DT 02-111

VERIZON NEW HAMPSHIRE

Investigation into T1 Tariff

Order Denying Motion to Strike

O R D E R N O. 24,100

December 20, 2002

On November 19, 2002, the Office of the Consumer Advocate (OCA) moved to strike the cost study filed by Verizon New Hampshire (Verizon) in support of its proposed T1 Tariff that is the subject of this docket before the New Hampshire Public Utilities Commission (Commission). The OCA's Motion to Strike asserts that Verizon's cost study is a forward-looking incremental cost study based upon a hypothetical network that does not include any consideration of the embedded costs of providing the T1 service. Pointing out that the cost study is a new model that has not yet been approved by any other public utility commission, the OCA argues that such a cost study contains numerous unverifiable assumptions that the Commission should not permit the foundation for ratemaking.

The OCA's Motion to Strike contains a proposal for an alternative ratemaking tool. The OCA recommends the Commission discover Verizon's 2001 intrastate T1 revenues (either in total or by proxy sample), identify the portions attributable to fixed versus mileage-based revenue streams, and than shift the revenues between the streams in order to create more affordable rates for rural areas. The OCA contends that its alternative ratemaking tool will insure that all costs are recovered and hence will not become the basis for future litigation.

On December 2, 2002, Verizon filed a memorandum raising objections to the Motion to Strike. Verizon disputes the OCA's premise that the cost study used to determine T1 rates should be an embedded cost study, citing the Commission's Order of Notice, statements during the Prehearing Conference, and *New England Telephone and Telegraph Co.*, 76 NH PUC 150, 166 (1991). All retail cost support since 1991, according to Verizon, has been based on incremental costs studies, some of which have used the Total Service Long Run Incremental Cost methodology.

Verizon also argues that its filed cost study, which it calls the Loop Cost Analysis Model (LCAM), has been used in several other jurisdictions for recurring costs and that the LCAM was used in New Hampshire for non-recurring costs in Docket DT 01-206. According to Verizon, contrary to the OCA's assertion, the LCAM is based on existing network characteristics and the most currently available prices for equipment costs. The assumptions contained in the LCAM, Verizon claims, were the subject of examination at the October 16, 2002 technical discussions and generated several record requests. Verizon urges the Commission to deny the OCA's Motion to Strike and, because the OCA failed to initiate data requests during the scheduled period, to disallow any further data requests.

In Verizon’s opinion, the Commission’s task in the instant docket, as in other Commission investigations, is to determine whether the filing is appropriate or should be adjusted. Therefore, Verizon considers that the process here would be to review the cost study for adequacy, not to strike it at the outset. In response to the OCA’s proposed alternative ratemaking method, Verizon avers that it is not cost based and therefore inappropriate, being an arbitrary revenue shifting proposal.

We find that Verizon’s filed cost study comports with our Order of Notice. We specifically requested an incremental cost study. We will determine whether the cost study is supported and appropriate in the course of this docket, after reviewing the evidence and not before. Accordingly, we will deny the OCA’s Motion to Strike. Nonetheless, we find that the OCA’s inquiry, although not cost related, is relevant to our investigation. We will treat the OCA’s proposal for an alternative ratemaking method as a request for data and order Verizon to respond.

Our investigation also extends to price elasticity and stimulation of the demand for T1, as indicated in our Order of Notice. Finding that the price elasticity and demand stimulation areas of inquiry are relevant, we will also order Verizon to respond to additional questions within the same time frame. We will order Verizon to provide the following:

1. Actual revenues from 2001 for Superpath intrastate T1 services.

2. The revenues separated into a fixed and a mileage-based component.

3. An electronic spreadsheet containing, for each retail customer with one or more T1 lines, the number of T1s, the number of Interoffice Facility (IOF) miles per T1 purchased, the number of Local Distribution Channel (LDC) miles purchased per T1, the business access line count at the exchange where the customer is located, and the monthly rate for IOF and LDC mileage per T1 if the customer is under special contract.

4. A copy of all marketing, stimulation, and elasticity studies and promotions, for data services provisioned at speeds of 1.544 Mbps and above, conducted over the past three years.

The procedural schedule for this docket shall be adjusted to incorporate Verizon's response time, as follows:

Verizon Response to Requests as here Articulated	January 30, 2003
Testimony from All	February 28, 2003
Data Requests on Testimony	March 14, 2003
Data Responses	March 28, 2003
Rebuttal Testimony	April 9, 2003
Settlement Conference	April 17, 2003
Settlement to Commission	May 1, 2003
Hearings	May 13-15, 2003

Based upon the foregoing, it is hereby

ORDERED, that the Motion to Strike is DENIED; and it is

FURTHER ORDERED, that Verizon shall respond to questions one through four enumerated above by January 30, 2003; and it is

FURTHER ORDERED, that the procedural schedule shall be revised as set forth herein.

By order of the Public Utilities Commission of New Hampshire this twentieth day of December, 2002.

Thomas B. Getz Chairman	Susan S. Geiger Commissioner	Nancy Brockway Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary