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#### **ELECTRONICALLY FILED**

October 21, 2011

Honorable Jaclyn A. Brilling Secretary New York Public Service Commission Three Empire State Plaza Albany, NY 12223-1350

RE: <u>Case 11-C-</u>; Petition of Frontier Communications for Business Line Pricing Flexibility – PUBLIC VERSION

Dear Secretary Brilling:

Please find attached for filing the redacted Petition of Frontier Communications for Business Line Pricing Flexibility and supporting exhibits, for public filing. We are also filing an unredacted Proprietary version with Ms. Donna Giliberto, the Department's Records Access Officer. We also enclose for public filing a copy of the Motion for Trade Secret Status that we are also filing with the Records Access Officer.

Frontier is filing paper copies of tariffs reflecting the proposed pricing flexibility under separate cover.

Respectfully submitted,

Gregg C. Sayre

Associate General Counsel -

Northeastern Region

GCS:hmj

# STATE OF NEW YORK PUBLIC SERVICE COMMISSION

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Petition of the Frontier Communications Companies for Business Line Pricing Flexibility	)	Case 11-C
	)	
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# PETITION OF FRONTIER COMMUNICATIONS FOR BUSINESS LINE PRICING FLEXIBILIY

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DATE: October 21, 2011

# STATE OF NEW YORK PUBLIC SERVICE COMMISSION

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# PETITION OF FRONTIER COMMUNICATIONS FOR BUSINESS LINE PRICING FLEXIBILITY

The Frontier Communications companies providing service in New York

State as incumbent local exchange carriers<sup>1</sup> ("Frontier") hereby respectfully

petition the Commission for pricing flexibility that will allow Frontier to increase its

single line business rates by no more than \$2 per month above current rate

levels. In support of this Petition Frontier respectfully states as follows:

#### I. Historical Background.

In the Commission's Competition III Order,<sup>2</sup> the Commission granted New York's Incumbent Local Exchange Carriers ("ILECs") a limited amount of pricing flexibility for their basic residential rates and very substantial pricing flexibility for their non-basic rates, but the Commission did not address basic business rates. Accordingly, these rates have remained frozen in Frontier's service territories for a very extended period of time. Frontier's personnel do not recollect exactly

<sup>1</sup> Frontier Telephone of Rochester, Inc., Ogden Telephone Company, Citizens Telecommunications Company of New York, Inc., Frontier Communications of New York, Inc., Frontier Communications of Sylvan Lake, Inc., Frontier Communications of AuSable Valley, Inc. and Frontier Communications of Seneca-Gorham, Inc.

Case 05-C-0616, "Statement of Policy on Further Steps Toward Competition in the Intermodal Telecommunications Market and Order Allowing Rate Filings" (issued and effective April 11, 2006).

when these rates were last increased, but it is clear that they have been frozen for at least the last 18 years. During that period of time, enormous changes have occurred in the telecommunications industry.

Local exchange competition was essentially nonexistent when Frontier's current B1 rates were established. Frontier's Open Market Plan,<sup>3</sup> which set the ground rules for local competition in New York State, did not go into effect until January 1, 1995. The national ground rules for local competition, the Telecommunications Act of 1996, did not go into effect until February 1996. When Frontier's B1 rates were established, the Internet was in its infancy and most customers were limited to dial-up service with a 2400 baud or slower modem. Cellular service was far from ubiquitous and cellular phones were typically the size of suitcases. Cable television companies were not offering local dial tone services to either residential or business customers.

In its 2006 order in Competition III, the Commission recognized the existence of intermodal competition for residential services. Competition has only increased in the five years since that order was issued. Competition for basic business services has existed side-by-side with residential competition all along, but the Commission has not, except in response to requests by individual companies such as Verizon New York, yet recognized it or provided for a degree of pricing flexibility.

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<sup>&</sup>lt;sup>3</sup> The Commission approved the Open Market Plan in 1994. Cases 93-C-0103 and 93-C-0033, Opinion No. 94-25, "Opinion and Order Approving Joint Stipulation and Agreement" (issued and effective Nov. 10, 1994).

