

DT 02-110

VERIZON NEW HAMPSHIRE

Cost of Capital Investigation

Prehearing Conference Order

O R D E R N O. 24,053

September 16, 2002

APPEARANCES: Victor D. Del Vecchio, Esq. for Verizon New Hampshire; Cynthia Carney Johnson, Esq. For WorldCom, Inc.; Eric J. Branfman, Esq. for Freedom Ring Communications, LLC d/b/a BayRing Communications; Tony Hansel, Esq. for Covad Communications, Inc.; Scott Sawyer, Esq. For Conversent Communications of New Hampshire; William Homeyer for the Office of the Consumer Advocate on behalf of residential consumers; and E. Barclay Jackson, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On June 18, 2002, the New Hampshire Public Utilities Commission (Commission) issued an Order of Notice to determine the appropriate cost of capital for Verizon New Hampshire (Verizon) and to examine whether recurring TELRIC rates should be modified to take into account a revised cost of capital. The Order of Notice scheduled a Prehearing Conference for July 12, 2002, and included a proposed procedural schedule.

Prior to the Prehearing Conference, the Commission received Motions to intervene in the matter from Otel Telekom, Inc. (Otel); Global NAPS, Inc. (Global NAPS); Conversent Communications of New Hampshire, LLC (Conversent); CTC Communications Corporation (CTC), Dieca Communications Inc.

d/b/a Covad Communications Company (Covad); and Freedom Ring Communications, LLC d/b/a BayRing Communications (BayRing). In addition, the Office of Consumer Advocate (OCA) filed its intent to participate in this docket on behalf of residential utility consumers pursuant to RSA 363:28,II.

At the Prehearing Conference, the Commission granted the motions for intervention. The parties and Staff then presented preliminary positions regarding the scope of the docket. Subsequent to the Prehearing Conference, the parties and Staff met in technical discussions on July 12, 2002, and on July 18, 2002. Otel participated as an observer only.

II. PRELIMINARY POSITIONS OF THE PARTIES AND STAFF

A. Verizon

Verizon proposed that the docket should encompass a complete review of the unbundled UNE rates established in DE 97-171. Based on the fact that the order in DE 97-171 used data from 1996, Verizon's preferred approach would be to file new cost studies using the latest Verizon cost models and updated inputs for both recurring and non-recurring rates. Verizon suggested a two-phase process. The first phase would analyze cost of capital and twelve additional generic inputs, including depreciation, common overhead, operating expense factors, forward-looking conversion factors, gross revenue loadings, loop

characteristics, technology mix, utilization fill factors, material prices, switch discounts, and the non-recurring cost inputs. The second phase would analyze a later-submitted comprehensive cost filing using those inputs. Verizon suggested that this expanded docket could be completed in approximately one year.

Alternatively, Verizon proposed the Commission undertake an analysis of the cost of capital and four additional recurring input variables: depreciation, utilization fill factors, uncollectables, and switch discounts. Verizon claims that these additional four factors have a material impact as cost drivers for unbundled rates and, like the cost of capital, may have changed since the last cost study was conducted. This alternative proposal, Verizon avers, would extend the procedural schedule proposed by the Commission for this docket by only four to five weeks.

B. WorldCom, BayRing, Covad, CTC, the OCA, and Staff

BayRing, Covad, CTC, Covad, the OCA, and Staff opposed expanding the scope of the docket to include a comprehensive costing review. Although they initially supported including the analysis of certain inputs for recurring costs in addition to the cost of capital, such as merger savings, depreciation lives, and utilization factors, as a result of the technical

discussions held on July 12 and July 18, 2002, these parties and Staff jointly proposed limiting the scope of the docket to consideration of cost of capital alone, with a later full review of a new UNE rate cost study in a separate docket (collectively the Joint Proposal).

The Joint Proposal, outlined in a letter filed on July 29, 2002, consists of two parts. First, there would be a determination in this docket, DT 02-110, of the appropriate cost of capital for Verizon. The resultant cost of capital would then be applied to all UNE rates excluding those UNE rates specifically adjusted in DT 01-151. May 20, 2003 is the target date for Verizon's filing of a tariff in compliance with the cost of capital determined in DT 02-110. Second, on August 1, 2003, Verizon would file a new UNE rate cost study, using the cost of capital determined in DT 02-110, in a new docket for full review by the Commission of the UNE rates. At the conclusion of the full review in the new docket, those UNE rates to which the new cost of capital did not apply after DT 02-110 would be subject to the new cost of capital.

The Joint Proposal suggested the following schedule for completion of DT 02-110:

Verizon testimony	August 30, 2002
Data Requests to VZ	September 13, 2002
Data Request Objections	September 20, 2002
Data Responses from VZ	September 25, 2002
Technical Session	October 2, 2002
Responses to Technical Session	
Data Requests	October 9, 2002
Staff et al. Testimony	October 28, 2002
Data Requests to Staff et al.	November 8, 2002
Data Request Objections	November 15, 2002
Data Responses	November 20, 2002
Rebuttal Testimony from all	December 4, 2002
Settlement Discussions	December 6, 2002
Hearings	December 11, 12, 13, 2002
Briefs	January 17, 2003

III. COMMISSION ANALYSIS

Having reviewed the proposals regarding the scope of this investigation, we find the Joint Proposal to be a reasonable approach to addressing the concerns we raised in our Order of Notice. The examination of whether additional inputs should be reviewed has been useful. However, considering the cost of capital input as a separate and initial step to review of UNE rates is logical, given that it was not adjudicated in the DE 97-171 proceeding. We also consider that our full review of UNE rates will be enhanced and expedited by undertaking it after examining Verizon's cost of capital.

Verizon and other parties have already put into operation the initial part of the procedural schedule we adopt here. We appreciate the efforts expended to avoid delay.

Based upon the foregoing, it is hereby

ORDERED, that the Joint Proposal is approved and the procedural schedule outlined in the Joint Proposal is reasonable and is hereby adopted.

By order of the Public Utilities Commission of New Hampshire this sixteenth day of September, 2002.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary