

**BEFORE THE  
ILLINOIS COMMERCE COMMISSION**

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In the Matter of

GENESEO TELEPHONE COMPANY,  
CAMBRIDGE TELEPHONE  
COMPANY and HENRY COUNTY  
TELEPHONE COMPANY

Petition for Universal Service.

Docket No. 11-0210

ILLINOIS INDEPENDENT  
TELEPHONE ASSOCIATION

Petition to update the Section 13-  
301(1)(d) Illinois Universal Service  
Fund and to implement Intrastate  
Switched Access Charge reform as  
described herein and for other relief.

Docket No. 11-0211

Consolidated

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**ADDITIONAL REBUTTAL TESTIMONY  
OF  
LAWRENCE J. BAX  
ON BEHALF OF  
ILLINOIS BELL TELEPHONE COMPANY**

May 25, 2012

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**I. INTRODUCTION & SUMMARY**

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

A. My name is Lawrence (Larry) J. Bax. My business address is 125 Corporate Office Drive,  
Room 416, Earth City, Missouri, 63045.

**Q. ARE YOU THE SAME LAWRENCE J. BAX THAT FILED SUPPLEMENTAL  
DIRECT AND REBUTTAL TESTIMONY IN THE CONSOLIDATED  
PROCEEDINGS ON OR ABOUT MARCH 23, 2012?**

A. Yes.<sup>1</sup>

**Q. HAVE YOU READ THE SUPPLEMENTAL DIRECT AND REBUTTAL  
TESTIMONY FILED BY OTHER PARTIES IN THE CONSOLIDATED  
PROCEEDINGS?**

A. Yes.

**Q. WHAT IS THE PURPOSE OF YOUR ADDITIONAL REBUTTAL TESTIMONY?**

A. My additional rebuttal testimony will address the supplemental direct testimonies filed by  
Mr. Robert Schoonmaker<sup>2</sup> and Mr. Jack D. Phillips<sup>3</sup> in the consolidated proceedings.

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<sup>1</sup> Supplemental Direct and Rebuttal Testimony of Lawrence J. Bax on Behalf of Illinois Bell Telephone Company, March 23, 2012. (“Bax Supplemental Direct”)

<sup>2</sup> Further Rebuttal to Geneseo Companies; Rebuttal Testimony to Staff and Frontier Direct Testimony; and, Supplemental Direct Testimony in Relation to a Recent Order of the FCC of Robert C. Schoonmaker on Behalf of the Illinois Independent Telephone Association, March 23, 2012. (“Schoonmaker Supplemental Direct”)

<sup>3</sup> Supplemental Direct Testimony of Jack D. Phillips on Behalf of Frontier North Inc., Frontier Communications of the Carolinas Inc., Citizens Telecommunications Company of Illinois, Frontier Communications - Midland, Inc., Frontier Communications - Prairie, Inc., Frontier Communications - Schuyler, Inc., Frontier Communications of DePue, Inc., Frontier Communications of Illinois, Inc., Frontier Communications of Lakeside, Inc., Frontier Communications of Mt. Pulaski, Inc., Frontier Communications of Orion, Inc., March 23, 2012. (“Phillips Supplemental Direct”)

19 Specifically, I support the testimony by Mr. Schoonmaker and Mr. Phillips calling for  
20 reductions (i.e., with the attendant opportunities for the recovery of lost revenues) to the  
21 originating intrastate access rates for the participating ROR LECs.

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24 **II. REDUCTIONS TO ORIGINATING INTRASTATE ACCESS RATES**

25 **Q. PLEASE ELABORATE ON YOUR SUPPORT FOR THE TESTIMONY OF MR.**  
26 **SCHOONMAKER AND MR. PHILLIPS?**

27 A. As summarized in my direct supplemental testimony, the *FCC's ICC/USF Order*<sup>4</sup> provides  
28 for relief with respect to the terminating access and reciprocal compensation rates for local  
29 exchange carriers ("LECs").<sup>5</sup> The FCC has deferred action on originating access rates to a  
30 pending FNPRM.<sup>6</sup> And, in fact, the originating access rates of the rate of return ("ROR")  
31 LECs (i.e., including those of the IITA companies) and the CLECs which benchmark to their  
32 rates were not capped.<sup>7</sup>

33 The IITA proposals, as amended and detailed in Mr. Schoonmaker's testimony,<sup>8</sup> provide  
34 prudent relief beyond what is achieved by way of the *FCC's ICC/USF Order*. Notably, Mr.

