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

VERIZON'S RESPONSES TO RLECS' SECOND SET OF DATA REQUESTS

In accordance with the Procedural Schedule contained in Appendix A to the Commission's March 10, 2011 *Order*, Verizon[1] hereby provides its responses to the data requests served by RLECs on August 5, 2011.

GENERAL OBJECTION

The issue before the Commission in this proceeding is whether the regulated intrastate switched access rates charged by Kentucky local exchange carriers are just and reasonable. Information regarding the operations of other carriers (*i.e.*, access payors) in other locations is not relevant to that issue. Verizon therefore objects to each and every data request that seeks information regarding its operations – particularly in locations outside the Commission's jurisdiction – as that information will not assist the Commission in determining whether other carriers' intrastate switched access rates are just and reasonable.

[1] As used herein, "Verizon" refers collectively to MCImetro Transmission Access Transmission Services LLC d/b/a Verizon Access Transmission Services, MCI Communications Services, Inc. d/b/a Verizon Business Services, Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance, NYNEX Long Distance Company d/b/a Verizon Enterprise Solutions, TTI National, Inc., Teleconnect Long Distance Service & Systems d/b/a Telecom*USA and Verizon Select Services, Inc.

RESPONSES TO DATA REQUESTS

REQUEST NO. 1: Does Verizon propose to abolish carrier of last resort ("COLR") obligations for Kentucky incumbent local exchange carriers? If so, please explain how it proposes the statutory objective of universal service will be satisfied. If not, please explain how incumbent local exchange carriers will be able to meet their COLR obligations under the access reform plan proposed by Verizon.

Responsible Party: Don Price.

RESPONSE: As an initial matter, the Request does not cite any source of asserted "COLR obligations" on incumbent local exchange carriers, so it is not clear what they might be, if they do exist. In any event, Verizon has made no specific proposal in this docket to abolish whatever specific COLR obligations might exist for Kentucky local exchange carriers. But Verizon generally supports further relaxing or eliminating legacy regulatory requirements, including any COLR obligations, that might slow the local exchange carriers' ability to compete, rebalance rates quickly, reduce their costs, or otherwise make up for reduced access revenues.

As indicated in Verizon's April 15, 2011 comments and the Prefiled Direct Testimony of Don Price (July 8, 2011), universal service objectives in Kentucky are being met today not just by traditional wireline incumbent local exchange carriers ("ILECs"), but by a wide variety of providers – including wireline competitive local exchange carriers ("CLECs"), wireless carriers, cable companies, and Voice over Internet Protocol ("VoIP") providers – that consumers increasingly prefer over ILECs to meet their telecommunications needs. Continuation of legacy regulatory obligations on ILECs in this vigorously competitive environment is unnecessary and counterproductive. There is no reason for ILECs to support continued imposition of any such obligations on themselves except as a platform to create or expand universal service funding or avoid access charge reductions, which is not a legitimate reason.

REQUEST NO. 2: Provide all analysis conducted by Verizon or its witness (Mr. Price) showing that rural "Kentucky consumers no longer are forced to rely on wireline ILEC service to be assured affordable basic universal service." (*See* Test. of D. Price at 11:4-5.)

Responsible Party: Don Price.

RESPONSE: The testimony immediately preceding and following the excerpted line from the Prefiled Direct Testimony of Don Price (July 8, 2011) provides the analysis and examples of information supporting that statement. Specifically, please refer to 10:18 through 13:5 of that testimony.

In addition, as of mid-June of last year, nearly a third (31.5%) of Kentucky households had entirely abandoned landline service for wireless service – the sixth-highest percentage of wireless-only households in the country. Another 13.8% of households relied "mostly" on wireless telephone service to meet their calling needs. (*See* Centers for Disease Control, *Wireless Substitution: State-Level Estimates from the National Health Interview Survey, January 2007-June 2010* (April 20, 2011), at 3-4 & Table 3.) These figures are surely higher now, over a year later, as the shift toward wireless service and away from landline continues – just as the percentage of landline-only households (including non-ILEC landline households), which stood at just 12.8% last June, has likely gotten even lower. With respect to landline competitors, the non-ILEC percentage of switched access lines and VoIP subscriptions had reached 28% at mid-year 2010. (*See* FCC, Industry Analysis and Technology Division, Wireline Competition Bureau, *Local Telephone Competition: Status as of June 30, 2010* (March 2011) ("2010 Local Competition Report"), Table 8). The fact that large and ever-increasing numbers of Kentucky consumers are choosing alternatives to ILEC wireline service is irrefutable proof that consumers are no longer forced to rely solely on ILEC wireline service to meet their needs for affordable basic telecommunications services.

