COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE INTRASTATE SWITCHED ACCESS RATES OF ALL KENTUCKY INCUMBENT AND COMPETITIVE LOCAL EXCHANGE CARRIERS	))))	ADMINISTRATIVE CASE NO. 2010-00398

COMMENTS OF AT&T

AT&T[1] commends the Commission for establishing this administrative case[2] to examine the intrastate switched access rates charged by Kentucky's incumbent and competitive carriers. Such an examination is long overdue.

Excessive switched access charges are a holdover of the long gone monopoly era, when it was national regulatory policy to intentionally overcharge customers for long distance services as a way to subsidize artificially low prices for basic local telephone service. Such cross-subsidy schemes made sense in the days when there was only one telephone company, the unit costs of providing service were high, and there were no computers, no fiber optics and no digital communications. But those cross-subsidies are no longer sustainable in today's highly competitive, high-tech telecommunications market. Indeed, and as explained herein, today those cross-subsidies are actually harming Kentucky consumers.

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[1] BellSouth Telecommunications, Inc. d/b/a AT&T Kentucky ("AT&T Kentucky"), AT&T Communications of the South Central States, LLC ("AT&T Communications"), BellSouth Long Distance, Inc. d/b/a AT&T Long Distance Service, and TCG Ohio (collectively "AT&T")

[2] AT&T is filing these comments in accordance with Commission's November 5, 2010, Order in this proceeding.

This harm takes three forms. First, high access charges are keeping Kentucky intrastate wireline long distance rates too high. High access charges severely hinder the ability of long distance carriers to compete against e-mail, social networking websites, Voice over Internet Protocol ("VoIP") services offered by cable providers and others, and wireless carriers, none of which is burdened with the same access subsidies long distance carriers are forced to bear.

Second, high access charges impede the development of competition by tipping the regulatory scales in favor of all these competing technologies and against traditional long distance carriers. Those regulatory distortions adversely affect Kentucky consumers. The carriers that collect high access rates have reduced incentives to encourage adoption of new technologies that enable subscribers to communicate in ways that do not generate access revenues (*e.g.*, VoIP, e-mail, social networking sites, instant messaging). In other words, so long as the Commission permits those carriers to retain high access rates, the Commission is effectively insulating those carriers from the market, to the detriment of consumers. Likewise, service providers that must pay high access rates not only are being priced out of the market (relative to competitors that do not face the access subsidies), they are being forced to spend funds to subsidize their competitors that otherwise could be used to invest in their own networks and services – again, an outcome that is not in the best long term interests of Kentucky consumers.

Third, and perhaps most troubling, high access charges are forcing consumers across *all* of Kentucky to subsidize others. There is no sound policy reason why subscribers throughout Kentucky should be asked to pay too much for their traditional

wireline long distance calls just so a small minority of subscribers in selected parts of the Commonwealth can pay artificially low local telephone rates.

In short, the access charge problem needs to be fixed. The switched access charge model in place today must be reformed to reflect the 21st century shift from traditional wireline to IP-based services. As Chairman Genachowski of the Federal Communications Commission ("FCC") recently acknowledged:

> [T]he world has changed, our communications infrastructure policies have not kept pace, and the cracks in our foundation are showing. . . . If you were to take a blank white board, and try to develop policies to spur the development of the world's most dynamic communications infrastructure in the 21st century, you probably wouldn't start with our current policies.[3]

Recognizing the need for change, the FCC and at least 20 states already have taken steps over the last decade to reform switched access charges, and even more states have opened proceedings to do the same. With the commencement of this proceeding, this Commission now has the tools to bring the benefits of those reforms to Kentucky's consumers.

I. The Commission Should Act Quickly in Reforming Intrastate Switched Access Charges in Kentucky.

AT&T applauds this Commission for joining other state utility commissions in establishing investigations into the intrastate switched access rates of incumbent and competitive local exchange carriers. AT&T urges the Commission to move quickly in its examination and implementation of access rate reform in Kentucky. The longer the Commission delays, the further behind

[3] Prepared Remarks of Chairman Julius Genachowski, Federal Communications Commission, "Our Innovation Infrastructure: Opportunities and Challenges," NARUC Annual Meeting, Atlanta, GA, November 15, 2010 ("*Genachowski NARUC Remarks*").

