doing so at the federal level since that time. The  
22 AT&T proposal follows the same overarching logic as past federal reforms: reduce access

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<sup>46</sup> *Hale Direct*, p. 13.

<sup>47</sup> *Hale Direct*, p. 15.

1 rates, and replace the forgone revenues with a combination of increased charges to end-  
2 user local exchange customers, and explicit subsidy funds. It reduces intrastate rates to  
3 levels that were extensively vetted and put into place a decade ago. Access reform at this  
4 time according to AT&T's proposal is not novel and would hardly be precipitous—it has  
5 been a long time coming. The time to bring the benefits of access reform to all consumers  
6 in Kentucky is now.

7 **III. Response to Bruce H. Mottern on Behalf of TDS Telecom**

8 **Q: DOES TDS TELECOM AGREE WITH AT&T ON ANY POINTS IN THIS**  
9 **PROCEEDING?**

10 **A:** Yes, on many. TDS agrees that

- 11 • Access rates should be reformed;<sup>48</sup>
- 12 • Access reform should be revenue neutral;<sup>49</sup>
- 13 • Switched access minutes are declining and local service lines are declining and the  
14 trend will continue;<sup>50</sup>
- 15 • Access reform should be rational, fair, comprehensive, and meaningful.<sup>51</sup>

16 Beyond those points of agreement, TDS Telecom's testimony is vague on the details. It  
17 appears that Mr. Mottern's testimony is that to the extent access rates are reduced, the

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<sup>48</sup> *Mottern Direct*, p. 3.

<sup>49</sup> *Mottern Direct*, p. 7.

<sup>50</sup> *Mottern Direct*, pp. 5-7.

<sup>51</sup> *Mottern Direct*, p. 3.



1 forgone revenues should be recovered entirely from universal service funds and that no  
2 portion should be recovered from retail rate increases.<sup>52</sup>

3 **Q: ARE THE CHOICES BEFORE THE COMMISSION TO REPLACE FORGONE**  
4 **ACCESS REVENUES EITHER ENTIRELY FROM UNIVERSAL SERVICE**  
5 **FUNDS OR ENTIRELY FROM RETAIL RATE INCREASES, AS MR. MOTTERN**  
6 **IMPLIES?**

7 A: No, Mr. Mottern posits a false dichotomy. It appears to be TDS's position that all access  
8 revenues that would be forgone as a result of access reform should be recovered from a  
9 state universal service fund. Meanwhile, it is Verizon's and Sprint's positions that no  
10 forgone access revenues should be recovered from a state USF. But these are not the only  
11 options; a third approach would require carriers to impute some of the forgone access  
12 revenues to retail rate increases, while permitting recovery of the remainder, if any, of the  
13 forgone revenues from a universal service fund. AT&T's proposal is of the third type.  
14 Under AT&T's proposal, revenue replacement would derive from a combination of the  
15 opportunity to increase local service prices and direct subsidies from a state universal  
16 service fund created for that purpose. Hence, I believe that much of Mr. Mottern's  
17 testimony, which discusses why TDS Telecom opposes the recovery of forgone access  
18 revenues entirely through retail rate increases, is inapplicable to AT&T's proposed plan.  
19 Moreover, TDS Telecom's testimony advocating the establishment of a revenue  
20 replacement fund is consistent with AT&T's Plan, which also proposes establishment of a

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<sup>52</sup> *Mottern Direct*, pp. 6, 13, and Attachment. Mr. Mottern suggests that the Commission consider an approach similar to the one being considered in Ohio, where all forgone revenues would be recovered through an "Access Restructuring Fund." In the event the Commission finds that access reform "would affect retail local service rates," Mr. Mottern recommends that the Commission "provide a reasonable transition period so that local voice service providers may adjust their business plans and avoid consumer rate shock." *Mottern Direct*, p. 4.

1 revenue replacement fund, albeit not to replace all of the forgone access revenues, as TDS  
2 Telecom would prefer.

3 **Q: MR. MOTTERN OPINES THAT PARITY OF INTERSTATE AND INTRASTATE**  
4 **ACCESS RATES IS NOT “APPROPRIATE.”<sup>53</sup> WHAT IS HIS REASONING?**

5 A: His reasoning is that parity is not appropriate without an intrastate revenue replacement  
6 fund, because without a fund the effect of parity on local service prices would be “huge.”<sup>54</sup>

7 **Q: DOES MR. MOTTERN’S REASONING APPLY TO AT&T’S PROPOSED**  
8 **REFORM PLAN?**

9 A: No. As I just explained, under AT&T’s Plan, part of the forgone access revenues would  
10 be replaced from an intrastate fund. Retail rates would be increased only to a benchmark  
11 level, and only gradually. Hence, whether or not the effect on local service prices of *fully*  
12 recovering all forgone access revenues from local service prices would render TDS’s local  
13 service prices unaffordable, as he asserts,<sup>55</sup> is irrelevant with respect to AT&T’s proposal.

14 **Q: MR. MOTTERN CLAIMS THAT THE FCC STRIPPED ALL LOOP AND**  
15 **OTHER JOINT/COMMON COSTS FROM INTERSTATE ACCESS RATES.<sup>56</sup> IS**  
16 **THAT ACCURATE?**

17 A: No. The FCC reduced interstate access rates to remove some of the subsidies, but the  
18 rates it established in its most recent reforms were still well above the incremental cost of  
19 providing switched access service, as Dr. Oyefusi and I both discussed in our Direct  
20 Testimonies.

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<sup>53</sup> *Mottern Direct*, p. 9.

<sup>54</sup> *Mottern Direct*, p. 9.

<sup>55</sup> *Mottern Direct*, p. 9.

<sup>56</sup> *Mottern Direct*, pp. 8-9.

1 Q: MR. MOTTERN CLAIMS THAT “OTHER STATES” HAVE CONCLUDED  
2 THAT “THE LOCAL LOOP IS A JOINT AND SHARED COST” AND THAT  
3 “THEREFORE, INTERSTATE PARITY IS NOT NECESSARILY THE  
4 APPROPRIATE TARGET FOR INTRASTATE RATES.”<sup>57</sup> IS THIS A SOUND  
5 ARGUMENT?

6 A: No, for many reasons. His logic seems to be that the interstate rates include no  
7 contribution to the loop and therefore it is “inappropriate” to reduce intrastate rates to  
8 interstate levels. First, as I just explained, the FCC did not reduce interstate rates to the  
9 incremental cost of providing switched access service, intrastate access rates remain well  
10 above the incremental cost of providing switched access service and therefore they  
11 continue to contain subsidies toward recovery of loop costs. Second, Mr. Mottern  
12 misunderstands the concept of “joint and shared costs.” By definition, a cost that is joint  
13 or shared among services *a*, *b*, *c*, and *d* is not attributable or incremental to *a*, *b*, *c*, or *d*,  
14 and therefore should not be recovered in the per-unit usage prices of *a*, *b*, *c*, or *d*. The cost  
15 of the loop is non-traffic-sensitive (i.e., it is independent of the usage on the loop, whether  
16 local, long distance, wireless, broadband, or any other usage), and is dedicated to an  
17 individual user. The cost is not attributable to long distance usage and is not properly  
18 recovered through traffic-sensitive charges such as access fees. The economically  
19 efficient way to recover loop costs is as a flat rate fee, charged to the customer to whom  
20 the loop is dedicated, by the company that incurred the cost to build it.

21 But, third, if the customer’s loop cost is to be subsidized rather than recovered entirely  
22 from the customer to whom it is dedicated, there is no economic justification for

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<sup>57</sup> *Mottern Direct*, p. 11. Mr. Mottern does not identify the “other states” to which he refers.

1 subsidizing local service through access rates rather than through explicit subsidies, as  
2 Congress has required. A reasonable way to impose the subsidy burden, and one that is  
3 economically superior to imposing the burden primarily on customers of one service using  
4 one technology, is for providers of all communications technologies (and, ultimately, their  
5 customers) to contribute to the subsidy.

6 And, fourth, Mr. Mottern’s argument does not support his own conclusion. If loop costs  
7 are “joint and shared,” they would not be joint and shared among only local and long  
8 distance services, but also among wireless, broadband, and any other service that uses the  
9 loop facility. By Mr. Mottern’s own theory, all such technologies should contribute to the  
10 subsidy—which requires replacing implicit subsidies from access rates with explicit  
11 subsidies from a state USF –which is precisely what AT&T’s proposal does.

12 **IV. Response to Don Price on Behalf of Verizon and James A. Appleby on Behalf of**  
13 **Sprint**

14 **Q: DO VERIZON AND SPRINT AGREE WITH AT&T ON ANY POINTS IN THIS**  
15 **PROCEEDING?**

16 **A:** Yes, Verizon and Sprint agree with AT&T on several points, including the following:

- 17 1. Access rates were historically established to include, and do today include,  
18 significant subsidy elements.<sup>58</sup>
- 19 2. Excessive access rates distort competition, harm consumers, and cause  
20 inefficiency.<sup>59</sup>

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<sup>58</sup> *Price Direct*, pp. 8, 13, 37-38; *Appleby Direct*, pp. 3, 8.

<sup>59</sup> *Price Direct*, pp. 16-17; *Appleby Direct*, pp. 8-11.

- 1                   3. Switched access rates, whether charged by ILECs or CLECs, are not  
2                   disciplined by the market,<sup>60</sup> and  
3                   4. ILECs and CLECs should not be permitted to charge intrastate switched access  
4                   rates above an appropriate ceiling based on ILEC rates.<sup>61</sup>

5 **Q: IN YOUR OPINION, WHAT ARE THE KEY DIFFERENCES BETWEEN**  
6 **VERIZON'S REFORM PROPOSAL AND AT&T'S?**

7 A: I believe there are two key differences. First, Verizon proposes a different intrastate  
8 access rate ceiling than the intrastate access rates proposed by AT&T; and, second, unlike  
9 AT&T, Verizon opposes the establishment of a state universal service fund from which  
10 ILECs could recover any revenue forgone from access reform.

11 **Q: WHAT ARE THE KEY DIFFERENCES BETWEEN SPRINT'S PROPOSAL AND**  
12 **AT&T'S?**

13 A: There is only one key difference. Like Verizon, Sprint opposes the establishment of a  
14 state USF and believes that LECs should seek recovery of any forgone access revenues  
15 from the variety of retail services it offers. Sprint's proposal for reducing access rates,  
16 like AT&T's (and unlike Verizon's), is to mirror intrastate access rates to interstate rates.

17 **Q: REGARDING VERIZON'S PROPOSAL FOR INTRASTATE ACCESS RATE**  
18 **REDUCTIONS, HOW DOES IT DIFFER FROM AT&T'S PROPOSAL?**

19 A: Verizon proposes that all LECs should reduce their intrastate access rates to no higher  
20 than the level of AT&T's intrastate access rates in Kentucky. AT&T proposes (similarly  
21 to Sprint) that all ILECs should reduce their intrastate access rates to their own, FCC-

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<sup>60</sup> *Price Direct*, p. 15; *Appleby Direct*, p. 7.

<sup>61</sup> *Price Direct*, p. 5; *Appleby Direct*, p. 4.

1 determined interstate access rates, and all CLECs should reduce their intrastate rates to the  
2 level of the intrastate access rates of the ILEC with which they compete.

