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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES – Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE REVIEW AND
POSSIBLE REVISION OF ARIZONA
UNIVERSAL SERVICE FUND RULES,
ARTICLE 12 OF THE ARIZONA
ADMINISTRATIVE CODE.

DOCKET NO. RT-00000H-97-0137

DOCKET NO. T-00000D-00-0672

IN THE MATTER OF THE
INVESTIGATION OF THE COST OF
TELECOMMUNICATIONS ACCESS.

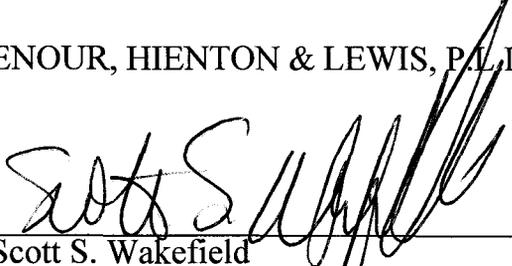
NOTICE OF FILING

Sprint Communications Company, L.P., Sprint Spectrum, L.P. and Nextel West Corp, hereby provides notice of filing a Public Version of the Reply Testimony of James A. Appleby in the above-referenced matter. Confidential versions of the Testimony are being provided to those parties who have executed the Protective Order.

Dated this 5th day of February, 2010.

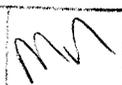
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By


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Arizona Corporation Commission
DOCKETED

FEB - 5 2010

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3 hand-delivered this 5th day of
4 February, 2010, to:

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8 Phoenix, AZ 85007

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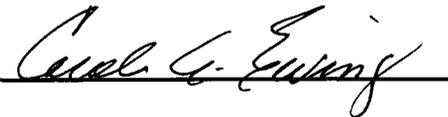
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24 **the Commissioners this**
25 **5TH day of February, 2010 to:**

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Gary Pierce
Paul Newman
Sandra d. Kennedy
Bob Stump



* Parties marked with an “*” have
agreed to accept service
electronically.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE REVIEW AND)
POSSIBLE REVISION OF ARIZONA)
UNIVERSAL SERVICE FUND RULES,) Docket No. RT-00000H-97-0137
ARTICLE 12 OF THE ARIZONA)
ADMINISTRATIVE CODE.)
)
)
IN THE MATTER OF THE)
INVESTIGATION OF THE COST OF)
TELECOMMUNICATIONS ACCESS.) Docket No. T-00000D-00-0672
)

REPLY TESTIMONY

OF

JAMES A. APPLEBY

ON BEHALF OF

SPRINT COMMUNICATIONS COMPANY, L.P.,

SPRINT SPECTRUM, L.P. AND NEXTEL WEST CORP

PUBLIC VERSION

February 5, 2010

1 **Q. Please state your name and business address.**

2 A. My name is James A. Appleby. My business address is 6450 Sprint Parkway
3 Overland Park, Kansas 66251.

4
5 **Q. Are you the James A. Appleby that submitted Direct Testimony in this**
6 **proceeding?**

7 A. Yes I am.

8
9 **Purpose and Summary of Testimony**

10
11 **Q. What is the purpose of your Reply Testimony?**

12 A. The purpose of my Reply Testimony is to respond to certain statements provided
13 by the other witnesses active in the proceeding. Specifically, I will reply to the
14 Direct Testimonies of Wilfred Shand on behalf of the Arizona Corporation
15 Commission Staff ("Staff"), Douglas Duncan Meredith on behalf of the Arizona
16 Local Exchange Carrier Association ("ALECA"), Dr. Ben Johnson on behalf of
17 Residential Utility Consumer Office ("RUCO"), Douglas Denney on behalf of the
18 Joint CLECs, Dr. Debra J. Aron and Dr. Ola Oyefusi on behalf of AT&T, Lisa
19 Hensley Eckert and Peter B. Copeland on behalf of Qwest Communications
20 Company L.L.C. ("Qwest") and Don Price on behalf of Verizon.

21
22 **Q. Please summarize your testimony.**

1 A. Almost all parties to the proceeding believe that intrastate access reform is
2 needed. Consumers will benefit if the Commission authorizes another step toward
3 a fully competitive telecommunications market. All LECs, incumbent and
4 competitive, should have their intrastate switched access rates and rate structure
5 set equal to their equivalent interstate rates and structure. ILECs should be
6 permitted to increase their basic local service rates up to a state-wide benchmark
7 rate to recover lost access revenues. If the Commission believes some additional
8 access subsidy recovery is necessary beyond the local rate increases, ILECs
9 should be permitted to recover the lost access subsidy on a per line basis from the
10 Arizona Universal Service Fund ("AUSF") on residential lines only when the
11 customer purchases standalone basic local service from the ILEC. The ILEC's
12 bundles of retail services that can now be provided on the local network provide
13 sufficient opportunity for the ILECs to recover the lost access subsidies on those
14 bundle customers. The ILECs should be permitted full retail rate flexibility for
15 bundled services if they do not already possess that regulation freedom. To keep
16 the remaining subsidy competitively neutral, a non-incumbent carrier should be
17 permitted to collect the same level of subsidy the ILEC receives for serving a
18 residential customer with only local voice service at the local service benchmark
19 rate.