Kentucky falls in providing its consumers with access to the latest communications technologies.

Over a decade has passed since this Commission first recognized the need to rationalize Kentucky access rates. In 1998, the Commission concurred with the FCC's conclusions that "'as competition develops, states may be compelled by market place forces to convert implicit support to explicit, sustainable mechanisms consistent with section 254(f).'"[4] More than 20 states have already required some or all ILECs to reduce their intrastate switched access rates, and numerous states have followed the FCC's lead in ordering that CLEC intrastate access rates not exceed the interstate access rates of ILECs with which they compete. As the evidence in this proceeding will show, there is every reason for Kentucky to do the same.

Certain carriers may argue that the Commission should go slowly and wait for the FCC to act before resolving this case. However, such delay would be unwarranted and contrary to the FCC's own statements encouraging states that have not done so to follow the lead of the states "that have already taken steps to tackle these difficult problems by reducing intrastate access rates, rebalancing local residential rates, and creating their own universal service funds."[5] Indeed, as this Commission noted in its Order (at 5) establishing this case, the FCC recognizes that the states are an integral part of resolving intercarrier compensation issues:

> [I]n the [National Broadband Plan], the FCC specifically encouraged state commissions to move forward in completing a "rebalanc[ing] of local rates

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[4] *In the Matter of An Inquiry into Universal Service and Funding Issues*, Adm. Case No. 360, Order (May 22, 1998) at 2-3, citing *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order (May 8, 1997) at ¶ 17.

[5] *Genachowski NARUC Remarks*.

> to offset the impact of lost access revenues … as doing so would encourage carriers and states to 'rebalance' rates to move away from artificially low $8 to $12 residential rates that represent old implicit subsidies to levels that are more consistent with costs.'

This Commission got it right when it decided not to wait on the FCC before commencing this investigation. And now that the Commission has taken the first step in establishing this docket to undertake the reform necessary to move Kentucky into the 21st century, AT&T concurs with the business community in urging the Commission to act quickly to reform the current outdated switched access subsidy model "to ensure future rural connectivity, encourage investment (and adoption) in high-speed networks, grow jobs and ensure that all Kentuckians can benefit from next-generation technology."[6] This is of vital importance to Kentucky's citizens and to the rural areas of Kentucky.

The benefits to be gained by Kentucky consumers from implementing this long-awaited reform far outweigh the resistance to such reform that can be expected from some carriers that want to hold on to switched access revenues as long as possible. Delay simply allows those carriers to continue to reap the windfall of an outdated and inequitable subsidy model[7], while harming Kentucky consumers.

The status quo simply cannot be sustained. Consumer preference is moving away from traditional wireline networks to IP-based networks, and switched access minutes of use are declining at an increasing rate as more and more consumers shift their usage away from traditional long distance services to alternatives not saddled with

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[6] *See* Comments, Kentucky Chamber of Commerce and 22 Other Signatories, filed Nov. 15, 2010.

[7] In addition to the excessively high switched access charges of some ILECs, the rural local exchange carriers also receive non-traffic sensitive rates based on a fixed revenue requirement ("Non-Traffic Sensitive Revenue Requirement" or "NTSRR"), regardless of the amount of long-distance traffic delivered over their networks. As part of access reform, the NTSRR should also be eliminated.

the same switched access subsidy obligations. But until switched access charges are reformed, the carriers that are collecting them have reduced incentives to encourage adoption of new technologies that enable subscribers to communicate in ways that do not generate access revenues (*e.g.*, VoIP, e-mail, social networking sites, instant messaging).[8]

As FCC Chairman Genachowski recognized recently,

> Meanwhile, carriers are resisting converting to all-IP networks in order to hold on to intercarrier compensation revenues. Reform is necessary to spur innovation and investment in IP networks and foster an even playing field for competition.[9]

Once the artificial burden of high switched access charges is removed or at least lightened, wireline long-distance providers will be able to compete more aggressively. In turn, other competing technologies will be forced to become more efficient, more innovative, and more attuned to consumer needs. Reforming today's high intrastate switched access rates will yield profound benefits to Kentucky consumers and ensure that Kentucky remains competitive in the new economy. When switched access rates are reformed, consumers can enjoy a fuller array of competing services. They can expect savings and innovations from the local exchange carriers and more efficient and improved services at the best possible price, as all providers – regardless of technology - will be afforded the opportunity to compete fairly.