3 **Q: FROM AN ECONOMIC STANDPOINT, WHICH APPROACH IS SUPERIOR?**

4 A: AT&T's proposal is superior. It is more consistent with the rates that would prevail in a  
5 competitive market, and it would resolve the arbitrage concerns that can be addressed by  
6 intrastate access reform, while Verizon's would not. It is also a simpler plan. The ILECs  
7 already charge the access rates that AT&T proposes here, for interstate calls. AT&T  
8 simply proposes that they charge the same rates for intrastate calls. There is no sound  
9 basis—and Mr. Price offers none—for requiring a LEC that operates in a territory other  
10 than AT&T's ILEC territory to charge AT&T's rates, rather than the rates that are relevant  
11 to the territory in which the LEC actually operates.

12 **Q: MR. PRICE ARGUES THAT THE COMMISSION SHOULD ADOPT VERIZON'S**  
13 **BENCHMARK RATHER THAN AT&T'S MIRRORING PROPOSAL BECAUSE**  
14 **AT&T HAS ALREADY ELIMINATED THE NTSRR FROM ITS INTRASTATE**  
15 **RATES.<sup>62</sup> IS THAT A SOUND ARGUMENT?**

16 A: No. I agree that the NTSRR should be eliminated from all LECs' intrastate access rates,  
17 as AT&T has done, but the desirability of eliminating the NTSRR offers no advantage of  
18 Verizon's proposal over AT&T's, because both would eliminate the NTSRR. None of the  
19 LECs in Kentucky have an NTSRR or comparable charge such as a CCL in their interstate  
20 access rates, because these charges were eliminated by the FCC many years ago.<sup>63</sup> Hence,

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<sup>62</sup> *Price Direct*, p. 44.

<sup>63</sup> Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, *In the Matter of Access Charge Reform and Price Cap Performance Review for Local Exchange Carriers et al.*, FCC 00-193, (rel. May 31, 2000), ¶ 68; *MAG Order*, ¶ 61.

1 requiring each ILEC to mirror its own interstate access rate and requiring each CLEC to  
2 mirror the rates of the ILEC with which it competes, as proposed by AT&T, would  
3 eliminate the NTSRR from all intrastate access rates.

4 **Q: WHY IS VERIZON'S PROPOSAL MORE COMPLEX THAN AT&T'S PLAN?**

5 A: First, today no other ILEC charges AT&T's rate (which Verizon wants to impose on all  
6 ILECs) for interstate or intrastate calls.. So, if each ILEC charged AT&T's *intrastate*  
7 access rate for intrastate calls as Verizon proposes, each ILEC would continue to charge  
8 its existing (FCC-governed) rates for interstate calls, and would thus continue to have  
9 different rates for interstate and intrastate access service, despite the fact that there is no  
10 real functional difference between interstate and intrastate service, as I explained in my  
11 Direct Testimony. By contrast, under AT&T's Plan each carrier would have only one set  
12 of switched access rates, which would apply to interstate and intrastate toll calls. The  
13 pricing distinction between interstate and intrastate services, which has no economic basis,  
14 would be eliminated under AT&T's Plan, but not under Verizon's.

15 Second, as the Commission is surely well aware, the process of implementing AT&T's  
16 rates for all other LECs would be no simple matter. Each LEC's intrastate access rates are  
17 not a single number but are a lengthy list of rate elements, each of which may have a  
18 different rate. Different carriers have different rate structures. For each carrier to be  
19 constrained by AT&T's intrastate "rate," as Verizon proposes, requires that either each  
20 carrier adopt AT&T's entire intrastate access tariff element by element, which may not  
21 correlate with the rate structure it has adopted for its own interstate rates; or the

1 Commission will have to develop a methodology by which each carrier can demonstrate  
2 that its average intrastate access rate (taking account of all of its rate elements and the  
3 traffic associated with each) is less than or equal to AT&T's average intrastate access rate,  
4 given AT&T's traffic patterns. Under AT&T's proposal, in contrast, each ILEC could  
5 simply adopt its own interstate access tariff as its intrastate access tariff, would have to  
6 maintain only one rate structure (the one it chose for its interstate access rates), and would  
7 automatically comply with the mirroring requirement without any necessary analytical  
8 showing to the Commission of compliance.

9 **Q: YOU TESTIFIED THAT THE OTHER KEY DIFFERENCE BETWEEN AT&T'S**  
10 **PROPOSAL AND THOSE OF VERIZON AND SPRINT IS THAT VERIZON AND**  
11 **SPRINT OPPOSE THE ESTABLISHMENT OF A STATE UNIVERSAL SERVICE**  
12 **FUND FROM WHICH LECS COULD RECOVER SOME OF THEIR FORGONE**  
13 **ACCESS REVENUES. WHAT BASIS DO MR. PRICE AND MR. APPLEBY**  
14 **PROVIDE FOR THEIR OPPOSITION TO A STATE USE?**

15 A: They both argue that it is more efficient for companies to recover their costs from their  
16 customers than from other carriers, and that access reform that permits carriers to recover  
17 forgone revenues from a universal service fund has no beneficial effects.<sup>64</sup>

18 **Q: PLEASE COMMENT ON THE ARGUMENT THAT A UNIVERSAL SERVICE**  
19 **FUND SHOULD NOT BE ESTABLISHED BECAUSE IT IS MORE EFFICIENT**  
20 **FOR COMPANIES TO RECOVER THEIR COSTS FROM THEIR CUSTOMERS**  
21 **THAN FROM OTHER CARRIERS.**

22 A: Mr. Price and Mr. Appleby are correct that it is more economically efficient for carriers to  
23 recover the costs of providing local service from their local service customers and not  
24 from other carriers, and I believe this should be the Commission's ultimate goal.