20

21 **It is Time to Take Another Step in the Reform of Arizona Intrastate**

22

Switched Access Rates

23

1 **Q. Do most of the parties in this proceeding agree intrastate access should be**
2 **reformed at this time?**

3 A. Yes. Payers of switched access services and collectors of switched access charges
4 both agree reform is needed. Qwest explained "With the advent of competition,
5 allowing implicit subsidies becomes increasingly difficult.¹ AT&T provided its
6 perspective by saying "In the long run, you can have efficient competition, or you
7 can have implicit cross-subsidies built into regulated prices, but you can not have
8 both."² Other witnesses stated that, the implicit subsidies in high access rates also
9 alter consumer's choice for services,³ distort the market and increase the
10 likelihood of arbitrage,⁴ and harm consumers, competition and distort carrier
11 investment.⁵ ALECA acknowledges reform is in the public interest.⁶ Even the
12 consumer advocate agrees that to increase competition the carriers should be
13 required to interconnect with one another at reasonable terms and conditions.⁷
14 These parties all agree the current terms and conditions for the exchange of non-
15 local traffic are not reasonable. Reform must move forward.

16
17 **Qwest's Intrastate Switched Access Rates Must Be Reformed In this Proceeding**

18

¹ Direct Testimony of Lisa Hensley Eckert on behalf of Qwest Corporation – page 4 lines 20-21

² Direct Testimony of Dr. Debra J. Aron on behalf of AT&T – page 26 line 7-8

³ Direct Testimony of Dr. Ola Oyefusi on behalf of AT&T – page 31 line 5-6

⁴ Direct Testimony of Lisa Hensley Eckert on behalf of Qwest Corporation – page 5 lines 23-24

⁵ Direct Testimony of Dr. Debra J. Aron on behalf of AT&T – page 55 line 7-10

⁶ Direct Testimony of Douglas Duncan Meredith on behalf of ALECA – page 6 lines 16-18

⁷ Direct Testimony of Dr. Ben Johnson on behalf of Residential Utility Consumer Office ("RUCO") – page 30 lines 17-19

1 **Q. Do you agree with Qwest witnesses and the Staff witness that Qwest rates**
2 **should not be reformed as a result of this proceeding?**

3 A. No. Although the Commission is to be commended for the steps it has taken in the
4 past to reduce Qwest's inflated access rates, more change is essential. Qwest
5 accurately explains why reform is important explaining that end users of other
6 carriers must not be burdened by carriers charging really low rates for local
7 service.⁸ Yet Qwest's current residential basic local service rate of \$13.18 per
8 month in Arizona is low compared to the national average urban basic local
9 service rate of \$15.62.⁹ Replacement of Qwest's access revenues caused by
10 setting intrastate access rates at interstate rate levels will only increase the basic
11 residential local service rate to approximately [BEGIN CONFIDENTIAL] ¹⁰
12 [END CONFIDENTIAL]. Clearly that result remains low in comparison to the
13 national average. Sprint agrees with Qwest that other carriers such as cable
14 telephony providers and wireless carriers that are attempting to compete with
15 Qwest should not be required to support Qwest's really low basic local rates
16 through inflated intrastate switched access rates.

17
18 **Q. If Qwest's intrastate access rates were set equal to their interstate access**
19 **rates, would its resulting local service rate be above or below the local service**
20 **rate benchmark Qwest is advocating for other ILECs in Arizona?**

⁸ Direct Testimony of Peter B. Copeland on behalf of Qwest Corporation – page 4 lines 7-10

⁹ Direct Testimony of James. A. Appleby on behalf of Sprint – page 21 line 15-16 and footnote 22

¹⁰ Qwest estimated local rate change to replace access revenues if the intrastate rates are set to interstate rate levels can be found in confidential Table 1 at page 62 of the Direct Testimony of Dr. Ola Oyefusi

1 A. The resulting rate of [BEGIN CONFIDENTIAL] ¹¹ [END
2 CONFIDENTIAL] is not only below the national average urban residential rate
3 but it is also below the local service rate benchmark Qwest would impose on all
4 other ILECs in Arizona. Sprint supports setting a reasonable basic local service
5 benchmark in the case. We believe however that it should apply to all ILECs
6 including Qwest.

7
8 **Q. Qwest advocates reform for other ILECs in a transitioned manner over one
9 to three years because the change in access rates is so significant.¹² Isn't that
10 basically what the Commission has done with Qwest's access rates so far?**

11 A. Yes. The Commission has made incremental changes to the Qwest access rates in
12 the past. Orders issued by the Commission reduced Qwest's rates in a three
13 annual steps starting 4-1-01 and again in one step on 4-1-06. By the time the
14 hearing in this case are completed nearly four years will have passed since
15 Qwest's last access rate change. Each of those past two orders reduced the access
16 revenues of Qwest¹³ by approximately the same amount beginning on 4-1-01 in
17 Decision No. 63487 and on 4-1-06 in Decision No. 68604. If Qwest's intrastate
18 access rates are set equal to its interstate rates, the further revenue reduction of
19 [BEGIN HIGHLY CONFIDENTIAL] ¹⁴ would be approximately the same
20 as [END HIGHLY CONFIDENTIAL] the first two ordered reductions and

¹¹ Qwest estimated local rate change to replace access revenues if the intrastate rates are set to interstate rate levels can be found in confidential Table 1 at page 62 of the Direct Testimony of Dr. Ola Oyefusi

¹² Direct Testimony of Lisa Hensley Eckert on behalf of Qwest Corporation – page 8 lines 2-3

¹³ Direct Testimony of Lisa Hensley Eckert on behalf of Qwest Corporation – page 3 lines 17-18

¹⁴ Qwest's access revenue reduction if intrastate rates set equal to interstate – Direct Testimony of Ola Oyefusi on behalf of AT&T – highly confidential OAO Exhibit D

1 essentially be the third step in the transition. Each time the Qwest rates were
2 reduced closer to cost. Although setting the Qwest rates at interstate access rate
3 levels would still not set Qwest's rates at cost, moving the rates to that level
4 would be another step in the transition.