The results of reform will be a more competitive, consumer-focused Kentucky communications market – a clear win for consumers who will be reaping the benefits of

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[8] In Kentucky, the incentive is even less for the rural incumbent carriers because they continue to receive a fixed revenue requirement (the NTSRR) *regardless of the amount of long-distance traffic over their networks,* thereby putting an even greater share of the subsidy on the remaining wireline long-distance customers.

[9] *Id.*

full and fair competition as well as innovation and investment in IP networks. The sooner the Commission completes its switched access rate examination and implements the necessary reforms, the sooner Kentucky consumers can begin to enjoy these benefits. The Commission must act quickly to get this done.

II. AT&T's Plan and Proposed Procedural Schedule Provide a Reasonable Roadmap to Efficient and Expedient Reform.

The Commission has indicated that among the major issues it expects to consider are whether Kentucky should transition to a cost-based system for switched access rates;[10] how carriers should be allowed to recover lost revenue; how much time carriers should be given to transition to a new system; what the advantages or disadvantages are of one revenue recovery method over another; whether Kentucky should require CLECs' intrastate switched access rates to mirror the interstate switched access rates of ILECs; and whether the Commission should establish a goal of ultimately moving to a zero rate for switched access charges.

To assist the Commission in investigating these issues, AT&T recommends that the Commission use AT&T's proposed plan ("AT&T Plan") submitted in Case No. 2010-

[10] In traditional rate proceedings, the Commission typically is presented with cost studies that examine the costs of providing a particular service. In this instance, however, no such costs studies are required. Here, AT&T is recommending that the Commission, like other states across the country, simply direct Kentucky LECs and CLECs to implement the exact same rates and rate structure for intrastate switched access that the LEC already has in place for its provision of interstate access. Those interstate rates are above relevant incremental costs and provide a contribution to carriers' joint and common costs. AT&T is unaware of any carrier having argued successfully to the FCC that its interstate switched access rates are below costs and therefore not compensatory - and no LEC has successfully argued that the functionality it performs and the costs when it provides interstate switched access service are materially different for intrastate switched access service. Indeed, this Commission already has acknowledged that mirroring interstate rates obviates the need for cost studies. By Order dated May 6, 1991, in *In the Matter of An Inquiry into IntraLATA Toll Competition, An Appropriate Compensation Scheme for Completiion of IntraLATA Calls by Interexchange Carriers, and WATS Jurisdictionality*, Adm. Case No. 323, Phase I, the Commission allowed a LEC to "change its traffic sensitive rates in future years by mirroring its own interstate tariffed rates or by supporting its proposed changes by an intrastate-specific cost study." *LEC and IXC Joint Motion* at 5.

00162[11] to facilitate discussions among the Parties participating in this proceeding. A copy of the AT&T Plan is attached hereto as **Exhibit A** and addresses the major issues identified by the Commission.

AT&T's Plan provides a simple and reasonable approach to setting the appropriate ILEC and CLEC rates for intrastate switched access. AT&T first recommends that the Commission take the same straightforward approach that the FCC recently suggested in its National Broadband Plan by moving ILECs' intrastate terminating switched access rates to interstate terminating switched access rate levels.[12] AT&T also recommends following the FCC's precedent on CLEC interstate switched access rates by requiring CLECs' intrastate switched access rates to be capped at the intrastate rates of the ILECs with which they compete.[13] These straightforward actions will reduce implicit subsidies in intrastate switched access rates and benefit consumers by creating a more level playing field among differing technologies. Implementing them will be simple, because AT&T simply proposes that for intrastate calls carriers use the exact same rates and billing systems they already use for interstate calls.

