

January 2, 2003

Luly Massaro, Commission Clerk
Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02888

Re: Docket 3445

Dear Ms. Massaro,

The Division of Public Utilities and Carriers (“Division”) submits this letter in lieu of its Brief in the above-entitled docket. Without reiterating each the positions of the settling parties, the Division writes to summarize briefly some of the notable milestones achieved by the Settlement Agreement entered into between Verizon Rhode Island and the Division.

Under the agreement, Verizon Rhode Island agrees to continue to provide funding for internet access for K-12 schools and libraries through December 31, 2004. Given the voluntary nature of the company’s obligation in this regard, the 24-month extension from December 31, 2002 constitutes a significant achievement that will provide an incalculable benefit to Rhode Island schoolchildren and libraries over that time-period.

While rates for Primary Basic Residence Exchange service may increase \$1.00 per line in calendar year 2003 and another \$1.00 per line in calendar year 2004, the total increase requested will be prorated over a two-year period, rather than as more likely implemented in its entirety in 2003.¹ Prorating the proposed increase in this manner, while obtaining continued internet

¹The term of the Plan is three (3) years. Significantly, the second \$1.00 increase in the cap remains in effect in the third year of the Plan if Verizon Rhode Island does not file a proposal on or before July 1, 2004 for a further increase of up to \$1.00. Even if Verizon Rhode Island does file to raise the cap in the third year of the Plan, the Commission retains the authority to accept or reject the proposed increase. Implementing a regulatory plan that does not grant Verizon Rhode Island pricing flexibility for Primary Basic Residence Exchange Rates either during the term of, or after the expiration of, the Plan constitutes a major concession by the Company. Compare Verizon Rhode Island ARP as initially filed with the Commission.

funding for schools and libraries through December 31, 2004, in the Division's opinion, more than counterbalances the amount of the increase.

Verizon Rhode Island also has agreed to subject pricing for each of its "Other" services to a floor that is equal to the total service long run incremental cost of each service. The Division will monitor price decreases that are filed by Verizon Rhode Island to ensure that the price floor is not breached. The Division also will continue to monitor competitor concerns regarding specific instances where the floor may not be functioning as envisioned. Of course, the Commission, itself, retains the authority to review Verizon Rhode Island's pricing for these services in relationship to the floor as well. These regulatory safeguards, and the benefit that will accrue to consumers from lower prices occasioned by competition, makes the total service long run incremental cost price floor the appropriate price floor to be applied in this docket.

Perhaps most significantly, under the agreement Verizon Rhode Island has agreed in any year to reduce by \$1.0 million any increases in the company's cost of providing its services or reductions in the company's revenues that are due to exogenous event(s). Greater pricing flexibility enables Verizon Rhode Island to respond more appropriately to unexpected market conditions. The exogenous event provision, thus, has been modified to function more favorably for ratepayers in the new regulatory environment.

The Division believes that the Settlement Agreement is fair and reasonable and in accordance with law and existing regulatory policy. The Settlement Agreement strikes the proper balance between affording Verizon Rhode Island greater pricing flexibility in its current Rhode Island access line markets and maintaining safeguards in place to ensure that competition can continue to flourish in this State. Accordingly, the Division requests that the Commission approve the Settlement Agreement in its entirety.

Respectfully submitted,

Division of Public Utilities and Carriers
By its attorney,

Leo J. Wold, # 3613

cc: Service List