5

6 **Q. Qwest states that "With the advent of competition, allowing implicit**
7 **subsidies becomes increasingly difficult."¹⁵ Aren't the service territories of**
8 **Qwest the most competitive areas in Arizona?**

9 A. Yes. Without a doubt the urban areas where Qwest provides service experience
10 the highest levels of competition for consumer's needs. Therefore, the access rates
11 that apply to those areas are in need of reform the most. It simply makes no sense
12 to ignore this opportunity to reform all LECs rates in the state including Qwest's.
13 Competition and consumers will benefit from the change.

14

15 **Q. Does the Staff envision future reductions to the Qwest access rates?**

16 A. Yes.¹⁶ Other than noting that Qwest rates have been addressed in the past,¹⁷ Staff
17 provides no reason and no analysis supporting its position that Qwest should be
18 permitted to collect inflated access rates for an unspecified time. The reasons
19 reform is important apply equally to ILECs and CLECs, large and small. The
20 access reform ruling in this case should also apply to Qwest.

21

¹⁵ Direct Testimony of Lisa Hensley Eckert on behalf of Qwest Corporation – page 4 lines 20-21

¹⁶ Direct Testimony of Wilfred Shand on behalf of Arizona Corporation Commission Staff - response to issue 9 in the executive summary

¹⁷ On the first page of the executive summary of the Direct Testimony of Wilfred Shand on behalf of Arizona Corporation Commission Staff

1 **CLECs' Intrastate Switched Access Rates Must Be Reformed**

2
3 **Q. Do you agree with the CLEC witnesses that CLEC access rates do not need**
4 **to be reformed?**

5 A. No. As Staff point outs, "With respect to termination of a call to a CLEC's
6 customers, the IXCs have no alternative but to pay the CLECs' rates to terminate
7 calls."¹⁸ The CLEC is a monopoly provider of terminating access functionality on
8 a call by call basis. Because traffic termination is a monopoly, a regulatory
9 mandate is necessary because CLECs, like ILECs, will charge as much as
10 regulators allow them to get away with charging.

11
12 **Q. Does the testimony of Mr. Denney, the witness for the Joint CLECs, illustrate**
13 **the point?**

14 A. Yes. Mr. Denney explained that CLECs did not choose to reduce their access
15 rates when Qwest was required to in 2001 and 2006 because "There was no
16 reason, or benefit, for the CLECs to reduce access rates as a result of Qwest's
17 price cap dockets."¹⁹ Mr. Denney clearly explained that there are no market forces
18 pushing the CLECs to reduce their intrastate switched access rates. Absent a
19 regulatory mandate, CLEC rates for monopoly call termination will remain high
20 and inflate the cost of retail telecommunications in Arizona.

21

¹⁸ Direct Testimony of Wilfred Shand on behalf of Arizona Corporation Commission Staff –page 9 lines 24-25

¹⁹ Direct Testimony of Douglas Denney on behalf of the Joint CLECs – page 20 line 8-12

1 **Q. When looking at the market power that CLECs possess for terminating calls,**
2 **does it matter that the CLECs are small providers²⁰?**

3 A. No. As stated above the monopoly on call termination is call by call. If the CLEC
4 serves one end user customer, it has the market power to charge what it wants to
5 terminate to that one customer absent regulatory intervention. Therefore, access
6 reform must address all CLECs' switched access rates along with all ILECs'
7 access rates.

8
9 **All LECs Should Mirror Their Interstate Access Rates and Rate Structure**

10
11 **Q. Why is the interstate rate of each LEC the appropriate rate level for that**
12 **LEC's intrastate rates at this time?**

13 A. First, the lowest prevailing rate each LEC offers to exchange non-local traffic
14 today is the LEC's interstate rate level. If the level of compensation is acceptable
15 for interstate communications, it should be acceptable for intrastate non-local
16 traffic as well. Second, the LEC is providing the exact same function for non-
17 local interstate and intrastate traffic. Since the same switching and transport
18 equipment is being utilized to provide both interstate and intrastate traffic, there is
19 no basis for the charges to differ. Third, pricing intrastate access at interstate rate
20 levels will reduce billing costs and reduce rate arbitrage.²¹ Fourth, many other
21 states have in the past adopted the interstate rate level as the appropriate standard
22 for intrastate access rates and more states are recognizing this is the appropriate

²⁰ Direct Testimony of Douglas Denney on behalf of the Joint CLECs – page 6 line 15

²¹ Direct Testimony of Dr. Ola Oyefusi on behalf of AT&T – Page 45 line 7 to page 46 line 2

1 intrastate rate standard.²² Just this week, the New Jersey Board of Public Utilities
2 agreed to require all LECs, incumbent and competitive large and small, to set
3 their intrastate rates at interstate rate levels.²³ Finally, as discussed further below,
4 the interstate rate level will get us further towards what Sprint believes should be
5 the industry's ultimate goal of pricing all traffic exchange at marginal cost than
6 any other proposal provided in this proceeding.

7
8 **Q. Is the interstate rate level the final rate level for the exchange of traffic in a**
9 **competitive market?**

10 A. No. The interstate rate level Sprint and AT&T advocate in this proceeding is not
11 the final basis upon which access functionality should be provided to other
12 carriers in a competitive market. Ultimately, Sprint believes that carriers should
13 be willing to exchange traffic with all other carriers at the marginal cost of that
14 functionality. Sprint further believes that the cost on a broadband network
15 approaches zero.²⁴ But setting the rates at interstate levels is an incremental step
16 toward that ultimate goal. "Consumers are best served when prices reflect
17 underlying cost and all competitors can compete on a level playing field."²⁵
18 Therefore, it is best to eliminate as much of the overcharges in access as possible
19 as quickly as possible.

20

²² Direct Testimony of James. A. Appleby on behalf of Sprint Exhibit JAA-1; Direct Testimony of Dr. Ola Oyefusi on behalf of AT&T – Page 48 line 7-20

²³ In the Matter of the Board's Investigation and Review of the Local Exchange Carrier Intrastate Exchange Access Rates in BPU Docket No. TX08090830 – Order released February 1 2010.

²⁴ "Thus, for example, in areas where broadband services are widely available at affordable prices, then the marginal cost of carrying voice traffic on such a network will be very small." Direct Testimony of Dr. Ben Johnson on behalf of RUCO – Page 21 line 4-6

²⁵ Direct Testimony of Dr. Ola Oyefusi on behalf of AT&T – Page 21 line 25 to page 22 line 2

1 **Q. Are the Joint CLECs correct that the interstate rate level is not a good**
2 **standard because it was a negotiated rate and the rates could be**
3 **confiscatory?**

4 A. I acknowledge that the interstate rate for price cap carriers was proposed by a
5 group of access rate payers and receivers and adopted by the FCC, but that does
6 not mean the rate does not provide reasonable compensation for call termination.
7 These rates are far above the marginal cost of call termination. Although I am not
8 an attorney, as a practical matter, I don't see how a rate can be confiscatory if the
9 rate covers the cost of the function provided. Further, even if the Commission
10 decided to require all carriers to exchange intrastate access traffic under a bill-
11 and-keep arrangement, the carriers would still have the opportunity to collect the
12 costs of performing the call termination function from their retail customers.
13 Again, the legitimate costs would be recovered. It should be noted that wireless
14 carriers collect their cost of terminating IXC delivered traffic in the retail rates for
15 wireless service, not from the IXCs and their customers. Although collecting call
16 termination costs from retail customers causes an obvious disadvantage for
17 wireless carriers relative to landline carriers that are permitted to impose inflated
18 access rates for call termination on other carriers, no wireless carrier to my
19 knowledge has challenged recovery of call termination costs from end users as
20 confiscatory.

21
22
23

ILEC Basic Local Rates Can Increase to Cover Access Revenue Reductions

1 **Q. Do most parties agree that some local service rate increases should**
2 **accompany access reform?**

3 A. Yes. Qwest, AT&T, VZ, ALECA, Sprint and even RUCO agree that local rate
4 increases can be used to offset access revenue reductions. Dr. Johnson concedes
5 “Hence, some access reductions may be appropriate and some increase in local
6 rates may be merited.”²⁶

7

8 **Q. Based on the information provided in this proceeding thus far, what is the**
9 **affordability standard for residential basic local service?**

10 A. Qwest had recommended a residential local service rate benchmark of 125% of
11 the current state-wide average local rate or \$16.38. The state-wide average used
12 Qwest’s current basic local rate not the rate that would result if Qwest’s intrastate
13 rates were set equal to their interstate rate and the difference recovered in their
14 local rate. If the Qwest rate was increased as indicated above, the state-wide
15 average will increase by approximately [BEGIN CONFIDENTIAL]
16 [END CONFIDENTIAL] 125% of that newly set state-wide average would then
17 result in a residential local service benchmark rate of [BEGIN
18 CONFIDENTIAL] . [END CONFIDENTIAL] Setting the residential local
19 service rate benchmark at this level will help facilitate access reform while
20 permitting local services rates to remain affordable across Arizona.

21

22 **Q. What is the basis for your opinion that your recommended residential local**
23 **service rate benchmark is affordable?**

²⁶ Direct Testimony of Dr. Ben Johnson on behalf of RUCO – page 18 line 19-20

1 A. First of all, AT&T has calculated that adjusting the existing ILEC residential local
2 service rates for inflation since those rates were originally set would result in an
3 average rate of approximate \$17.50.²⁷ Second, several states have set local
4 service rate benchmarks that exceed \$17.50.²⁸ And finally the combination of the
5 recommended local service benchmark, a \$6.50 subscriber line charge and the
6 average taxes and surcharges results in a rate that is less than the rate ILECs are
7 charging in 28 urban cities across the country.²⁹ Clearly, this recommended local
8 service rate benchmark will result in an affordable rate.

9
10 **Q. Do you agree with the ALECA witness Mr. Meredith that setting a local**
11 **service rate benchmark is complicated and not needed?**

12 A. No. I do not agree that setting a local service rate benchmark is complicated. And
13 it is very much needed. To support the public policy goal of universal service,
14 basic local service is still set at a level deemed affordable. The benchmark simply
15 sets that affordability standard for all consumers in Arizona. Setting a benchmark
16 on a state-wide level also protects the interests of Arizona consumers living in
17 higher cost areas who could be expected to pay more than consumers in lower
18 cost urban areas.

19
20 **Q. Do you agree with Qwest that a separate benchmark is necessary for business**
21 **rates?**

²⁷ Direct Testimony of Dr. Ola Oyefusi on behalf of AT&T – Page 59 line 13 to page 60 line 3

²⁸ Direct Testimony of Dr. Ola Oyefusi on behalf of AT&T – Page 60 line 6-9

²⁹ 2008 Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service, Industry Analysis & Technology Division Wireline Competition Bureau - Table 1.3 Residential Telephone Rates in Sample Cities (As of October 15, 2007) – Attached as JAA-2R

1 A. I agree that the business rates should not be subsidized in the same manner as
2 residential rates. Setting a separate single-line business rate benchmark at 125%
3 of the state-wide average business rate as Qwest advocates³⁰ seems reasonable but
4 the state-wide average should be calculated using the Qwest business rate after
5 Qwest increases its local business rate to offset reduced access revenue caused by
6 setting the Qwest intrastate access rates at interstate rate levels.

7

8 **Q. Do you agree with AT&T that the local service rate benchmarks should be**
9 **adjusted over time?**³¹

10 A. If the ILECs are permitted to collect any portion of the access subsidies through
11 the Arizona Universal Service Fund (AUSF), then yes, the affordability standard
12 upon which the ILECs collect from the AUSF should be adjusted for inflation.