As for revenue recovery mechanisms, AT&T recommends different approaches for ILEC and CLECs. As for CLECs, there is nothing the Commission needs to do to

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[11] *In the Matter of: AT&T Communications of the South Central States, TCG Ohio, and BellSouth Telecommunications, Inc. d/b/a AT&T Kentucky v. Kentucky Rural Incumbent Local Exchange Carriers, Kentucky Competitive Local Exchange Carriers, Windstream West, LLC, Windstream East, LLC, and Cincinnati Bell*, Case No. 2010-00162, was closed by Commission Order entered Nov. 5, 2010, and the record of the case incorporated by reference into this docket.

[12] *Connecting America: The National Broadband Plan*, FCC (Mar. 16, 2010) ("*FCC NBP*"), at 148. The FCC also discusses ultimately eliminating per-minute charges altogether, but that is not a part of AT&T's Plan.

[13] *See In the Matter of Access Charge Reform, Reform of Access Charges Imposed by Competitive Local Exchange Carriers*, CC Docket No. 96-262, Seventh Report and Order and Further Notice of Proposed Rulemaking, 16 FCC Rcd 9923, ¶ 3 (2001) ("*CLEC Access Reform Order*").

help CLECs recover any switched access revenues those carriers might "lose" when they are required to cap their switched access rates at the levels of the ILECs with which they compete. CLECs have full regulatory flexibility to set prices at whatever level the market will allow. They have unfettered freedom to choose the geographic areas they wish to serve, and which types of customers they want to pursue. CLECs, thus, have full deregulatory freedom to determine how to address reductions in their intrastate switched access rates.

For ILECs whose basic service rates remain subject to Commission scrutiny, AT&T proposes a "benchmark" approach that will enable each ILEC to recover its switched access revenue reductions through a combination of higher basic local exchange rates (but only up to a benchmark level the Commission finds to be reasonable ("Benchmark")) and of payments from a Kentucky Universal Service Fund. An ILEC whose basic local exchange rate already is at or above the Benchmark would recover its switched access revenue reduction entirely from Kentucky USF distributions. An ILEC whose basic local exchange rate is below the Benchmark would recover a portion of its switched access revenue reductions through basic service increases up to the Benchmark,[14] and the remainder from the Kentucky USF.

In some instances there is going to be a substantial difference between an ILEC's existing basic exchange rates and the Commission-approved Benchmark rates. So that customers of those ILECs with exceptionally low rates do not experience a sudden and substantial increase in their rates, AT&T recommends the Commission set

[14] In instances where an ILEC is eligible to increase its basic service rates up to the Benchmark but elects not to do so, the amount the ILEC is permitted to draw from the Kentucky USF will be calculated as if the ILEC had increased its rates. In other words, the increase will be imputed to the ILEC, whether the ILEC implements it or not.

an annual rate increase limit (termed a “Transitional Cap” in the AT&T Plan) that would move retail rates toward the Benchmark on a gradual basis. Thus, where applicable, the Transitional Cap will be a benefit to both the ILEC and its end-user customers.

The AT&T Plan has a five-year term, and calls for a Commission review beginning January 1 of Year 5 to reevaluate all aspects of the Plan, including the Benchmark and the necessity for continued Kentucky USF distributions.

It is imperative that the Commission set an aggressive schedule and move quickly to effectuate the switched access reform so badly needed to bring Kentucky into the 21st century and into the world of future technology. The major issue in this case is not whether to reform switched access rates, but rather what the reform will be. AT&T urges the Commission to decide on the appropriate reform plan by yearend 2011 and be ready to implement it during the first quarter of 2012. By following AT&T’s proposed procedural schedule, attached hereto as **Exhibit B**, the Commission can do just that and set this proceeding on a fast track to accomplish the switched access reform so desperately needed in Kentucky.

III. Conclusion.

AT&T again commends the Commission for opening this administrative case to examine intrastate switched access rates of incumbent and competitive carriers in Kentucky, and urges the Commission to complete its examination quickly. To that end, AT&T proposes that the Commission utilize AT&T’s Plan, which contains three essential elements to help facilitate effective and expeditious switched access reform: (1) a clear and straightforward goal of reducing intrastate switched access rates to interstate levels including eliminating the NTSRR; (2) a Benchmark approach that

provides ILECs with the ability to recover switched access revenue reductions through a combination of local rate increases and distributions from the Kentucky USF, with only a limited, judicious expansion of that fund; and (3) a transition mechanism that allows ILECs with very low retail rates to raise those rates modestly each year, thereby decreasing over time the need for distributions from the Kentucky USF.