# II. Intermodal Competition for Frontier's Basic Business Services is Thriving.

Small business customers today have many alternatives for B1 business lines from Frontier. Exhibit 1 contains examples. Exhibit 1 includes Time Warner "Business Class" service advertisements and web pages offering services to small business customers in Rochester, Gloversville, Albany, Orange County, Central New York and the Hudson Valley. Also included are web pages from Cablevision advertising its Optimum Voice business service in Monroe, and from Vonage offering its nationwide small business calling plan. Also included is an advertisement from a wireline CLEC offering hosted VoIP business service in Orange County. Finally included in Exhibit 1 are details of a device sold by wireless carriers that connects a customer's existing wired or cordless phones to a base station that operates as a cellular device. This low-cost device allows a small business customer to use existing phone equipment with wireless service, without the need of an underlying broadband or Internet connection. Although the device is referred to by Verizon Wireless as "Home Phone Connect". Verizon's customer service office states that business customers may use it. Sprint markets this device as a way for "both business and consumer users to replace their landline service and maintain the features they are accustomed to from a landline phone provider."

**Exhibit 2** shows Frontier's recent losses of B1 lines to competitors based on information gathered by Frontier's Save Team and analyzed by Frontier's Marketing department. **[begin proprietary]** ...

#### ... [end proprietary]

Exhibit 3 shows recent overall access line losses to competitors with a great deal of granularity. This exhibit tallies numbers that have been ported to Frontier's competitors from January through August 2011, including cable television, wireless and wireline carriers. This exhibit also significantly understates Frontier's competitive losses, because it does not capture new lines that Frontier never had, or customers who took new numbers from Frontier's competitors when they terminated Frontier services. Even as conservative as it is, Exhibit 3 demonstrates [begin proprietary] ...

#### ... [end proprietary]

Intermodal competition by cellular carriers is everywhere in New York

State. Wireless substitution is always an option for small business customers,
particularly through the use of equipment, discussed above, that allows them to
use their existing landline phones with cellular service. Cable television

companies are seeking to take away Frontier's business customers throughout their footprints. Internet-based service providers such as Vonage and Skype seek any business customers who have a broadband Internet connection – from Frontier or from any other service provider. There is no corner of the State where it can be said that Frontier has a monopoly on small business services.

# III. It is Reasonable and Fair to Request a Small Amount of Additional Revenue from B1 Customers.

On a regulated basis, using data from Frontier's PSC Annual Reports and making regulatory adjustments that are normally made by Commission Staff, Frontier is not earning a reasonable rate of return. **Exhibit 4** shows the returns on equity for Frontier's 7 New York State ILECs for 2009 and 2010. In no case is the return excessive. **[begin proprietary]** ...

... [end proprietary] Frontier submits that the limited pricing flexibility requested in this Petition is a better alternative for all of its customers compared to general rate cases, and that the grant of pricing flexibility compared to the litigation of multiple general rate cases represents significant savings of the resources of the Commission and of the Frontier companies.

It is indisputable that the costs of providing service have increased dramatically over the last 18 years. For example, wages, fuel and vehicles, making up a major component of Frontier's operating expenses, have increased in price a great deal during this period of time. Given the inflation of prices and costs in the economy as a whole, no customer could reasonably have expected

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rate stability from the early 1990s to the present. In 1992 the price of a postage stamp was 29 cents, a gallon of gas cost \$1.07, a loaf of bread cost \$1.00, a gallon of milk cost \$1.70, a new home cost an average of \$122,500, and it only cost a dime or a quarter to use a payphone.

From the standpoint of fairness, Frontier's residential customers have already experienced \$2 rate increases, in some cases multiple times, as a result of the pricing flexibility previously granted to Frontier for its residential rates.

Given the need for and reasonableness of a small increase at this time, it is only fair that B1 customers take their turn. The number of B1 lines that will be impacted by the requested flexibility is shown on **Exhibit 5**.

Only in one operating company territory do Frontier's New York State B1 rates meet or exceed the Commission's residential benchmark of \$23 per month. Because residential rates are not permitted to exceed business rates,<sup>4</sup> Frontier's business rates form an effective cap on the residential pricing flexibility that the Commission may give Frontier. This situation does not make policy sense. For decades, when rate cases were common, the rate design strategy was to extract more revenue from business customers so that the residential basic rate could be priced residually, and possibly even below cost. Because of the dearth of rate cases, the relative prices of business and residential services are no longer related in any rational way.

Frontier commits to treating the affected B1 customers fairly. For customers with term commitments and prices established by contract or with

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<sup>&</sup>lt;sup>4</sup> This requirement of Commission policy makes logical sense. Nothing prevents a residential customer from taking business services, and if business services cost less than residential services there would be massive conversions from one class of service to the other.

bundles of multiple services, Frontier will reduce the prices of the components of the plans that are not regulated by the Commission (e.g. interstate long distance and Internet access) to offset the increases in the B1 rate. Although Frontier will book the full amount of the B1 price increases to its regulated accounts, many B1 customers will therefore not actually experience any increase in their total bills.

# IV. Frontier is Firmly Committed to Increasing New York Jobs and Broadband Services.

Frontier is absolutely committed to bringing new employment opportunities and broadband services into New York State. The modest pricing flexibility requested in this Petition will support these endeavors.

Frontier has brought the following jobs to New York State thus far in 2011:

- 129 new call center jobs in Sherburne
- 60 Carrier Services jobs in Rochester
- 13 Work From Home jobs in Gloversville
- 20 Work from Home jobs in Rochester
- 7 jobs in Payroll in Rochester
- 13 jobs in Bill Retention in Rochester

All of these jobs are relatively well-paying, skilled jobs that draw on the pool of highly qualified and well-educated citizens of New York State. Frontier hopes to continue to increase employment opportunities throughout the State.

Frontier is aggressively expanding its broadband availability in rural areas of the State, and is upgrading existing broadband equipment to provide faster speeds and greater capacity. Details of these programs are in **Exhibit 6.** This

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Exhibit shows Frontier's spending on broadband in New York State from 2009 to 2011 year-to-date, [begin proprietary] ...

... [end proprietary]

Exhibit 6 also includes a listing of the Frontier central offices that are equipped to offer DSL (High-Sped Internet) service, the number of customers able to obtain this service, and the actual numbers of DSL subscribers, including actual 2010 and projected 2011 data. These data demonstrate [begin proprietary] ...

... [end proprietary]

#### V. Conclusion.

This Petition has demonstrated a need for a modest amount of pricing flexibility. The steadily increasing levels of intermodal competition throughout the State warrant at least a small relaxation of the strict price regulation that has applied to Frontier's B1 rates for at least the last 18 years. A modest increase in revenue from basic business services is both reasonable and fair, and consistent with the rational pricing of business and residential services. Frontier will fairly treat the customers who are subject to price increases, and will continue to expand the availability of employment opportunities and broadband services in New York State.

Frontier therefore respectfully requests that the Commission grant Frontier

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#### **PUBLIC VERSION**

the flexibility to increase its B1 rates by no more than \$2 per month.