13

14 **Arizona Universal Service Fund Should Play a Limited Role in Access Reform**

15

16 **Q. Do you believe the AUSF should be a make-whole or revenue neutral funding**
17 **source**³² **for any access revenue reductions not recovered in basic local rate**
18 **increases?**

19 A. No. As RUCO witness Dr. Johnson explained, revenue neutrality protects carriers
20 collecting subsidies but fails to consider the consumers.³³ Staff's proposal
21 recognizes the carriers proposing to increase AUSF have not proven a need to

³⁰ Direct Testimony of Peter B. Copeland on behalf of Qwest – page 4 line 14-16

³¹ Direct Testimony of Dr. Ola Oyefusi on behalf of AT&T – Page 57 line 3-4

³² ALECA wants no local rate increases and revenue neutral replacement of access revenues from the AUSF. – Direct Testimony of Douglas Duncan Meredith of behalf of ALECA – page 7 line 1-8

³³ Direct Testimony of Dr. Ben Johnson on behalf of RUCO – page 50 line 12-15

1 retain any of the access overcharges.³⁴ The Joint CLECs and RUCO believe the
2 ILECs should be required to prove a financial need for an AUSF subsidy
3 collection.³⁵ Any shift from access charges to the AUSF should only occur if there
4 is a demonstration that subsidies are needed in today's marketplace. Further, if
5 the recovery of subsidies is shifted from access charges to AUSF you are simply
6 changing the way the subsidies are collected from customers, in the form of a
7 surcharge on the customers' bills instead of through higher retail service rates to
8 telecommunications services. Either way, the customers pay the subsidy when
9 they pay their service provider's bill. It is important that the reform process ensure
10 that a subsidy is needed before you determine how the subsidy will be collected.

11

12 **Q. What should be considered in a financial analysis to determine if the ILEC's**
13 **subsidies are still needed?**

14 A. As explained in my direct testimony, ILECs have more services to sell over their
15 local networks than ever before. These services provide significant contributions
16 toward an ILEC's recovery of the fixed costs of the local network. I explained
17 that the average retail revenue per customer the ILECs generate on the local
18 network has greatly expanded. Any financial review of an ILEC's need to retain
19 subsidies should consider costs and revenues of all of the retail services provided
20 on the local network as well as the subsidies collected from the Federal
21 jurisdiction.

³⁴ Direct Testimony of Wilfred Shand on behalf of Arizona Corporation Commission Staff – page 19 line 16-20

³⁵ Direct Testimony of Douglas Denney on behalf of the Joint CLECs – page 11 line 11-12; Direct Testimony of Dr. Ben Johnson on behalf of RUCO – page 50 line 15-18

1

2 **Q. Do you believe an ILEC's other services provide more than enough support**
3 **to permit the ILEC to manage the access revenue reductions that are not**
4 **offset by basic local service rate increases?**

5 A. Yes. Sprint believes each ILEC is able to manage the transition of intrastate
6 access rates to interstate access rate levels without burdening the customers of
7 other carriers with surcharges paid into a new subsidy support system. However,
8 to the extent an ILEC is required to provide stand-alone basic local service to any
9 customer that desires only that service and the ILEC rate they are permitted to
10 charge for that basic service is still controlled by public policy, a subsidy system
11 that provides support for stand-alone basic residential local service customers
12 would be acceptable. Dr. Aron, witness for AT&T, shares my perspective when
13 she stated "If a provider has been granted full pricing flexibility on certain lines
14 (e.g., lines on which the customer is purchasing service in unregulated bundles),
15 or on all lines, there is no longer any justification for allowing excessive access
16 rates to subsidize those lines, and no compensation for reducing access rates on
17 those lines is called for. The provider would already have the opportunity to
18 recover its local service costs in a retail market as competition permits"³⁶

19

20 **Q. Is ALECA correct that the only place an ILEC can collect reduced access**
21 **revenues is through basic local service rates and universal service support?**³⁷

³⁶ Direct Testimony of Dr. Debra J. Aron on behalf of AT&T – page 89 line 1-6

³⁷ Direct Testimony of Douglas Duncan Meredith on behalf of ALECA – page 10 line 20-21

1 A. No. As documented in my direct testimony from the public statements by Qwest
2 and Frontier³⁸ the local networks are providing far more retail services to
3 customers than in the past. These non-regulated services provide the opportunity
4 for positive financial margins that can relieve the customers of other carriers from
5 continuing to pay large subsidies to ILECs.

6

7 **Q. Do you have any research on the services the smaller ILECs are providing in**
8 **Arizona?**

9 A. Yes. Exhibit JAA-1R shows a list of ILECs and the retail services they offer to
10 their customer base as shown on each company's website. As expected most of
11 these ILECs are sophisticated businesses offering far more than just basic local
12 service over their local networks. Eleven of the twelve ILECs are offering DSL
13 service. On the websites that contained pricing information, the price for entry
14 level DSL was at least \$39.95. Eight of the twelve smaller ILECs offered long
15 distance service to their local voice customers. At least 3 ILECs offered cable TV
16 service, one offered DIRECTV service and although I am sure some TDS
17 affiliated companies offer video service to their customers, I was unable to
18 determine if the two Arizona TDS affiliated ILECs offer video services.

19

20 **Q. Do the ILECs bundle these services to cater to individual customers service**
21 **needs?**

22 A. Yes. Several of the ILECs combine their service offering into bundles and offer
23 discounts to the customers that purchase more than one service. A good example

³⁸ Direct Testimony of James A. Appleby on behalf of Sprint – pages 14-19

1 of the bundled service offerings can be found on the excellent website of Valley
2 Telephone Cooperation ("Valley"). Valley offers a local voice and DSL bundle
3 for \$59.95, a local voice and video service bundle for \$69.95, a bundle of video
4 and DSL without local voice for \$89.95, or a residential customer in Valley's
5 service territory can get all three services for \$99.95. Clearly the revenue
6 opportunities for Valley far exceed their \$13.75 basic local voice revenue stream.
7

8 **Q. How should the limited subsidy available on stand-alone residential basic**
9 **local service customers be calculated?**

10 A. Sprint recommends each ILEC determine the total access revenue reduction that
11 will occur³⁹ when the LECs intrastate rates are set equal to interstate rate levels.
12 New local service revenues that could⁴⁰ be generated by increasing the basic local
13 services rates to the benchmark rate level Sprint recommends should be
14 subtracted from the total access revenue reduction. If there is a remainder, that
15 revenue should be divided by total access lines. The per line remainder will be
16 the recovery the ILEC is permitted to collect each month for each residential
17 customer that only purchases basic local service. If the customer purchases, any
18 features, long distance or broadband service provisioned on the local network, the
19 ILEC will not receive the AUSF subsidy on those lines.
20

³⁹ The most recent 12 month worth of access service demand and delta between current intrastate and interstate access rates should be used to calculate the access revenue reduction.

⁴⁰ The ILECs should have the option to increase basic local service rates to the rate benchmark but that change should not be mandatory. However, subsidy collection from the AUSF would assume the rate was increased.

1 **Q. Should an ILEC's subsidy support ever be "frozen" at a fixed amount as**
2 **proposed by ALECA?⁴¹**

3 A. No. If subsidy collection is set at a fixed dollar amount, the ILEC will be
4 insulated from competitive loss. Any subsidy amount should be set on a per line
5 basis and be awarded on only residential lines that are actually served during a
6 given period of time. With the rapid changes in the market, the actual lines
7 served should be updated as often as administratively possible, at a minimum
8 quarterly.

9
10 **Q. Isn't the limited additional AUSF Sprint proposes tailored exclusively to the**
11 **benefit of only the incumbent?**

12 A. Not really. To the extent the ILEC is the only carrier required to sell stand-alone
13 basic local service at rates that are suppressed by public policy, the fund is really
14 targeted at residential local service customers that want only basic local service,
15 not specifically at incumbent carriers. To make the program competitively
16 neutral, the Commission could certify other carriers that offer basic stand-alone
17 service to residential customers at the rate benchmark to receive the same subsidy
18 support per line that the ILEC receives.

19
20 **Q. Do you have any estimate of the number of residential customers that**
21 **purchase only basic local service today?**

22 A. I do not have any carrier specific data for the ILECs in Arizona. But I have seen
23 data from other states and publicly reported information that suggested only 20-

⁴¹ Direct Testimony of Douglas Duncan Meredith of behalf of ALECA – page 8 line 6-8

1 30% of residential local service customer buy just basic local service from the
2 ILEC. That means 70-80% of residential customers purchase enough services
3 provisioned over the local network to permit the ILEC to manage the transition
4 away from access subsidies.

5
6 **Q. Do the ILECs in Arizona have sufficient retail pricing flexibility to manage**
7 **the transition?**

8 A. I am not aware of the level of retail rate regulation that exists in Arizona today for
9 each of the ILECs. But competition is occurring for service bundles. Cable
10 telephony providers are offering bundles of voice, broadband and video. Wireless
11 carriers are offering bundles of voice and data (internet and texting). Over-the –
12 top VoIP providers are offering all-distance voice service. The ILECs should be
13 able to respond to that competition. Sprint does not object to ILEC retail rate
14 flexibility for service bundles along with the reduction of access rates that needs
15 to occur as part of the transition to a fully competitive market.⁴²

16
17 **Q. Has ALECA proven a need to collect additional subsidy, unrelated to the**
18 **access subsidies, from the existing High Cost Funding program?**

19 A. No. ALECA has shown absolutely no financial support to retain their existing
20 access overcharges and certainly no support for the need to expand the subsidy

⁴² Verizon agrees the ILECs should be granted greater retail pricing flexibility for rate-regulated services. – Direct Testimony of Don Price on behalf of Verizon – page 3 line 22 to page 4 line 2

Exhibit JAA-1R
to the Reply Testimony of James A. Appleby on Behalf of Sprint
in Docket No. T-00000D-00-0672
February 5, 2010

	Offers		Offers		Offers		Local		Local Voice		Local, DSL		Video and	
	Local Voice Service	Long Distance Service	DSL Service	Video Service	Residential Rate	DSL Rate	Local Voice and DSL Bundle	Local Voice and Video Bundle	Local, DSL Video Bundle	DSL Bundle	Local, DSL Video Bundle	DSL Bundle	Local, DSL Video and DSL Bundle	
Rural Arizona ILECs	Yes	No	Yes	No		\$ 49.95								
Hopi Telecommunications Company	Yes	Yes	Yes	Yes										
San Carlos Apache	Yes	Yes	Yes	?										
Arizona Telephone Co	Yes	Yes	Yes	No	\$ 17.57	\$ 42.95								
Tohono O'odham Util.	Yes	No	Yes	No										
Southwestern Tel Co	Yes	Yes	Yes	?										
Valley Tel Coop-AZ	Yes	Yes	Yes	Yes	\$ 13.75		\$ 59.95	\$ 69.95	\$ 99.95	\$ 99.95	\$ 89.95			
Gila River Telecom.	Yes	Yes	Yes	No			\$ 59.95	\$ 69.95	\$ 99.95	\$ 99.95	\$ 89.95			
Accipiter Comm.	Yes	Yes	Yes	Directv										
Fort Mojave Tel, Inc	Yes	No	Yes	Yes	\$ 15.00	\$ 49.95								
Midvale-AZ	Yes	No	No	No										
Table Top Tel Co	Yes	Yes	Yes	No			\$ 13.95	\$ 39.95	\$ 52.75	\$ 52.75				
Saddleback Comm Co	Yes	Yes	Yes	No										