AT&T urges the Commission to adopt AT&T's proposed procedural schedule that sets forth a reasonable and attainable schedule for accomplishing switched access reform in 2011.

Respectfully submitted,

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EXHIBIT A

AT&T PLAN FOR KENTUCKY SWITCHED ACCESS REFORM

This five year Access Reform Plan ("Plan") ensures that each Kentucky Incumbent Local Exchange Carrier ("ILEC") that reforms its Kentucky intrastate switched access charges to match, in rate level and rate structure, its interstate switched access charges will have the opportunity to recoup for each billable line in service 100% of any reduction in switched access revenues through a combination of increased retail rates and amounts drawn from the Kentucky Universal Service Fund ("KUSF"). The Plan also requires each Competitive Local Exchange Carrier ("CLEC") to reduce its intrastate access rates so that on average they are no higher than the rates of the ILECs with which they compete. The Plan is as follows:

1. Thirty (30) days following a Commission Order adopting the Plan, each CLEC's overall weighted average intrastate switched access rates are capped at, and must be maintained at no greater than, the overall weighted average intrastate rates of the ILEC(s) with which the CLEC competes. CLECs currently have full retail rate pricing flexibility that can be used, in each CLEC's discretion, to recoup any resulting switched access revenue reductions.

2. One-hundred eighty (180) days[1] following the Commission Order, each ILEC shall implement intrastate switched access rates that are identical, in rate level and rate structure, to the ILEC's interstate switched access rates. Whenever changes occur to an ILEC's interstate switched access rates and/or rate structure, the ILEC shall implement identical changes to its provision of intrastate switched access services.

3. The Commission Order will establish a single statewide local exchange service rate benchmark ("Benchmark") applicable to all billable retail local exchange lines in service. To the extent allowed by law, each ILEC will have pricing flexibility to increase its price for any retail basic local exchange service line[2] to the Benchmark level, except that, unless otherwise ordered by the Commission, the increase implemented in each year of the Plan shall be limited to $2.00 per line per month (the "Transitional Cap"). To the extent allowed by law, the Commission Order will grant ILECs additional pricing flexibility to increase retail basic local exchange service rates up to $2.00 per line per month each year of the Plan until rates reach the Benchmark.

[1] The additional 150 days (five months) provided to ILECs would be used to implement a Kentucky Universal Service Fund ("KUSF").
[2] The price of all billable local exchange lines of an ILEC, including those contained in a bundled offering, is assumed for purposes of the Plan to be the ILEC's basic local exchange rate in the exchange in which the line is being provided.

3.1. To the extent any ILEC, that elected alternative rate regulation under KRS 278.543 prior to January 1, 2010, has its rates capped at the time this Plan is implemented, the difference between the capped rates and the Benchmark will be replaced with KUSF distributions until the rate cap expires, at which point the ILEC will continue to draw from the KUSF as set forth below.

3.2. In the event an ILEC is allowed during the five years of the Plan to establish new rates for retail local exchange service above the Benchmark, the resulting revenue increase above the Benchmark will not be subtracted from the ILEC's KUSF distribution, if any.

4. Distributions from the KUSF will be determined as follows:

4.1. Each ILEC's Total Access Revenue Shift will be determined by calculating, for the calendar year prior to the Commission's order, the difference between the ILEC's total intrastate switched access revenues and the switched access revenues the ILEC would have collected had it applied its interstate switched access rates for the provision of intrastate switched access services.

4.2. Each ILEC's Per Line Access Shift will be determined by dividing the ILEC's Total Access Revenue Shift by the number of billable retail local exchange lines the ILEC had in service as of October 31 of the calendar year prior to the Commission's order. Administrative and official lines shall not be included in the calculation.