Respectfully submitted,

Gregg C. Sayre

Associate General Counsel

**Frontier Communications** 

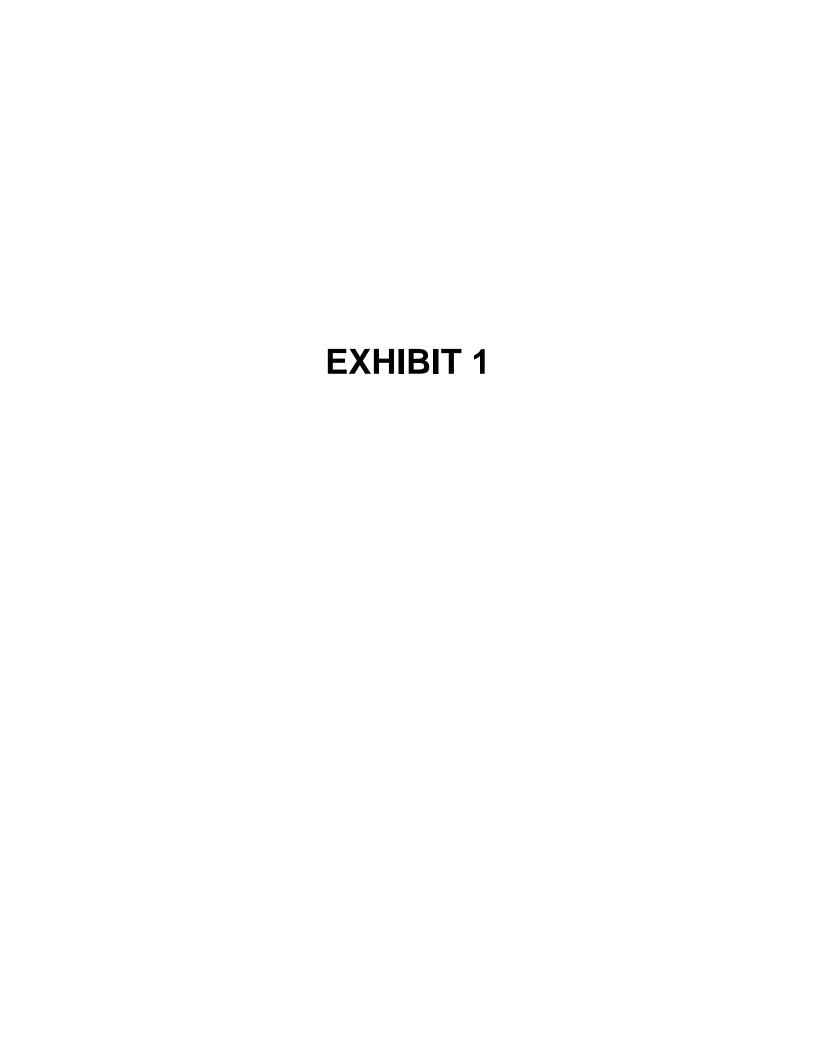
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Dear Business Owner:

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BUSINESS CLASS PHONE — Switching to reliable phone service delivered over our private, secure and reliable network requires no investment in new equipment and lets you keep your existing phone numbers. You can also take advantage of a variety of free business features, like Call Hunting, Caller ID, Call Waiting and our new Voice Manager tool — a Web-based portal that lets you view and change phone features as often as your business needs require.