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<sup>4</sup> *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Reform – Mobility Fund*; WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208; Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (2011) ("FCC's ICC/USF Order").

<sup>5</sup> *Bax Supplemental Direct* at page 3, lines 43-45. *See*, also, Schedule LJB-E attached to my supplemental direct testimony.

<sup>6</sup> *Bax Supplemental Direct* at page 4, lines 51-53.

<sup>7</sup> *Bax Supplemental Direct* at page 3, lines 39-42. The originating rates for the remaining LECs were capped as of the effective date of the order.

<sup>8</sup> *See*, generally, *Schoonmaker Supplemental Direct* (e.g., page 6, lines 130-138) and Exhibit 3.2.

35 Phillips supports the IITA's proposals to reduce originating intrastate switched access rates  
36 and to provide an opportunity for recovery of the resulting losses in revenues.<sup>9</sup>

37 The IITA proposals, as amended, will result in implicit subsidies (i.e., those incorporated  
38 in the intrastate switched access rates of the participating carriers) being made explicit.<sup>10</sup>

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40 **Q. MR. BAX, YOU STATE THAT THE IITA PROPOSALS, AS AMENDED, "PROVIDE**  
41 **... PRUDENT RELIEF." CAN YOU EXPLAIN WHAT YOU MEAN?**

42 A. As detailed in Mr. Schoonmaker's testimony, the IITA proposals include a provision calling  
43 for a review of the IUSF, including any receipts resulting from the IITA proposals, within  
44 two years of a final order in the consolidated proceedings.<sup>11</sup> This ensures an opportunity to  
45 reconsider the IUSF in the whole (i.e., including the modifications proposed by the IITA)  
46 thus providing all parties an option to revisit their concerns and reservations, as well as to  
47 address any new found concerns or reservations.<sup>12</sup>

48 Furthermore, the amended IITA proposals allow for the intrastate revenue reductions to  
49 be incorporated as a revenue adjustment using the *Form and Schedule of Adjustments* ("Form  
50 1.01"<sup>13</sup>) analysis (i.e., rather than implementing a new sub-element of the IUSF) for

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<sup>9</sup> See, generally, *Phillips Supplemental Direct*. E.g., page 7, lines 165-172 and page 14, lines 298-301.

<sup>10</sup> As I have previously testified, the IITA proposals, as amended, are in direct concert with the intent and direction of the Illinois legislature. Section 13-301(2)(b) of the Illinois Public Utilities Act ("PUA") provides that in creating a fund pursuant to 13-301(l)(d), the Commission shall "[i]dentify all implicit subsidies contained in rates or charges of incumbent local exchange carriers, including all subsidies in interexchange access charges, and determine how such subsidies can be made explicit by the creation of the fund." See, Direct Testimony of Lawrence J. Bax on Behalf of AT&T Illinois, May 9, 2011, at lines 181-185 ("Bax Direct") and *Bax Supplemental Direct* at footnote 14.

<sup>11</sup> *Schoonmaker Supplemental Direct* at page 7, lines 145-150.

<sup>12</sup> *Schoonmaker Supplemental Direct* at Exhibit 3.2, paragraph 3.

<sup>13</sup> The data included in Form 1.01 is taken from each carrier's Form 23A. Form 23A is required by the Commission to accomplish the statutory purpose as outlined in Section 5-109 of the Public Utilities Act (220 ILCS 5/5-109). (The text of Section 5-109 is attached as Bax Additional Rebuttal – Schedule F.) Form 23A has been relied by the Commission and by Staff as the basis for the various annual reports which are developed and produced by the Commission and by Staff. While Commission materials often refer to the *Form and Schedule of Adjustments* as "Schedule 1.01", the term "Form 1.01" has been used most often in this proceeding. My testimony will also use the term "Form 1.01".

51 calculation of the necessary IUSF support.<sup>14</sup> It is my understanding that Form 1.01 was  
52 implemented to determine the initial IUSF support levels and has been in use since that time.  
53 As such, the process has been “time tested” and the format and inputs are likely familiar to  
54 the Commission, to Staff and to the various participants in the consolidated proceedings.  
55 Therefore, I believe that any discrepancies or misrepresentations would be readily  
56 identifiable. Consequently, the use of Form 1.01 provides the participants a known process  
57 and format via which the data and the results can be analyzed and validated.

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59 **Q. YOU ASSERT THAT RESULT OF THE IITA PROPOSALS, AS AMENDED, WILL**  
60 **BE TO MAKE IMPLICIT SUBSIDIES EXPLICIT. CAN YOU EXPLAIN THAT**  
61 **ASSERTION?**

62 A. As discussed in my direct testimony, the FCC has continued to address (i.e., even before the  
63 *FCC’s ICC/USF Order*) the implicit subsidies inherent in interstate switched access rates.<sup>15</sup>  
64 As a result of an order by the FCC in 2001, the interstate switched access rates of non-price  
65 cap carriers were moved significantly closer to costs,<sup>16</sup> thus reducing the implicit subsidies in  
66 those rates.

67 There is no material functional difference between *interstate* switched access service and  
68 *intrastate* switched access service. Accordingly, the Commission can safely conclude the  
69 underlying costs to be the same. To the extent the *intrastate* switched access rates are higher  
70 than the *interstate* switched access rates for any given carrier, the Commission can also

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<sup>14</sup> *Schoonmaker Supplemental Direct* at page 12, line 272 – page 13, line 283 and *Phillips Supplemental Direct* at page 10, lines 250-253. *See, also, Schoonmaker Supplemental Direct* at Exhibit 3.2, paragraph 2.

<sup>15</sup> *See, Bax Direct Testimony* at line 119-137.

<sup>16</sup> *In the Matter of Multi-Assoc. Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers Subject to Rate-of-Return Regulation, Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers*, Second Report and Order and Further NPRM, FCC 01-304, CC Docket Nos. 00-256, 96-45, 98-77, 98-166 (ReI. Nov 8, 2001). (“MAG Order”)

71 safely conclude that the additional revenues generated by those higher rates are implicit  
72 subsidies supporting other services (i.e., in this case, local exchange access service).<sup>17</sup>

73 By reducing *intrastate* switched access rates to the level of the corresponding *interstate*  
74 switched access rate, the Commission will be identifying and removing much of the implicit  
75 subsidies inherent in the *intrastate* switched access rates of the participating companies. By  
76 allowing for the recovery of the revenue reductions resulting from the elimination of those  
77 implicit subsidies, the Commission will be making those implicit subsidies *explicit* in  
78 accordance with Section 13-301(2)(b) of the Illinois Public Utilities Act.

79 I believe this approach (i.e., as detailed in the IITA proposals, as amended) offers a fair  
80 and balanced approach to making the implicit subsidies of the past explicit.<sup>18</sup>

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### **III. SUMMARY AND CONCLUSION**

84 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

85 A. The amended proposals offered by the IITA companies provide an acceptable resolution with  
86 respect to the originating rates of the ROR LECs. The Commission should move swiftly to  
87 adopt the reforms proposed in the IITA petition (i.e., as amended) to bring the attendant  
88 benefits more quickly to the Illinois telecommunications marketplace.

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<sup>17</sup> Furthermore, as discussed in my direct testimony, there are numerous and significant marketplace jeopardies associated with excessive and/or disparate rates for “like” services. *See, Bax Direct Testimony* at lines 231-313.

<sup>18</sup> Notably, the IITA proposals, as amended, bring the participating companies into line with carriers electing market regulation and carriers serving more than 35,000 access lines as required by Illinois legislation signed into law in June 2010. *See, Bax Direct Testimony* at lines 216-228. Also, *see*, 220 ILCS 5/13-506.2(g) and 220 ILCS 5/13-900.2.

90 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

91 A. Yes.