4.3. Each year of the Plan, each ILEC will recover from the KUSF its Annual Access Revenue Shift less its Additional Retail Revenue Opportunity, calculated prior to the beginning of the upcoming year ("the upcoming Plan year") as set forth below. If the calculations performed for an upcoming Plan year show that an ILEC's Annual Access Revenue Shift less its Additional Retail Revenue Opportunity produces a number at or less than zero, the ILEC will not be permitted to draw from the KUSF in the upcoming Plan year or in any subsequent year of the Plan. The specific calculations to be performed for each year of the Plan are set forth in Section 4.6, below, and are controlling.

4.4. The ILEC's Annual Access Revenue Shift for an upcoming Plan year is equal to the number of billable retail local exchange lines the ILEC had in service as of October 31 in the year prior to the upcoming Plan year times the ILEC's Per Line Access Shift as defined in Section 4.2, above.

4.5. The ILEC's Additional Retail Revenue Opportunity for each upcoming Plan year consists of two parts:

4.5.1. For each retail local exchange line which price (inclusive of any increases available, but not taken, under this Plan) is in a range from $0.01 to $2.00 below the Benchmark, as of October 31 of the year preceding the upcoming year of the Plan, the difference between the rate and the Benchmark, times 12, totaled for all such lines, plus

4.5.2. For each retail local exchange line which price (inclusive of any increases available, but not taken, under this Plan) is more than $2 below the Benchmark, as of October 31 of the year preceding the upcoming year of the Plan, $2 times 12, totaled for all such lines.

4.5.3. The specific calculations to be performed for each year of the Plan are set forth in Section 4.6, below, and are controlling.

4.6. Each ILEC will be entitled to recover from the KUSF for each year of the Plan as follows:

4.6.1. Year 1 – Each ILEC will be entitled to recover its Annual Access Revenue Shift less its Additional Retail Revenue Opportunity (as determined in the Commission Order and consistent with Sections 4.3, 4.4 and 4.5, above).

4.6.2. Year 2 – Each ILEC will be entitled to recover the amount it recovered in Year 1, with the following adjustments: (a) adjust for any change in the ILEC's number of billable retail local exchange lines as of October 31 of Year 1,[3] then subtract the sum of (b) for each billable retail local exchange line in service priced below the Benchmark, but within $2.00 of the Benchmark, as of October 31 in Year 1,[4] the difference between the rate and the Benchmark, summed for all such lines, times 12, plus (c) for each billable retail local exchange line in service priced more than $2.00 below the Benchmark as of October 31 of Year 1 (see fn. 3), $2.00 times the number of such lines, times 12.

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[3] If the ILEC's number of billable lines in service increases from the prior October 31, add an amount equal to the increase in lines times the Per Line Access Shift times 12. If the ILEC's number of billable lines in service decreases from the prior October 31, subtract an amount equal to the decrease in lines times the Per Line Access Shift times 12.

[4] Nothing in the Plan precludes an ILEC from reducing any of its basic local service rates at any time, but any such reductions will be disregarded for purposes of calculating Kentucky USF distributions under the Plan so that an ILEC may not reduce its retail local exchange prices to increase its draw from the Kentucky USF. Likewise, an ILEC may not increase its distribution from the Kentucky USF by electing to forego available retail local exchange service price increases. The price used for this calculation shall be the highest price the ILEC had in effect during the preceding year, adjusted upward for any price increase the ILEC could have implemented under this Plan but elected to forego. *See* Sections 4.5.1 and 4.5.2.

4.6.3. Year 3 - Each ILEC will be entitled to recover the amount it recovered in Year 2, with the following adjustments: (a) adjust for any change in the ILEC's number of billable retail local exchange lines as of October 31 of Year 2 (see fn.2), then subtract the sum of (b) for each billable retail local exchange line in service priced below the Benchmark, but within $2.00 of the Benchmark, as of October 31 in Year 2 (see fn. 3), the difference between the rate and the Benchmark, summed for all such lines, times 12, plus (c) for each billable retail local exchange line in service priced more than $2.00 below the Benchmark as of October 31 of Year 2 (see fn. 3), $2.00 times the number of such lines, times 12.