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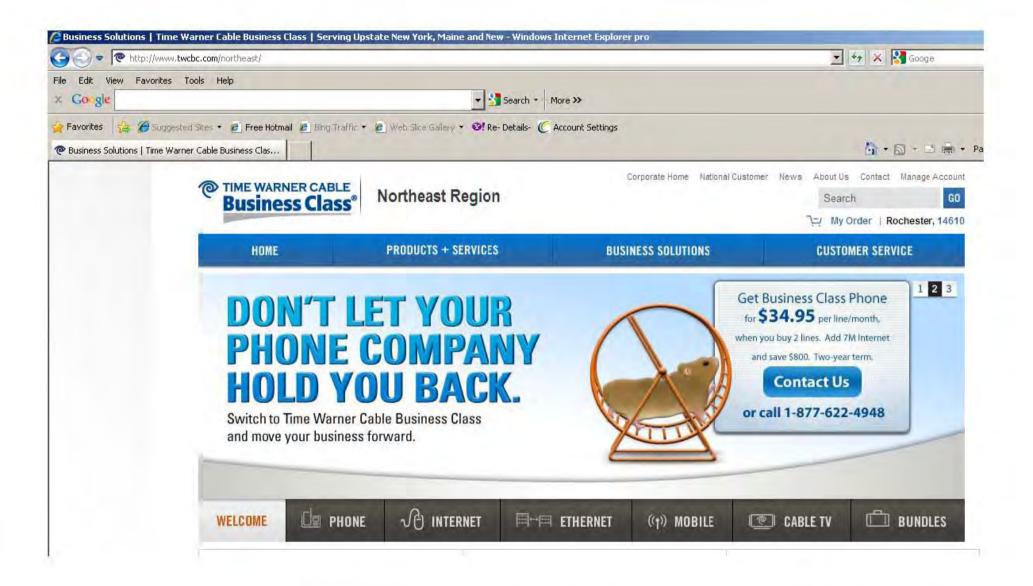
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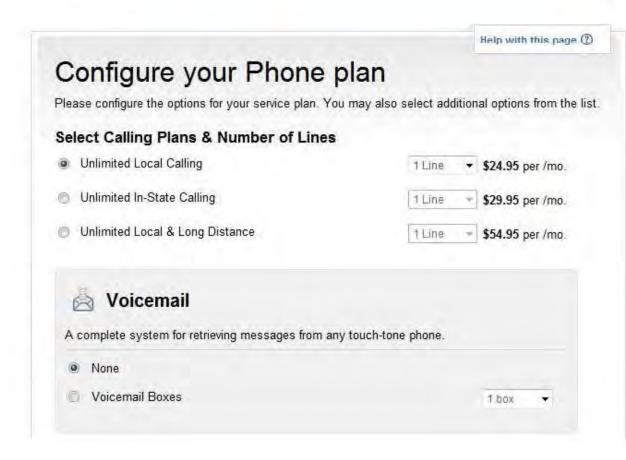
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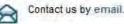
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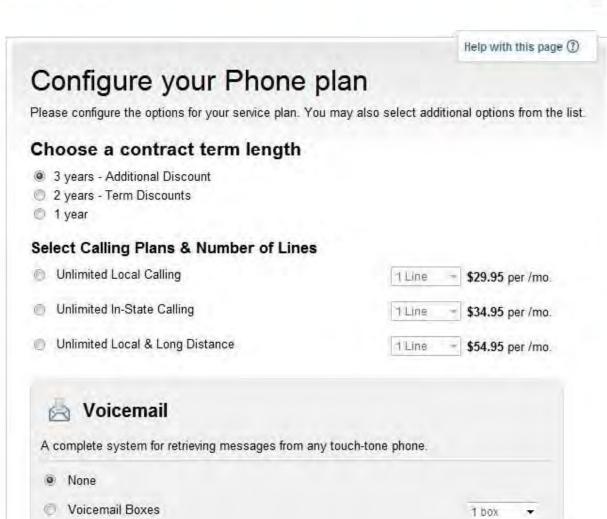
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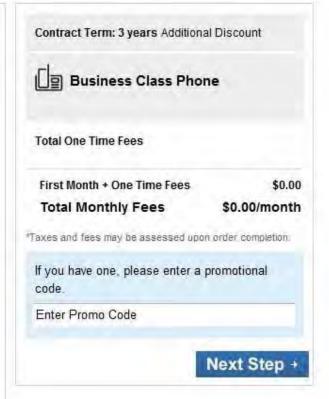
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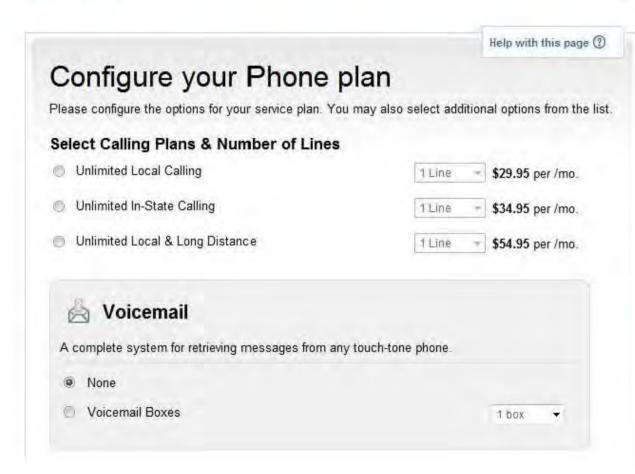
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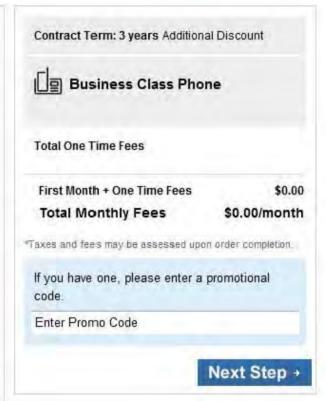
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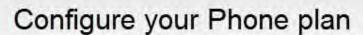
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- 2 years Additional Discounts May Apply
- 1 year