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<sup>64</sup> *Price Direct*, p. 49; *Appleby Direct*, p. 10.



1           However, it is also proper policy and consistent with the Commissions' regulatory  
2           responsibility to conduct access reform in a revenue neutral fashion for ILECs, as the FCC  
3           has always done. Because the current access rates were established as part of a regulatory  
4           quid pro quo, the Commission should give the affected companies the opportunity to  
5           recover the revenue forgone from ordered access charge reductions, in recognition of the  
6           regulatory compact that led to the uneconomically low retail rates and uneconomically  
7           high access rates in the first instance. If the Commission believes that the retail rate  
8           increases that would be necessary to allow ILECs to fully recover the revenues they would  
9           forgo from access reductions would cause unacceptable rate shock in the short run, they  
10          should not forgo the benefits of access reform but rather should establish a universal  
11          service fund to provide for recovery of revenues, if any, that could not be recovered from  
12          retail price increases that are palatable to the Commission. This fund should decrease over  
13          time, and the responsibility to recover forgone revenues through retail rates should  
14          increase over time.

15   **Q: MR. PRICE ASSERTS THAT "SIMPLY SHIFTING THE SUBSIDY AND**  
16   **REVENUE BURDEN FROM ONE CARRIER-FUNDED SOURCE (ACCESS**  
17   **RATES) TO ANOTHER (A STATE USE) SOLVES NOTHING."<sup>65</sup> MR. APPLEBY**  
18   **MAKES A SIMILAR ASSERTION.<sup>66</sup> ARE THEY CORRECT?**

19   **A:** No. They are absolutely incorrect. Under the current access rates system, the subsidy is  
20          provided only by customers of carriers that pay access rates, who are, as I explained in  
21          detail in my Direct Testimony, primarily customers of wireline long distance services.

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<sup>65</sup>       *Price Direct*, p. 49.

<sup>66</sup>       *Appleby Direct*, p. 10.

1           These customers are increasingly those who are less comfortable with newer technologies.  
2           Because subsidies embedded in access rates cause wireline long distance prices to be  
3           higher than they otherwise would be, they distort competition and consumer decisions  
4           among technologies, encouraging customers who are willing and able to do so to avoid  
5           wireline long distance in favor of the variety of options available over wireless and  
6           broadband technologies. When subsidies are provided by a state USF, the subsidy burden  
7           is spread across more telecommunications customers, and would not be limited only to  
8           customers of one long distance technology. There is no legitimate reason that customers  
9           of long distance communications should bear any more subsidy burden than customers of  
10          local or other communications services, and certainly no reason that the burden should be  
11          limited to wireline long distance customers.

12          Moreover, as I described in detail in my Direct Testimony, subsidies embedded in access  
13          rates are not a stable source of universal service support, as access minutes and the  
14          associated revenues are rapidly declining.<sup>67</sup> As long as subsidies are desirable and  
15          considered necessary in order to support universal service objectives, a state fund is a  
16          much more stable source of such subsidies than are access rates.

17          It was because of the distortions to competition and inefficiencies associated with implicit  
18          subsidies that Congress required the FCC and the states to replace implicit subsidies with  
19          explicit subsidies where necessary. Hence, while it is correct that it is desirable as an  
20          ultimate objective that carriers be required to recover their costs of local service from their

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<sup>67</sup> *Aron Direct*, pp. 32-33.

1 local service customers rather than from a universal service fund, the claim that replacing  
2 implicit subsidies with explicit subsidies “solves nothing” is incorrect. This assertion not  
3 only ignores the very real benefits to competition and efficiency of conducting such  
4 reform, but ignores the direct instruction of Congress to do so.

5 **V. Response to Cesar Caballero on Behalf of Windstream Kentucky East, LLC and**  
6 **Windstream Kentucky West, LLC**

7 **Q: HAVE YOU REVIEWED THE TESTIMONY OF MR. CABALLERO OF**  
8 **WINDSTREAM?**

9 A: Yes. I understand that the Commission has incorporated into this case the testimony filed  
10 by Mr. Caballero in the earlier proceeding that the Commission initiated to review the  
11 intrastate switched access rates of the Windstream Companies.<sup>68</sup> Mr. Caballero has  
12 chosen to rely in this case on the Direct and Rebuttal Testimonies that he filed in the  
13 earlier case. He submitted a brief additional piece of testimony in this proceeding in  
14 which he asserts that he has no updates to that testimony.<sup>69</sup>

15 **Q: DID YOU RESPOND TO MR. CABALLERO’S TESTIMONY IN THE EARLIER**  
16 **PROCEEDING THAT HE FILED AS HIS DIRECT TESTIMONY IN THIS**  
17 **PROCEEDING?**

18 A: Yes. In the earlier proceeding, I filed direct testimony simultaneously with Mr.  
19 Caballero’s direct testimony, and I filed rebuttal testimony in which I responded to his

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<sup>68</sup> *In the Matter of MCI Communications Services, Inc., Bell Atlantic Communications, Inc., NYNEX Long Distance Company, TTI National, Inc., Teleconnect Long Distance Services & Systems Company and Verizon Select Services, Inc., v. Windstream Kentucky West, Inc., Windstream Kentucky East, Inc. – Lexington and Windstream Kentucky, East – London, Case No. 2007-00503, (hereafter referred to as “the Windstream Case.”)*

<sup>69</sup> *Caballero Direct, p. 2.*

1 direct testimony.<sup>70</sup> I understand that my direct and rebuttal testimonies in that proceeding  
2 are also incorporated into the record in this proceeding and I rely on those for my response  
3 to Mr. Caballero's Direct Testimony filed in this proceeding.

4 **Q: IN RESPONSE TO MR. CABALLERO, DO YOU HAVE ANYTHING TO ADD TO**  
5 **THE TESTIMONY YOU HAVE ALREADY FILED IN THE WINDSTREAM**  
6 **CASE?**

7 A: No. In my rebuttal testimony in the Windstream Case, I explained that Windstream's  
8 intrastate access rates are not just and reasonable, contrary to the assertions of Mr.  
9 Caballero.<sup>71</sup> I explained that the fact that long distance service is highly competitive does  
10 not make access rates just and reasonable, as asserted by Mr. Caballero, because switched  
11 access rates paid by long distance carriers are not subject to competition.<sup>72</sup> I also observed  
12 that the main thrust of Mr. Caballero's direct testimony was not an objection to AT&T's  
13 reform proposal but to Verizon's proposal, which (then, as now) provides for no universal  
14 service fund to offset or partially offset forgone access revenues.<sup>73</sup>

15 Mr. Caballero's rebuttal testimony in the Windstream Case did not take issue with my  
16 direct testimony. Rather, it referred approvingly to the fact that my testimony there, as  
17 here, supports holistic reform—i.e., reform that recognizes the regulatory context in which  
18 subsidies in switched access rates were established in the first instance, and therefore

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<sup>70</sup> Direct Testimony of Dr. Debra J. Aron (July 14, 2010), and Rebuttal Testimony of Dr. Debra J. Aron (August 13, 2010), in the Windstream Case, (hereafter *Aron 2010 Direct* and *Aron 2010 Rebuttal*).

<sup>71</sup> *Aron 2010 Rebuttal*, pp. 7-23.

<sup>72</sup> *Aron 2010 Rebuttal*, pp. 10-14.

<sup>73</sup> *Aron 2010 Rebuttal*, pp. 23-24.

1 provides for revenue neutrality through, in part (and in a limited fashion) establishment of  
2 USF support.<sup>74</sup>

3 Mr. Caballero had an opportunity in this proceeding to offer any rebuttal he wished to my  
4 rebuttal testimony in the earlier proceeding and he declined to do so, so I presume he is in  
5 general agreement with or has no response to my rebuttal testimony in the Windstream  
6 Case. Therefore, in response to Mr. Caballero's testimony I stand on my direct and  
7 rebuttal testimonies in the earlier case and have no further comments on his testimony  
8 beyond what is contained there.

9 **VI. Response to Joseph Gillian on Behalf of the Kentucky Cable Telecommunications**  
10 **Association, tw telecom, Level 3, and PAETEC,**

11 **Q: WHAT IS MR. GILLAN'S POSITION IN THIS PROCEEDING?**

12 A: I believe Mr. Gillan's main points are that the Commission should delay this proceeding,  
13 and that to the extent it proceeds with access reform, it should reform only terminating  
14 access rates and not originating access rates.

15 **Q: DO YOU AGREE THAT THIS COMMISSION SHOULD DELAY INTRASTATE**  
16 **ACCESS REFORM IN KENTUCKY BECAUSE OF THE ACTIVITY AT THE**  
17 **FEDERAL LEVEL?**

18 A: No. I explained in my Direct Testimony that delay of access reform would harm  
19 consumers in Kentucky. I will not repeat my analysis here.

20 **Q: MR. GILLAN ARGUES THAT ACCESS REFORM SHOULD NOT APPLY TO**  
21 **ORIGINATING ACCESS BECAUSE ORIGINATING ACCESS IS A "VESTIGE**

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<sup>74</sup> *Caballero Direct, Exhibit B, pp. 36-37.*

1 **OF A MARKET STRUCTURE THAT HAS VIRTUALLY DISAPPEARED.”<sup>75</sup>**  
2 **PLEASE COMMENT.**

3 A: While it is certainly true that many customers today obtain wireline long distance service  
4 and wireline local exchange service from the same provider, that fact in no way supports  
5 the conclusion that originating access rates should not be reformed. There remain many  
6 customers who purchase stand-alone long distance service and therefore many originating  
7 access minutes on which excessive intrastate rates are being charged, and there is no  
8 sound reason to ignore them. There is no justification for originating intrastate access  
9 rates that far exceed interstate levels. Originating intrastate switched access rates should  
10 be reduced to their interstate levels, because failing to reform those rates distorts  
11 competition, causes consumers to pay higher prices for long distance service than they  
12 otherwise would, and creates arbitrage opportunities, contrary to Mr. Gillan’s testimony.

13 **Q: IS THERE EVIDENCE THAT INTRASTATE ORIGINATING ACCESS RATES**  
14 **IN FACT EXCEED INTERSTATE ORIGINATING ACCESS RATES IN**  
15 **KENTUCKY?**

16 A: Yes. Some Parties provided in discovery data on their access revenues and minutes  
17 disaggregated by origination and termination, which allowed me to compute their average  
18 originating and terminating rates separately. In every case I found that the LEC’s  
19 originating intrastate access rates are substantially higher than—in some cases [REDACTED]  
20 times higher than—its originating interstate access rates, as shown in Table 1.

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<sup>75</sup> Gillan Direct, p. 8.

