

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: VERIZON PRICE REGULATION
SUCCESSOR PLAN

DOCKET NO. 3179¹

Report and Order

On June 16, 2000, Verizon New England d/b/a Verizon Rhode Island (“VRI” or “Verizon”) and the Division of Public Utilities and Carriers (“Division”) filed a Settlement Agreement (“Agreement”)² with the Public Utilities Commission (“Commission”). The Agreement delineates a Price Regulation Successor Plan (“PRSP”), effective upon approval by the Commission until December 31, 2001 (“PRSP period”).³ The PRSP continues

¹ While treating the Price Regulation Successor Plan as a new docket, the Commission has taken administrative notice of Docket No. 2370 (Bell Atlantic – Rhode Island’s Price Regulation Plan); Docket No. 2913 (Investigation of Overearnings); and Docket No. 2914 (Form of Regulation), and intends that this Report and Order shall terminate those three dockets.

² A copy of the Agreement is attached and incorporated by reference as Appendix A.

³ This is the parties’ second attempt to enter into a PRSP. An earlier proposal filed in September 1999, with the goal of resolving issues in Docket No. 2912 (Local Calling Area Expansion) as well as Docket Nos. 2913 and 2914, was rejected. While the Commission acknowledged the good faith effort made to resolve the issues in those dockets, a number of concerns about language included in the earlier settlement proposal and PRSP precluded approval. These included incorporation of access charge reductions, promulgation of wholesale service quality standards, and various restrictions upon the Commission’s statutory authority. The parties were at pains in the

the regulatory methodology through which VRI's tariffs and revenues were established in the present Price Regulation Plan ("PRP"), adopted in Order No. 15020 (issued June 25, 1996), itself a successor to the Price Regulation Trial. The PRP currently in effect provides the company with pricing flexibility, pursuant to several formulae. There are consumer protections included at each service group level, through the implementation of individual Price Regulation Indices ("PRI") and rate element caps.

The proposed PRSP has several notable features:

- Residential basic exchange customers will receive a refund of \$5,000,000 through monthly bill credits of \$0.90 per customer per line during the twelve-month period from October 2000 through September 2001
- Data network access for public and not-for-profit K-12 schools will be funded by Verizon at the level of \$2,000,000 during the PRSP period
- The cost of LifeLine credit for low-income residential customers will be absorbed by Verizon, up to \$2,500,000 during the PRSP period
- There will be no rate increases in recurring residential basic exchange rates for measured and flat-rate customers during the PRSP period

instant Agreement to eliminate these concerns. Access charge reductions have been accomplished in the context of Docket No. 2681 (TELRIC). In the proposed PRSP, carrier-to-carrier service quality standards are promised in a September 15, 2000 filing which will generate a separate proceeding. The language of the PRSP regarding earnings oversight has been modified to include the filing of annual financial reports with the Commission. In addition, the Agreement now contains specific language acknowledging the Commission's statutory rights and obligations.

- Verizon will permanently absorb the impact of expanding local calling areas⁴
- A uniform rate of \$37.50 per month for the residential Statewide Unlimited Calling Plan will be made available on January 15, 2001
- The Business Directory Assistance (“DA”) call allowance may be reduced from five calls to three calls per month, and the rate to be charged for additional calls may be raised to a level not to exceed \$0.50 per call during the PRSP period
- Verizon’s earnings will continue to be regulated by the application of the consumer guideline formula of the existing PRP.

Following public notice, the Commission conducted a hearing on August 16, 2000. The following attorneys entered appearances:

FOR VRI:	Keefe B. Clemons, Esq.
FOR THE DIVISION:	Paul J. Roberti Assistant Attorney General
FOR COX RHODE ISLAND TELCOM, LLC:	Jennifer Johns, Esq.
FOR THE COMMISSION:	Adrienne G. Southgate General Counsel

Public comment was received from William J. Fiske of the Rhode Island Department of Education, who stressed the continuing importance of VRI’s educational commitments. The annual subsidy provided by the Federal Communications Commission’s E-rate program effectively doubles the value of the roughly \$2,000,000 contributed by Verizon. Moreover, several national

⁴ The loss of toll revenues, estimated to be \$8,500,000, will be reflected outside the PRSP, and capital investment, estimated at \$6,700,000 will not be recovered through exogenous cost treatment. See T. 8/16/00, p. 61.

awards and grant opportunities are attributable, at least in part, to Rhode Island's ubiquitous high quality Internet access for every public and private school.

Ms. Johns, representing Cox, commented that her client did not oppose the settlement. However, she encouraged the Commission to consider whether the interests of Rhode Island consumers and schools might be better served by requiring Verizon to "use overearnings to provide \$2,000,000 of subsidization" through putting the money into a pool which could be accessed by all carriers, thus permitting schools and libraries to utilize the carrier of their choice for internet access.⁵

Testifying in support of the PRSP Agreement were Theresa O'Brien, VRI's Director of Regulatory Affairs, and the Division's chief accountant, Stephen Scialabba. Ms. O'Brien said that the schools' and libraries' data network access program costs in 1999 were approximately \$1,725,000; based on five months of actual data, in 2000 this program is expected to cost \$2,900,000. However, with certain Universal Service Fund credits, Verizon estimates that the total expenditures will not exceed \$2,000,000.⁶ Neither Ms. O'Brien nor Mr. Scialabba could state definitively that all school and library

⁵ Ibid., p. 29.

⁶ Ibid., pp. 32-33.

data network access needs in 2001 could be encompassed by VRI's \$2,000,000 funding commitment.⁷

Mr. Scialabba responded to Ms. Johns' comments regarding the creation of a pool of funds for the schools' and libraries' Internet access programs. He noted that the original negotiations for the PRSP were undertaken at a time when Cox was not yet providing local exchange services. Further, the PRSP has, in effect, a one-year term which expires at the end of 2001. There will certainly be additional discussions about continuing the data network access program in 2002 and beyond. Mr. Scialabba conceded that Cox might well have a valid point, and would definitely be included in the future discussions.⁸ Ms. O'Brien took exception to the characterization of funding "with our overearnings", but agreed that a pool of money would be a wonderful idea for the State of Rhode Island. She added that Verizon could contribute \$2,000,000 and would look to other local telecommunications providers to make additional contributions.⁹

There was substantial questioning about the provision granting Verizon flexibility to reduce the number of free Directory Assistance calls for business customers, and to increase the cost of additional calls after the

⁷ Ibid., p. 33.

⁸ Ibid., p. 44.

⁹ Ibid., p. 45.

allowance had been exhausted. Ms. O'Brien stated that DA is a very competitive market, especially for business customers.¹⁰ There has been an effort throughout the old Bell Atlantic footprint to reduce the number of DA call allowances for both business and residential customers; Verizon's position in the PRSP negotiations had been to implement reductions across the board, but their settlement posture altered only the business sector DA allowance.¹¹

There was also an extensive discussion of reciprocal compensation, and Verizon's expectations about when the FCC might address this issue.¹²

At an open meeting on August 30, 2000, the Commission considered the PRSP Agreement, and unanimously voted to approve the filing. However, Commissioner Racine requested that if the company elects to exercise the DA call reduction for business customers, it provide prior notification to consumers and regulators.

Accordingly, it is

(16390) ORDERED:

¹⁰ Because DA is more competitive now than it was when the PRP was initiated in 1996, DA rate elements, presently in Service Group 2, will be reclassified to Service Group 4 under the PRSP. The effect of this reclassification is that there will be no price limitation on extra-allowance DA charges after the expiration of the PRSP.

¹¹ Ibid., pp. 47-48.

¹² Ibid., pp. 53-61.

1. The Price Regulation Successor Plan, as delineated in the Settlement Agreement filed on June 16, 2000 by Verizon New England, d/b/a Verizon Rhode Island, and the Division of Public Utilities and Carriers, is hereby approved.

2. Docket Nos. 2370, 2913, and 2914 are hereby closed.

EFFECTIVE AT PROVIDENCE, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON AUGUST 30, 2000. WRITTEN ORDER ISSUED SEPTEMBER 14, 2000.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Kate F. Racine, Commissioner

Brenda K. Gaynor, Commissioner

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

)	
In Re Bell Atlantic – Rhode)	
Island)	Docket Nos. 2913 & 2914
)	

SETTLEMENT AGREEMENT

The Rhode Island Division of Public Utilities and Carriers (the “Division”) and the New England Telephone and Telegraph Company, d/b/a Bell Atlantic – Rhode Island (“BA-RI”) (collectively, hereinafter referred to as the “Parties”) have reached agreement on the following terms and hereby submit this Settlement Agreement for the Commission’s approval. By undersigned counsel, the Parties agree as follows:

1. The Price Regulation Successor Plan (“PRSP”), a copy of which is attached as Appendix 1 hereto, modifies the existing Price Regulation Plan approved by the Commission on June 25, 1996, in Docket No. 2370. Upon approval by the Commission, the PRSP shall establish the method by which prices for all tariffed services provided by BA-RI in Rhode Island will be regulated by the Commission.