Exhibit JAA-1R
to the Reply Testimony of James A. Appleby on Behalf of Sprint
in Docket No. T-00000D-00-0672
February 5, 2010

Rural Arizona ILECs

HOPI TELECOMMUNICATIONS COMPANY
SAN CARLOS APACHE
ARIZONA TELEPHONE CO
TOHONO O'ODHAM UTIL.
SOUTHWESTERN TEL CO
VALLEY TEL COOP-AZ
GILA RIVER TELECOM.
ACCIPITER COMM.
FORT MOJAVE TEL, INC
MIDVALE-AZ
TABLE TOP TEL CO
SADDLEBACK COMM CO

Source Website

<http://www.hopitelecom.com/about.html>
<http://www.scatecom.net/index.html>
TDS Subsidiary
<http://tooua.net/index.html>
TDS Subsidiary
<http://www2.vtc.net/page.php?page=bundles>
<http://www.gilaret.net/index.htm>
<http://www.accipitercom.com/about/newsdetail.asp?entryid=7>
http://www.firmojave.com/index.php?option=com_content&view=article&id=1&Itemid=2
<http://www.midvaletelephone.com/index.htm>
<http://www.tabletoptelephone.com/index.html>
<http://www.saddlebackcomm.com/>

Exhibit JAA-2R
to the Reply Testimony of James A. Appleby on
Behalf of Sprint
in Docket No.T-00000D-00-0672
February 5, 2010

REFERENCE BOOK
of Rates, Price Indices, and Household
Expenditures for Telephone Service

Industry Analysis & Technology Division
Wireline Competition Bureau
2008



This report is available for reference in the FCC's Reference Information Center, Courtyard Level, 445 12th Street S.W., Washington, D.C. 20554. Copies may be purchased by calling Best Copy and Printing, Inc., Portals II, 445 12th Street S.W., Room CY-B402, Washington, D.C. 20554, telephone 202-488-5300, or via e-mail at fcc@bcpiweb.com. The report can also be downloaded from the **Wireline Competition Bureau Statistical Reports** Internet site www.fcc.gov/wcb/stats.

Table 1.3
Residential Telephone Rates in the Sample Cities ¹
(As of October 15, 2007)

State	City	Telephone Company	Monthly Telephone Rate Including Touch-Tone, SLCs, Surcharges, and Taxes		Cost of a Five-Minute Same-Zone Daytime Call	Connection Charges Including Touch-Tone, Surcharges, and Taxes	Least-Cost Inside Wiring Maintenance Plan
			Flat-Rate Service	Measured/Message Service			
Alabama	Huntsville	AT&T	\$26.60			\$40.00	\$6.95
Alaska	Anchorage	ACS	25.34			53.50	2.00
Arizona	Tucson	Qwest	22.62	17.22	0.20	30.61	4.75
Arkansas	Pine Bluff	AT&T	29.26	20.47	0.07	45.00	7.00
Arkansas	West Memphis	AT&T	37.47	20.58	0.07	45.00	7.00
California	Anaheim	AT&T	16.70	11.24	0.06	36.97	5.00
California	Bakersfield	AT&T	16.70	11.24	0.06	36.97	5.00
California	Fresno	AT&T	16.70	11.24	0.06	36.97	5.00
California	Long Beach	Verizon	26.31	18.50	0.08	49.22	3.99
California	Los Angeles	AT&T	18.46	12.43	0.06	36.97	5.00
California	Oakland	AT&T	17.92	12.06	0.06	36.97	5.00
California	Salinas	AT&T	17.38	11.60	0.06	36.97	5.00
California	San Bernardino	AT&T	27.00	18.99	0.08	50.52	3.99
California	San Diego	AT&T	16.70	11.24	0.06	36.97	5.00
California	San Francisco	AT&T	16.70	11.24	0.06	36.97	5.00
California	San Jose	AT&T	17.24	11.52	0.06	36.97	5.00
Colorado	Boulder	Qwest	26.22	19.84	0.13	38.93	4.75
Colorado	Colorado Springs	Qwest	26.16	19.85	0.13	38.72	4.75
Colorado	Denver	Qwest	25.06	19.07	0.13	37.71	4.75
Connecticut	Ansonia	AT&T	25.39	15.48	0.18	65.00	4.90
Connecticut	Norwalk	AT&T	24.30	15.52	0.18	65.00	4.90
District of Columbia	Washington	Verizon	21.11	14.61	0.06	24.89	3.99
Florida	Miami	AT&T	23.71			49.72	6.95
Florida	Tampa	Verizon	27.87	19.90	0.10	77.87	3.99
Florida	West Palm Beach	AT&T	23.71			49.72	6.95
Georgia	Albany	AT&T	25.43			42.50	6.95
Georgia	Atlanta	AT&T	28.26			44.24	6.95
Hawaii	Honolulu	Verizon	26.50			52.09	5.45
Illinois	Chicago	AT&T	18.88	11.28	0.04	39.39	6.99
Illinois	Decatur	AT&T	25.98	17.72	0.02	39.39	6.00
Illinois	Rock Island	AT&T	25.38	17.12	0.02	39.39	6.99
Indiana	Indianapolis	AT&T	19.85			47.00	6.99
Indiana	Terre Haute	Verizon	25.82			62.35	3.99
Iowa	Fort Dodge	Citizen	21.46			13.06	3.95
Kentucky	Louisville	AT&T	28.44			44.52	6.95
Louisiana	Baton Rouge	AT&T	23.28			44.28	6.95
Louisiana	New Orleans	AT&T	22.86			42.23	6.95
Maine	Portland	Verizon	27.79			48.90	3.99
Maryland	Baltimore	Verizon	28.94	20.85	0.10	52.24	3.99
Massachusetts	Boston	Verizon	29.95	22.45	0.09	14.59	3.99
Massachusetts	Hyannis	Verizon	29.95	22.45	0.09	14.59	3.99
Massachusetts	Springfield	Verizon	29.95	22.45	0.09	14.59	3.99
Michigan	Detroit	AT&T	30.38	23.40	0.07	46.90	6.99
Michigan	Grand Rapids	AT&T	28.15	21.97	0.07	44.79	6.99
Michigan	Saginaw	AT&T	30.39	25.13	0.07	44.79	6.99
Minnesota	Detroit Lakes	Qwest	22.00	16.28	0.10	19.54	4.75
Minnesota	Minneapolis	Qwest	22.99	17.43	0.10	19.63	4.75
Mississippi	Pascagoula	AT&T	29.93			49.22	6.95
Missouri	Kansas City	AT&T	23.69	15.83	0.08	37.47	7.00
Missouri	Mexico	AT&T	20.94	15.62	0.08	37.25	7.00
Missouri	St. Louis	AT&T	23.41	15.68	0.08	37.30	7.00
Montana	Butte	Qwest	32.45	24.79	0.05	26.00	4.75
Nebraska	Grand Island	Qwest	28.74	22.92	0.10	37.22	4.75
New Jersey	Phillipsburg	Verizon	18.43	14.30	0.10	46.58	3.99

Table 1.3
Residential Telephone Rates in the Sample Cities - Continued ¹
(As of October 15, 2007)

State	City	Telephone Company	Monthly Telephone Rate Including Touch-Tone, Surcharges, and Taxes		Cost of a Five-Minute Same-Zone Daytime Call	Connection Charges Including Touch-Tone, Surcharges, and Taxes	Least-Cost Inside Wiring Maintenance Plan
			Flat-Rate Service	Measured/Message Service			
New Mexico	Alamogordo	Qwest	24.46	15.49	0.15	33.49	4.75
New York	Binghamton	Verizon	34.84	22.17	0.09	63.18	3.99
New York	Buffalo	Verizon	35.78	22.68	0.09	64.63	3.99
New York	Massena	Verizon	32.99	22.05	0.09	62.83	3.99
New York	New York City	Verizon	36.37	23.42	0.09	64.58	3.99
New York	Ogdensburg	Verizon	33.86	22.63	0.09	64.48	3.99
New York	Rochester	Citizen	26.37	16.46	0.15	38.01	3.95
North Carolina	Raleigh	AT&T	28.80	0.00	0.00	45.64	6.95
North Carolina	Rockingham	AT&T	28.21	0.00	0.00	45.64	6.95
Ohio	Canton	AT&T	22.18	16.36	0.08	38.69	7.00
Ohio	Cincinnati	Cincinnati Bell	24.87	15.19	0.15	25.70	5.95
Ohio	Cleveland	AT&T	22.54	16.62	0.08	39.33	7.00
Ohio	Columbus	AT&T	22.23	16.40	0.08	38.78	7.00
Ohio	Toledo	AT&T	22.33	16.47	0.08	38.96	7.00
Oregon	Corvallis	Qwest	22.88	15.59	0.15	18.17	4.75
Oregon	Portland	Qwest	22.83	15.54	0.15	18.17	4.75
Pennsylvania	Allentown	Verizon	23.66	19.03	0.07	43.60	3.99
Pennsylvania	Ellwood City	Verizon	24.10	19.58	0.07	43.60	3.99
Pennsylvania	Johnstown	Verizon	24.71	16.92	0.07	57.44	3.99
Pennsylvania	New Castle	Verizon	22.30	19.58	0.07	43.60	3.99
Pennsylvania	Philadelphia	Verizon	25.05	18.19	0.07	44.00	3.99
Pennsylvania	Pittsburgh	Verizon	25.05	18.19	0.07	44.00	3.99
Pennsylvania	Scranton	Verizon	23.09	18.46	0.07	43.60	3.99
Rhode Island	Providence	Verizon	30.75	19.10	0.05	37.21	3.99
South Carolina	Beaufort	Embarq	24.05	15.80	0.12	32.30	5.45
Tennessee	Memphis	AT&T	23.59	16.42	0.10	45.44	6.95
Tennessee	Nashville	AT&T	23.59	16.42	0.10	45.44	6.95
Texas	Brownsville	AT&T	20.04	14.68	0.08	41.51	7.00
Texas	Corpus Christi	AT&T	21.76	16.42	0.08	41.47	7.00
Texas	Dallas	AT&T	23.01	16.54	0.08	41.51	7.00
Texas	Fort Worth	AT&T	21.62	15.42	0.08	41.32	7.00
Texas	Houston	AT&T	22.88	16.46	0.08	41.13	7.00
Texas	San Antonio	AT&T	20.66	14.93	0.08	41.13	7.00
Utah	Logan	Qwest	21.29	19.28	0.10	27.67	4.75
Virginia	Richmond	Verizon	31.05	17.67	0.09	45.60	3.99
Virginia	Smithfield	Verizon	28.72	19.41	0.11	45.06	3.99
Washington	Everett	Verizon	28.96	22.28	0.02	50.22	3.99
Washington	Seattle	Qwest	21.23	17.34	0.07	32.98	4.75
West Virginia	Huntington	Verizon	31.31	14.51	0.16	44.10	3.99
Wisconsin	Milwaukee	AT&T	38.59	19.78	0.04	49.30	
Wisconsin	Racine	AT&T	38.57	19.76	0.04	49.30	

¹ All figures are preliminary and subject to revision.