**TABLE 1**  
**Originating Average Access Rates in Kentucky**

	Intrastate	Interstate	Intrastate/ Interstate
Cincinnati Bell			
TDS Leslie County Telephone Company			
TDS Lewisport Telephone Company			
TDS Salem Telephone Company			
Frankfort Plant Board			
time warner telecom			
<i>Sources: Cincinnati Bell's Responses to AT&amp;T's First Set of Data Requests, No. 11; TDS Companies' Revised Responses to AT&amp;T First Set of Data Requests, No. 11 (revised), submitted September 8, 2011; and Frankfort Plant Board's and tw telecom's Responses to AT&amp;T's First Set of Discovery Requests, No.9.</i>			

1 **Q: MR. GILLAN TESTIFIES THAT HE “DOES NOT BELIEVE” THAT**  
 2 **REDUCTIONS IN ORIGINATING ACCESS CHARGES WOULD BE FLOWED**  
 3 **THROUGH TO CONSUMERS IN THE FORM OF LOWER LONG DISTANCE**  
 4 **PRICES.<sup>76</sup> IS HIS “BELIEF” JUSTIFIED?**

5 **A:** No. There is ample evidence that reductions in originating access rates would result in  
 6 reduced intrastate toll prices, as I discussed above in my response to Mr. Hale’s Direct  
 7 Testimony. My analysis is based on data that include all of AT&T’s toll plans in all 50  
 8 states and demonstrates that, contrary to Mr. Gillan’s beliefs and his reference to a single  
 9 pricing plan, actual data analysis shows that access rate reductions are flowed through to  
 10 consumers in the form of lower intrastate toll prices.

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<sup>76</sup> Gillan Direct, p. 9.

1 **Q: ARE THERE ANY OTHER FINDINGS IN YOUR RESEARCH THAT PROVIDE**  
2 **ADDITIONAL EVIDENCE THAT AT&T FLOWS THROUGH REDUCTIONS IN**  
3 **ORIGINATING ACCESS EXPENSES TO ITS CUSTOMERS?**

4 A: Yes. I found in my statistical analysis of the same data I just discussed that in states in  
5 which AT&T is the ILEC, average intrastate toll prices are lower than those in states in  
6 which AT&T is not the ILEC, holding access rates constant. I interpret this to mean that  
7 in ILEC states, more of AT&T's originating access expenditures are internalized (because  
8 AT&T is providing more bundled service than in non-ILEC states), and this is perceived  
9 by AT&T as a cost savings, which is being flowed through to consumers in the form of  
10 lower average prices for intrastate toll service.

11 **Q: MR. GILLAN ASSERTS THAT "IT IS ONLY WITH TERMINATING ACCESS**  
12 **THAT DISPARATE PRICES GIVE RISE TO THE OPERATIONAL CONCERNS**  
13 **OF ARBITRAGE."<sup>77</sup> HIS REASONING IS THAT "IT IS ONLY IN THE AREA**  
14 **OF TERMINATING ACCESS THAT A CARRIER CAN MASK THE**  
15 **JURISDICTIONAL NATURE OF A CALL."<sup>78</sup> IS MR. GILLAN CORRECT THAT**  
16 **ONLY TERMINATING ACCESS RATES CREATE ARBITRAGE CONCERNS?**

17 A: No. I am aware of complaints that local carriers have brought before the FCC that prepaid  
18 calling card providers have disguised long distance calls as local, thereby avoiding having  
19 to pay originating access charges.<sup>79</sup>

20 It should not be assumed that these calling card examples are the only means of effecting  
21 originating access arbitrage. What this example demonstrates, and my point in raising it,

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<sup>77</sup> Gillan Direct, p. 10.

<sup>78</sup> Gillan Direct, p. 11.

<sup>79</sup> See, e.g., Arizona Dialtone, Inc. Petition for Reconsideration, (August 31, 2006); Verizon's Comments in Partial Support of Arizona Dialtone's Petition for Reconsideration, (October 12, 2006); and Reply Comments of AT&T, Inc. (October 23, 2006), *In the Matter of Regulation of Prepaid Calling Card Services*, WC Docket 05-68.



1 is that the creativity of parties who have an incentive to engage in access arbitrage at the  
2 originating end of a call is greater than the imagination of Mr. Gillan (or any of us) might  
3 allow, and that when regulators establish prices that invite arbitrage, it is generally a  
4 mistake to assume that strategies will not be found to take advantage of the opportunity.

5 **VII. Response to Patricia Rupich on Behalf of Cincinnati Bell Telephone Company LLC**

6 **Q: WHAT IS YOUR UNDERSTANDING OF CINCINNATI BELL'S TESTIMONY IN**  
7 **THIS PROCEEDING?**

8 A: I understand Cincinnati Bell's position to be, first, a legal argument that this Commission  
9 does not have jurisdiction to reduce its intrastate access rates in this proceeding.<sup>80</sup>

10 Cincinnati Bell is in agreement with AT&T, however, that if the Commission reduces  
11 access rates, it should require the affected carrier to raise its retail rates to a statewide  
12 benchmark or to the level necessary to recover the forgone revenues, whichever is less,  
13 before being eligible for draws from a state USF.<sup>81</sup>

14 **Q: OTHER THAN CINCINNATI BELL'S LEGAL POSITION REGARDING THE**  
15 **COMMISSION'S JURISDICTION, WHAT DO YOU BELIEVE ARE THE**  
16 **MAJOR AREAS OF DISPUTE BETWEEN AT&T'S POSITION AND**  
17 **CINCINNATI BELL'S POSITION?**

18 Ms. Rupich alludes to "a number of other problems" with AT&T's proposal,<sup>82</sup> but  
19 specifically identifies only one in her testimony that appears materially inconsistent with  
20 AT&T's proposal, which is that intrastate access rates should be reduced immediately to

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<sup>80</sup> *Rupich Direct*, p. 3.

<sup>81</sup> *Rupich Direct*, p. 4.

<sup>82</sup> *Rupich Direct*, p. 4.