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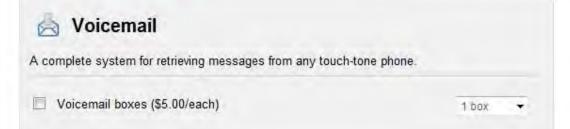
Unlimited Local and Long Distance

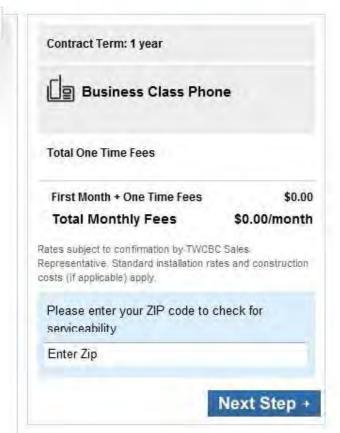
Unlimited Tri-State Calling

1 line ~ \$66.95 per /mo.

1 line -

\$34.95 per /mo.







#### Monroe, NY

Digital Phone and Internet - \$59.90 first 12 months; \$84.90 after promo Includes 14 features, Unlimited LD to U.S./Canada/Puerto Rico. Internet is up to 15Mbps download and up to 2 Mbps upload. Phone not available without Internet service



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All Plans	0	0	0

Compare Plans:	Price per month plus taxes and fees	Local & long distance calling in the U.S., Canada and Puerto Rico	Countries included for unlimited landline international calling	Countries included for unlimited mobile international calling	
International Calling Plans					
Vonage World™	\$14.99 for 3 months then \$25.99/mo†	Unlimited1	60	10	Order Now
World Premium Unlimited	\$54.99	Unlimited1	80	40	Order Now
Domestic Calling Plans					
U.S. & Canada Unlimited	\$14.99 for 3 months then \$24.99/mo†	Unlimited1	low per-minute rates	low per-minute rates	Order Now
U.S. & Canada 750	\$19.99	750 minutes 3.9¢ / additional minute	low per-minute rates	low per-minute rates	Order Now
U.S. & Canada 300	\$11.99 Online Only Offer	300 minutes 5¢ / additional minute	low per-minute rates	low per-minute rates	Order Now
Vonage Pro®	\$34.99	Unlimited1	5	low per-minute rates	Order Now
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Small Business Premium Unlimited	\$49.99	Unlimited	5	low per-minute rates	Order Now
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ing" he says, "except for the 437 page 'To-Do' list my wife has for me."

Everyone is invited to celebrate Dan's time at the Chamber and wish him well on his retirement at a special reception on Wednesday, December 14 from 5:00-8:00 p.m. at Anthony's Pier 9 in New Windsor. Admission is \$25 per person. Please make a reservation with Roseann by calling 457-9700, e-mailing roseannb@orangeny.com or visiting www.orangeny.com.

Let's make this a send-off Mr. O'Brien won't soon forget!