4.6.4. Year 4 - Each ILEC will be entitled to recover the amount it recovered in Year 3, with the following adjustments: (a) adjust for any change in the ILEC's number of billable retail local exchange lines as of October 31 of Year 3 (see fn.2), then subtract the sum of (b) for each billable retail local exchange line in service priced below the Benchmark, but within $2.00 of the Benchmark, as of October 31 in Year 3 (see fn. 3), the difference between the rate and the Benchmark, summed for all such lines, times 12, plus (c) for each billable retail local exchange line in service priced more than $2.00 below the Benchmark as of October 31 of Year 3 (see fn. 3), $2.00 times the number of such lines, times 12.

4.6.5. Year 5 - Each ILEC will be entitled to recover the amount it recovered in Year 4, with the following adjustments: (a) adjust for any change in the ILEC's number of billable retail local exchange lines as of October 31 of Year 4 (see fn.2), then subtract the sum of (b) for each billable retail local exchange line in service priced below the Benchmark, but within $2.00 of the Benchmark, as of October 31 in Year 4 (see fn. 3), the difference between the rate and the Benchmark, summed for all such lines, times 12, plus (c) for each billable local exchange line in service priced more than $2.00 below the Benchmark as of October 31 of Year 4 (see fn. 3), $2.00 times the number of such lines, times 12.

5. No earnings test would be required of the ILECs to qualify for the Kentucky USF distributions.

6. Contributions to the KUSF will occur as follows.

6.1. All providers having Kentucky retail intrastate telecommunications revenues would contribute to the KUSF, including wireline ILECs, CLECs, wireless carriers and IXCs.

6.2. The KUSF contribution assessment will mirror the current Federal USF contribution methodology (*i.e.*, based on intrastate retail telecommunications revenues). If the Federal USF contribution methodology is changed in the future (*e.g.*, to be based upon telephone numbers and/or dedicated connections), then

the Commission shall open a proceeding to evaluate the KUSF contribution methodology to consider whether the KUSF contribution methodology should be changed, and if so, how. If the KUSF contribution methodology is revised, the Commission shall allow a reasonable implementation period.

6.3. By November 15 of each year of the Plan, the Commission or its designee will calculate a KUSF assessment for the upcoming Plan year, expressed as a percentage of intrastate retail telecommunications revenues, by dividing the expected KUSF distributions by the expected Kentucky intrastate retail telecommunications revenues, adjusting for a prior-year fund surplus or deficit, if any. Providers will be able to file their Kentucky intrastate retail telecommunications revenue data on a confidential basis.

6.4. Providers are permitted, but not required, to recover their KUSF assessments from their end user customers, and may do so, e.g., through a separate line item for the KUSF assessment on retail customers' bills.

7. Not later than January 1 of Year 5 of the Plan, the Commission shall open a proceeding to review and reevaluate all aspects of the Plan, including the Benchmark and the necessity for continued KUSF distributions, which proceeding shall be completed by December 1 of Year 5 of the Plan. Interested parties shall be provided with notice and an opportunity to comment.

8. In the event the Federal Communications Commission (FCC) issues an order modifying its current methodology for establishing interstate switched access charges, the Kentucky Commission will open a proceeding to determine what changes, if any, are required to this Plan, such proceeding to be completed within 120 days of the effective date of any such FCC order.

EXHIBIT B

PROPOSED PROCEDURAL SCHEDULE

January 5, 2011	Commission Issues Procedural Schedule
February 4, 2011	Parties to Provide Feedback on AT&T Plan or Alternative Proposals to AT&T Plan ILECs to Provide the Amount of Access Revenue Shift They Would Experience if Their Intrastate Switched Access Rates Mirror Their Interstate Switched Access Rates
February 15, 2011	First Data Requests
March 7, 2011	Responses to Data Requests
March 31, 2011	Simultaneous Prefiled Direct Testimony
April 11, 2011	Second Data Requests Limited to New Issues in Direct Testimony
May 4, 2011	Responses to Second Data Requests
May 20, 2011	Simultaneous Prefiled Rebuttal Testimony
July or August	Potential Hearing Dates

Simultaneous Post-Hearing Briefs: 30 days after receipt of hearing transcript

Simultaneous Post-Hearing Reply Briefs: 20 days after Post-Hearing Briefs

Commission Decision: 45 days after Post-Hearing Reply Briefs,
or December 15, 2011, whichever is later

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