1 interstate levels.<sup>83</sup> Ms. Rupich opines that access rate reductions instead should be phased  
2 in over time to “minimize the impact of the offsetting rate increases in local rates and the  
3 size of the USF.”<sup>84</sup>

4 **Q: IS HER PROPOSAL IN THE INTEREST OF KENTUCKY CONSUMERS?**

5 A: No. The longer that access rate reductions are delayed, the longer consumers must wait  
6 for the benefits of reduced wireline long distance prices. Delaying access rate reductions  
7 simply harms consumers, and there are no offsetting benefits. It is an illusion to think that  
8 delaying the reduction of switched access rates delays the need for subsidies—for every  
9 month that access rates are not reduced, the subsidies are being provided, but they are  
10 being provided implicitly in access rates by long distance customers rather than in a  
11 competitively neutral explicit form as required by Congress.

12 AT&T’s proposal provides for a glide path or gradual increase in local service prices so  
13 that the amount of the forgone access revenues that are recovered in local rates (rather  
14 than from the USF) does not occur all at once and rate increases are eased in. As retail  
15 rates increase, the amount of subsidy required decreases. But for each month in which  
16 subsidies are provided, whatever the level of those subsidies is, they should be provided  
17 explicitly through a fund rather than implicitly through access rates, for all the reasons that  
18 I explained in my Direct Testimony and this Rebuttal Testimony. Hence, Ms. Rupich’s

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<sup>83</sup> Ms. Rupich’s position is that LECs can be ordered to reduce rates only if their rates are shown to be unreasonable in a formal public hearing. *Rupich Direct*, p. 3.

<sup>84</sup> *Rupich Direct*, pp. 5-6.

1 advocacy of gradual reductions in access rates rather than immediate reductions should be  
2 rejected because it harms consumers in Kentucky.

3 **VIII. Concluding Comments**

4 **Q: DO YOU HAVE ANY CONCLUDING COMMENTS?**

5 A: Yes. None of the witnesses who oppose aspects of AT&T's Plan has provided any factual  
6 evidence or analysis that contravenes my testimony or conclusions, and none of the  
7 witnesses who oppose aspects of AT&T's Plan has provided arguments that I find  
8 persuasive. Access reform is in the public interest, and the sooner access rates are  
9 reduced, the sooner consumers will benefit from it. Public policy makers must adopt a  
10 disciplined approach to access reform, recognizing that it is always in the private interest  
11 of subsidized entities to fight to keep their subsidies. But their interests should not take  
12 precedence over the interests of the consumers that have been providing those subsidies  
13 for many years, and the interests of the economy of the Commonwealth as a whole.  
14 Access reform is in the public interest and is long overdue in Kentucky, and I encourage  
15 the Commission to follow sound public policy and economic principles by adopting  
16 AT&T's proposal.

17 **Q: DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

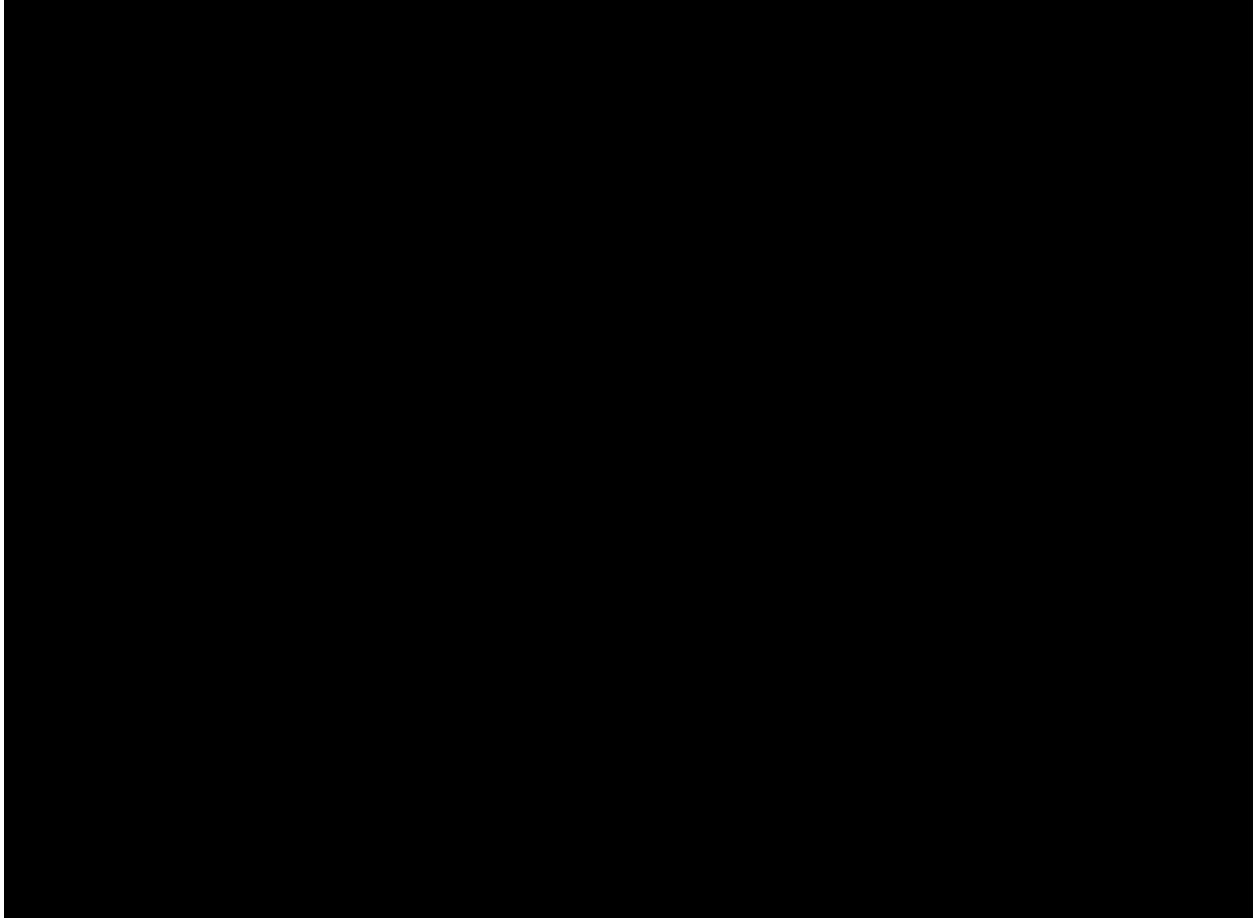
18 A: Yes.