Indeed, historically, the purpose of universal service policy has been to ensure "affordability," but the decision as to what is affordable has been driven by political – rather than economic – factors. Now, with new technologies and competitive alternatives, the evidence as to what is truly affordable can be seen in consumers' choices. For example, nationwide, adults living in poverty (42.8%) or near poverty (35.2%) are *more* likely than higher-income individuals (24.1%) to be living in households with only wireless telephones. (*See* Centers for Disease Control, *Wireless Substitution: Early Release of Estimates from the National Health Interview Survey, July-December 2010* (June 8, 2011), at 3.) This only confirms that consumers can and increasingly do obtain affordable service from providers other than wireline ILECs.

REQUEST NO. 3: At page 13, lines 13-14 of Mr. Price's testimony, he testifies that "when local rates are kept artificially low through subsidy payments not available to new entrants, entry is discouraged." Is Verizon aware of any other factors that may discourage market entry? If so, what are they? Without limiting Verizon's identification of all factors that may discourage market entry, does Verizon believe that investment in telecommunications/data services for an area of low population density, with less developed infrastructure, and low average income would present an equally attractive investment when compared to an area of higher population density, more developed infrastructure, and higher average income? Please explain why or why not.

Responsible Party: Don Price.

RESPONSE: It is unrealistic to assume that every service provider and would-be provider each would have the same business model, even for the same geographic area. More plausibly, each potential provider would look to particular factors relating to its unique business plan. While subsidy payments to one class of providers discourage the entry of other providers into that area, there may be other factors that affect a provider's decision to enter a market. Those factors can be highly individualized, depending on the particular provider and market in question. Some providers may consider population density, existing infrastructure and/or average income in the market. However, certain providers – including newer intermodal providers, such as wireless carriers – may be able to access and provide service in less densely populated areas where relatively less infrastructure exists at lower cost than traditional wireline local exchange carriers. As a result, such lower-cost providers can provide service at lower rates to those consumers. But regardless of a given service provider's business model, as explained in Mr. Price's direct testimony, the presence of subsidy payments to wireline carriers in those circumstances would, as a matter of simple economics, render the playing field unlevel, which would deter the entry of other (lower cost) providers and tend to lead to higher prices for consumers.

REQUEST NO. 4: At page 40, lines 15-17, Mr. Price testifies that the fact "that AT&T has continued to compete effectively without an NTSRR subsidy for a decade confirms that other Kentucky ILECs can, too." Please provide the economic, financial, and other analysis supporting this conclusion. Similarly, if Mr. Price believes it would be irrelevant to consider AT&T's economies of scale and market capitalization, along with its significantly more urban and concentrated customer base and potential customer base, please explain why.

Responsible Party: Don Price.

RESPONSE: The fact that AT&T is able to compete effectively without the benefit of an NTSRR subsidy is illustrative of the fact that other Kentucky ILECs can do so, as well. While AT&T is a relatively large company with national scope, other Kentucky carriers are, too – including, for example, Windstream and Cincinnati Bell. Such similarly situated carriers should be similarly capable of competing effectively without relying upon outdated and anachronistic NTSRR charges.

Moreover, while such carriers may be larger in scale and market capitalization than other Kentucky local exchange carriers, they also may face higher costs and greater regulatory scrutiny than other, smaller providers.

But, regardless of their relative size and scale, the record in this proceeding suggests that the current intrastate switched access rates for most (if not all) Kentucky local exchange carriers far exceed their costs of providing intrastate switched access services. Carriers whose intrastate switched access rates so greatly exceed their intrastate switched access costs should still be able to compete effectively when those rates are reduced, through elimination of the NTSRR or otherwise – particularly when those carriers have the flexibility to offset any revenue reductions through retail rate rebalancing. Indeed, this is confirmed by the fact that those Kentucky local exchange carriers already compete effectively while charging a significantly lower rate without any NTSRR recovery for the same switched access services on an interstate basis. And, of course, non-incumbent competitors, including wireless and VoIP providers, have been able to provide services without implicit subsidies, like the NTSRR, or explicit universal service subsidies.

REQUEST NO. 5: Please identify all VOIP service providers known to Verizon to offer services in Kentucky. With respect to each such VOIP service provider identified, please also provide the following information:

(a) Monthly or annual minutes of use originated by the VOIP service provider;

(b) Monthly or annual minutes of use terminated by the VOIP service provider;

(c) Percentage of traffic volume originated by the VOIP service provider by a customer located in the service territory of an RLEC; and

(d) Percentage of traffic volume terminated by the VOIP service provider to a customer located in the service territory of an RLEC.

Responsible Party: Counsel for Verizon.

RESPONSE: Verizon objects to this request as seeking information that is irrelevant to the issues in this proceeding. The Commission has indicated that the purpose of this proceeding is to determine whether the intrastate switched access rates charged by Kentucky local exchange carriers contain excessive implicit subsidies and/or are set at unjust and unreasonable levels.[2] However, this request is not targeted at intrastate switched access rates at all, much less the reasonableness of those rates or the subsidies contained therein. Rather, this request is targeted at the identification and nature of VoIP traffic in Kentucky. But identifying such traffic will not aid the Commission in determining whether the intrastate switched access rates currently charged by Kentucky local exchange carriers are appropriate.

[2] *See*, *e.g.*, *Order* (Nov. 5, 2010) at 1-2; *Order* (Mar. 10, 2011) at 1.

REQUEST NO. 6: With respect to Mr. Price's testimony at page 21, lines 7-8, identify all states that have reduced switched access charges. With respect to each such state identified, please indicate whether the mandated reduction was accompanied by the institution of a benchmark and/or a revenue replacement mechanism for rate of return rural incumbent local exchange carriers.

Responsible Party: Don Price.

RESPONSE: Verizon has not compiled a complete list of all states that have reduced switched access charges, but in response to this Request refers to AT&T witness Oyefusi's Direct Testimony, Ex. OAO-5.

REQUEST NO. 7: Please provide all studies, reports, or similar analyses reviewed or produced by Mr. Price in connection with his analysis of the financial impact of benchmarking upon the ability of rural incumbent local exchange carriers.

Responsible Party: Don Price.

RESPONSE: Verizon does not understand this Request and so cannot answer it.

REQUEST NO. 8: Please produce all documents that evidence, support, or relate to Verizon's responses to these data requests.

Responsible Party: Don Price.

RESPONSE: The above-referenced reports from the Centers for Disease Control (*see* Centers for Disease Control, *Wireless Substitution: State-Level Estimates from the National Health Interview Survey, January 2007-June 2010* (April 20, 2011) and Centers for Disease Control, *Wireless Substitution: Early Release of Estimates from the National Health Interview Survey, July-December 2010* (June 8, 2011)) are available at:
http://www.cdc.gov/nchs/data/nhsr/nhsr039.pdf and
http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201106.pdf, respectively.

The above-referenced 2010 Local Competition Report (*see* FCC, Industry Analysis and Technology Division, Wireline Competition Bureau, *Local Telephone Competition: Status as of June 30, 2010* (March 2011)) is available at:
http://transition.fcc.gov/Daily_Releases/Daily_Business/2011/db0321/DOC-305297A1.pdf.

REQUEST NO. 9: Please provide copies of all correspondence and other filings made by Verizon at the FCC in conjunction with the pending ICC reform (WC Docket Nos. 10-90, 07-135, 05-337, 03-109; CC Docket No. 01-92, 96-45; and GN Docket No. 09-51).

Responsible Party: Counsel for Verizon.

RESPONSE: Verizon's FCC filings are of a continuing nature and are publicly available, at no charge, using the FCC's Electronic Comment Filing System, at: http://fjallfoss.fcc.gov/ecfs/comment_search/input?z=lqu9.

REQUEST NO. 10: Please explain how Verizon's position with respect to ICC reform at the FCC affects its position in this matter.

Responsible Party: Counsel for Verizon.

RESPONSE: Verizon's position in this matter is as stated in its prior comments to the Commission and in the Prefiled Direct Testimony of Don Price. If and when Verizon takes a position with the Federal Communications Commission that affects its position in this case, it will notify the Commission accordingly.

September 2, 2011

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that the electronic version of this filing made with the Commission on September 2, 2011, is a true and accurate copy of the document filed herewith in paper form, and the electronic version of the filing has been transmitted to the Commission.

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Douglas F. Brent