2. At an Open Meeting on April 28, 1999, the Commission opened Docket Nos. 2912, 2913 and 2914 for purposes of addressing certain local calling area issues and examining BA-RI’s current form of regulation, as well as its earnings.

3. This Settlement Agreement is the result of a negotiated settlement between the Parties with respect to matters to be considered in dockets 2913 and 2914. Beyond the terms hereof, this Settlement Agreement shall not be construed as evidence or serve as a precedent to any matter of fact or law in these proceedings, or in any other proceeding

before the Commission, or any other state or federal regulatory body, or any state or federal court. In the event that the Commission rejects or fails to approve any part of this Settlement Agreement, the entire Settlement Agreement shall be void.

4. The Parties hereby attest that this Settlement Agreement is reasonable, in the public interest, and in accordance with state and federal law and regulatory policy.

5. If either Party in good faith believes that the other has not complied with the material terms of the Settlement Agreement, or has not acted in good faith relative to its commitments under the Settlement Agreement, or that any event or Commission decision has materially affected the terms and conditions upon which it has entered this Settlement Agreement, the Party may apply to the Commission to end this Settlement Agreement.

6. This Settlement Agreement is entered into without prejudice to positions taken by Bell Atlantic in this, or any other state, and shall not constitute precedent with respect to any and all such matters.

7. The terms of the Settlement Agreement are offered for settlement purposes only, and nothing in the Settlement Agreement shall be construed as a waiver by either Party of any argument that has been, or may be, asserted in any proceeding.

8. The Parties hereby agree that following review and approval of this Settlement Agreement by the Commission that Docket Nos. 2913 and 2914 shall be closed.

9. Those provisions of the Price Regulation Plan approved by the Commission on or about June 25, 1996 that are not expressly modified by this Settlement Agreement shall remain in full force and effect for the term of the Settlement Agreement.

10. The Parties hereby acknowledge that the Commission has a continuing statutory obligation to protect the public against improper and unreasonable rates that cannot be precluded by a settlement agreement. The Commission approves this Settlement Agreement subject to its, and future Commissions', obligations and rights to review, and where required, modify rates to protect the public from rates found to be improper and unreasonable in accordance with R.I.G.L., §§ 39-1-1, *et seq.* The Commission's approval of this Settlement Agreement shall not be construed to compromise the Commission's authority to exercise these rights or obligations.

NEW ENGLAND TELEPHONE AND
TELEGRAPH COMPANY, d/b/a
BELL ATLANTIC – RHODE ISLAND

RHODE ISLAND DIVISION OF
PUBLIC UTILITIES AND
CARRIERS

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DATED: June 13, 2000

APPENDIX 1

BELL ATLANTIC – RHODE ISLAND

PRICE REGULATION SUCCESSOR PLAN

The Price Regulation Successor Plan (“PRSP”) will modify the current Price Regulation Plan (“PRP”), which commenced on January 1, 1996. The PRSP is offered as a complete proposal. In the event the Commission rejects or fails to approve any part of this Settlement Agreement, the entire Settlement Agreement shall be void. Below are the components that BA-RI and the Division have agreed will make up the PRSP:

Term of Plan

The provisions contained in the PRSP will commence upon Commission approval, and will expire on December 31, 2001. Upon the expiration date of the PRSP, should BA-RI and the Division agree to extend the Plan, both parties will jointly petition the Commission for an extension.

Residential Basic Exchange Credit

BA-RI will issue a credit to Residential Basic Exchange customers in the amount of approximately \$5M. This credit will be reflected on customer bills during the twelve month period beginning October 2000 and ending September 2001. As such, during that twelve month period, customers will receive a \$.90 monthly credit on all residential flat-rated and measured lines.

Data Network Access

Subsequent to the December 31, 2000 expiration date for funding of data network access for public and not-for-profit K-12 schools and public libraries, BA-RI agrees to continue the provision of such services through December 31, 2001, up to an annual funding level not to exceed \$2.0 million.

Lifeline Support

Subsequent to the December 31, 2000 expiration date, BA-RI agrees to continue to absorb the cost of the state Lifeline credit for low-income residential consumers through December 31, 2001, up to a limit of \$2.5 million annually.