## Rebuttal Exhibit DJA-1

**Figure 2**

**(Revised to reflect revised data filed by TDS Telecom on September 8, 2011)**

**Rural LEC Average Charges for Call Origination/Termination Services in Kentucky**



Note: Rates and details of calculations are provided in Exhibit DJA-2.

*Sources RLECs' Responses to AT&T's First Set of Data Requests, No. 7; TDS Companies' Responses to AT&T First Set of Data Requests, No. 7; TDS Companies' Responses to AT&T First Set of Data Requests, No. 11 (revised), submitted September 8, 2011; and RLECs' Amount of Access Revenue Shift if Intrastate Switched Access Rates Mirror Interstate Switched Access Rates, Case No. 2010-00398, April 15, 2011.*

**EDITED**

**REBUTTAL EXHIBIT DJA-2**

<b>Rural LEC Average Charges for Call Origination/Termination Services in Kentucky</b> (Revised to reflect revised data filed by TDS Telecom on September 8, 2011) <sup>1</sup>									
Full name	Intrastate (Average over Termination and Origination)			Interstate (Average over Termination and Origination)				Termination of Local Traffic:	
	(A) Source 1: Responses to AT&T's DRs <sup>2</sup>	(B) Source 2: Responses to CLEC DRs <sup>3,11</sup>	(C) Source 3: Access Revenue Shift Filing <sup>4</sup>	(D) Source 1: Responses to AT&T's DRs <sup>2</sup>	(E) Source 2: Responses to CLEC DRs <sup>3,11</sup>	(F) Source 3: Access Revenue Shift Filing <sup>5</sup>	(G) Source 4: Annual 2010 FCC filings <sup>6</sup>	(H) Termination of intraMTA Traffic <sup>7,9,10</sup>	(I) Termination of Non-wireless Local Traffic <sup>8</sup>
TDS Leslie County Telephone Company									
TDS Lewisport Telephone Company									
TDS Salem Telephone Company									
Ballard Rural Telephone Cooperative									
Brandenburg Telephone Company									
Duo County Telephone Cooperative									
Foothills Rural Telephone									
Gearhart Communications Company									
Highland Telephone Cooperative									
Logan Telephone Cooperative, Inc									
Mountain Rural Telephone Cooperative									
North Central Telephone Cooperative									
Peoples Rural Telephone Cooperative									
South Central Rural Telephone Cooperative Corporation									
Thacker-Grigsby Telephone Company									
West Kentucky Rural Telephone Cooperative Corporation									
Total Rural LECs									

Notes:

1 "N A " means that the necessary data to provide the relevant computation is not available

2 I computed the rates in columns (A) and (D) as total 2010 access revenues divided by 2010 access minutes, based on data provided in response to AT&T's First Set of Data Requests, No 11

3 I computed the rates in columns (B) and (E) as the unweighted 2010 average of monthly averages per minute as computed by the RLECs and provided in response to TWTC, Level 3, and PAETEC's First Set of Data Requests, No 2, except for Ballard Rural's intrastate access rates, and Gearhart's intrastate and interstate access. In these three cases, the rates shown are the annual average access rates for 2010, as computed by the RLECs and provided in discovery

4 I computed the rates in column (C) as total intrastate access revenues divided by intrastate local switching minutes, as provided by the RLECs in their access revenue shift computation filed with the Commission

5 I computed the rates in column (F) as total interstate access revenues divided by intrastate local switching minutes, as provided by the RLECs in their access revenue shift computation filed with the Commission

6 The rates shown in column (G) are AT&T's estimated from its analysis of the Rural LECs' FCC 2010 annual filings

7 I computed the rates in column (H) for all carriers in this table except Logan and Mountain Rural as 2010 dollars billed for terminating intraMTA traffic divided by intraMTA minutes

8 I computed the rates in column (I) as 2010 reciprocal compensation revenues divided by 2010 reciprocal compensation minutes

9 Logan provided its total revenues and minutes billed for reciprocal compensation, which presumably include wireless and non-wireless termination. I computed Logan's rate for local termination reported in column (H) by dividing Logan's 2010 reciprocal compensation revenues by Logan's 2010 reciprocal compensation minutes

10 Mountain Rural provided its total revenues and minutes billed for termination of wireless calls, which presumably include intraMTA and interMTA wireless termination. I computed Mountain Rural's rate for termination of intraMTA reported in column (H) using these totals, and therefore it may include interMTA traffic

11 It appears that Gearhart and Highland reversed interstate and intrastate rates in their Responses to TWTC, Level 3, and PAETEC's First Set of Data Requests, No 2, because in their Access Revenue Shift filing they showed that their access revenue that would be forgone as a result of mirroring would be positive

*Sources: RLECs' Responses to TWTC, Level 3, and PAETEC's First Set of Data Requests, No. 2; RLECs' Responses to AT&T's First Set of Data Requests, No. 7; TDS Companies' Responses to AT&T First Set of Data Requests, No. 7; TDS Companies' Responses to AT&T First Set of Data Requests, No. 11 (revised), submitted September 8, 2011; and RLECs' Amount of Access Revenue Shift if Intrastate Switched Access Rates Mirror Interstate Switched Access Rates, Case No. 2010-00398, April 15, 2011*

**EDITED**