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Dec 2011 Champer Newsletter



#### Phones and Devices

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\$29,99

#### Verizon Home Phone Connect



#### Demos and Video



#### Key Features

No Broadband or Internet connection required

2-Color LED indicators

Message Waiting Indicator

Battery backup for power outages

External Antenna for enhanced call coverage



Pricing For Month to Month



#### Sprint Phone Connect fact sheet

#### A landline replacement with unlimited calling

Sprint\* Phone Connect, by Personal Communications Devices LLC, is a fixed wireless voice terminal that provides high-quality home and office phone service using the Sprint Network instead of a landline or broadband connection. This sleek plug-and-play device lets the user plug their current office or home landline phone into the Sprint Phone Connect terminal and activate it with an easy, over-the-air process. Sprint Phone Connect is compatible with most conventional corded and cordless phones. If your cordless phone supports more than one handset, plugging the main base into the Sprint Phone Connect will activate all the handsets (digital phones for use with PBX systems may not be compatible). It also allows both business and consumer users to replace their landline service and maintain the features they are accustomed to from a landline phone provider. The Sprint Phone Connect plan offers unlimited local and long-distance calling while on the Sprint network for one low price and allows the user to consolidate phone services into one single bill. Users have the option of maintaining their existing home or office phone number or activating a new one (more information on porting, including eligibility, can be found at <a href="https://www.sprint.com/bringyournumber">www.sprint.com/bringyournumber</a>).

#### **KEY FEATURES:**

- · Caller ID (phone number only)
- · Call Waiting
- Three-Way Calling
- · Voicemail Notification

#### SPECIFICATIONS:

- 6.5 inch x 4.63 inch x 1.22 inch (165mm x 117.5mm x 31mm)
- · Dual Band (800/1900 MHz CDMA)
- Two RJ-11 ports (bridged) to support multiple devices
- AGPS/E911 Service
- 110 volt power adapter
- 1800 mAh Lithium-ion backup battery

http://newsroom.sprint.com/news/sprint-phone-connect-fact-sheet.htm

#### Sprint Pushes 'Sprint Phone Connect'

#### Touted as 'Landline Replacement With Unlimited Calling'

by chastech84 Wednesday 24-Aug-2011 tags: business · wireless · alternatives · consumers · wireless · cellular

Sprint seems to be grabbing at straws lately to try to get its earnings turned around. So far in 2011 we have learned that Sprint is planning to move away from their Nextel network in the near future while still releasing compatible phones and partner with Lightsquared to play catchup in the 4g race it started. Now the company is announcing its substitute landline service. From a recent <u>press release</u> on the Sprint website, the company is announcing a new "Sprint Phone Connect" product. This CDMA to phone line adapter allows residential and business customers to connect a wired or wireless phone to Sprint's network.

Sprint has priced the service at \$20 a month, and have identified some of the service's features and benefits. The press release says the Phone Connect plan "...offers unlimited local and long-distance calling while on the Sprint network for one low price...". Normally the terms of service for such a product would limit the actual usage allowed. However, since this is being targeted as a business solution it is unclear at this time if their will be any such stipulation. Some of the other features such as call waiting, caller id (just phone numbers) and three-way calling seem basic at best but still can be appreciated when needed.



Customer Home/Office

This product announcement coincides with the companies new Sprint Biz 360 initiative. The goal is to be able to include wireless phone options, fixed and mobile internet connectivity and this new Phone Connect product into specialized contract and pooling plans. Sprint is directing interested parties to <a href="https://www.sprint.com/biz360">www.sprint.com/biz360</a>, however business can still access the Biz 360 information via Sprint store locations or via Sprints telephone number (877-9BIZ360). As the press release describes:

"The customized website allows customers to assess their specific business needs against a backdrop of like-minded small businesses. After assessing needs and studying how other small businesses made Sprint Biz 360 work for them, a customer can choose and customize a solution that ideally suits their business."

While the website is interesting since you can select what types of products you are interested in and how they may be used -- it is difficult to see how any of this is new. A good Sprint sales person or store front would have been able to guide customers through the buying process and its not like they didnt already have a section of the website for business customers. Sprint's latest attempt to change could simply produce more of the same.

http://www.dslreports.com/shownews/Sprint-Pushes-Sprint-Phone-Connect-115850