Residential Basic Exchange Rates

BA-RI agrees to forego any increase in recurring residential basic exchange rates for measured and flat-rated customers during the term of the PRSP.

Local Calling Area Expansion

BA-RI agrees that the revenue impacts of the local calling area expansion approved by this Commission on October 15, 1999 (Order No. 16015), will be reflected outside of the price regulation plan (estimated revenue impact = \$8.5M). In addition, the Company agrees that it will not seek exogenous treatment of the capital investment and expense (approximately \$6.7M) that it will incur in implementing the local calling area expansion.

Statewide Unlimited Calling Plan

In its October 15, 2000 Annual Price Cap Filing, BA-RI will propose a modification to its Statewide Unlimited Calling Plan for effect on January 15, 2001. As a result of this modification, six different prices for the Statewide Unlimited Calling Plan will be created, based upon the six new rate groups to be implemented on December 31, 2000. The rate groups, 1FR basic exchange rates, and Unlimited Calling Plan rates will be as follows:

<u>(a)</u> <u>Rate Group</u>	<u>(b)</u> <u>1FR Basic Exchange Rate</u>	<u>(c)</u> <u>UCP Rate</u>	<u>(b+c)</u> <u>Total</u>
A	\$12.30	\$25.00	\$37.30
B	\$12.94	\$24.36	\$37.30
C	\$13.26	\$24.04	\$37.30
D	\$15.62	\$21.68	\$37.30
E	\$16.65	\$20.65	\$37.30
F	\$17.26	\$20.04	\$37.30

As a result of this change, all flat-rate residential customers will pay a uniform rate of \$37.30 for unlimited calling within the state. Thereafter, any proposed increases or decreases to the price of the Statewide Unlimited Calling Plan would be allocated to rate groups in such a way as to cause the sum of the 1FR rate and the UCP rate to be uniform across the six rate groups. All measured residence customers subscribing to the Statewide Unlimited Calling Plan will pay the same rate for the calling plan as flat-rate residential customers in Rate Group A.

Directory Assistance Reclassification

Directory Assistance rate elements, originally classified in Service Group 2 in the PRP, will be reclassified to Service Group 4 with the following restrictions: (1) no reduction will be allowed in the current 5-call allowance for residence customers; (2) the current 5-call allowance for business customers may be reduced to a 3-call allowance; and (3) the directory assistance rate for calls over the allowances cannot exceed a level of \$.50 during the term of the Plan.

Earnings

The Parties agree that BA-RI should be regulated pursuant to the terms of the Price Regulation Successor Plan. On or before March 15 of each year of the PRSP, BA-RI will file annual financial reports with the Commission and Division in the same manner as those filed in the course of the Price Regulation Plan. In addition, BA-RI agrees to provide additional information the Division and Commission may reasonably request, subject to appropriate proprietary arrangements, that would assist the Division or Commission in analyzing and evaluating BA-RI's financial results under the PRSP.

Service Quality - Retail

The Service Quality Indices will be revised in accordance with Attachment A.

Wholesale Service Quality Plan

BA-RI agrees to file a proposed wholesale service quality plan with the Commission by September 15, 2000.

Changes in Federal and/or State Laws

Any changes in federal and/or state laws that impact provisions contained within the PRSP will take precedence over the Plan.

Bell Atlantic – Rhode Island

Rhode Island Division of
Public Utilities and Carriers

NAME: Donna C. Cupelo

NAME: Paul Roberti

TITLE: President & CEO – Bell Atlantic-RI

TITLE: Assistant Atty. General & Counsel
Counsel to DPUC

DATE: 06/13/00

DATE: 06/13/00

Attachment A

Changes in BA-RI Quality of Service Plan

	PRP <u>(Current)</u>	PRSP <u>(Proposed)</u>
1. Points required to achieve a passing score	25	28
2. Installations not completed within 5 days		
Surveillance Level	12%	12% (N/C)
Action Level	14%	13.5%
3. Installation appointments missed		
Surveillance Level	2.5%	2.0%
Action Level	3.5%	2.5%
4. Out of Service greater than 24 hours		
Surveillance Level	40%	35%
Action Level	45%	38%
5. DA answer time		
Surveillance Level	4 sec.	4 sec. (N/C)
Action Level	6 sec.	5 sec.
6. Central Office report rate (per 100 lines)		
Surveillance Level	4	3.5
Action Level	5	4.5