

**State of Rhode Island and Providence Plantations**

**Public Utilities Commission**

**Minutes of Open Meeting Held January 10, 2003**

**Attendees: Chairman Elia Germani, Commissioner Racine, Commissioner Brenda Gaynor, Steve Frias, Cindy Wilson, Thomas Massaro, Alan Nault and Luly Massaro.**

**Chairman Germani called the open meeting to order at 2:00 P.M. in the first-floor hearing room of the Public Utilities Commission. A quorum was present.**

**3445 – Verizon Rhode Island (“Verizon”) Alternative Regulation Plan:** This docket relates to the Commission’s review of Verizon’s Alternative Regulation Plan (“ARP”) filed on July 1, 2002. The ARP proposes a method by which the Commission will regulate Verizon’s intrastate retail services offered under tariff in Rhode Island for the period January 1, 2003 through December 31, 2005. Following several days of initial public hearings on the proposed ARP in November, a settlement was entered into between Verizon and the Division of Public Utilities & Carriers (“Division”) on December 6, 2002. A public hearing on the settlement was held on December 11, 2003. The interveners who participated at the hearings, Cox RI Telcom and Conversent Communications of RI, were not included in the settlement discussions between Verizon and the Division and did not support the settlement. After review and discussion of the evidence presented, Commissioner Racine moved as follows:

- That the Settlement Agreement filed on December 6, 2002 between Verizon and the Division is approved with modifications to impose ceilings on annual price increases on residential discretionary services identified on Appendix A, Page 3 of the Settlement Agreement as follows: an annual price cap of 15 percent on services priced at \$5.00 or less; an annual price cap of 10 percent on services priced between \$5.01 and \$10.00; and an annual price cap of 5 percent on services priced at \$10.01 or more.
- That Verizon is required to file quarterly reports updating the “Rhode Island Competitive Profile-Section A” set forth in Attachment 1 to the direct testimony of Verizon witness Arthur Silvia, and the information contained in “Propriety Table 1” of Mr. Silvia’s rebuttal testimony. The updated information shall be provided in the same respective formats as presented in Mr. Silvia’s direct and rebuttal testimonies.

To these motions, Commissioner Gaynor added the following amendments:

- That the Commission will conduct an annual review of the status of competition in Rhode Island. The Division will also be required to provide the Commission with an annual review and assessment of the status of competition in Rhode Island.

- That the Commission will institute a rulemaking to have CLECs file confidential and proprietary annual reports.

Although Chairman Germani expressed his objection to the modifications to the Settlement Agreement proposed by Commissioner Racine, he seconded the foregoing motions. **Vote 3-0.**

In discussion, Commissioner Racine noted that the Settlement addressed the need to maintain funding for Internet access for schools and libraries until an alternative funding mechanism is put into place, and urged parties to submit legislation to create an alternative funding mechanism as quickly as possible. She pointed to the lack of significant competition in the residential sector (only 14%, as compared with 34 % in the business sector) as the basis for recommending price caps on residential discretionary services. She also noted that the Commission has the right to reopen the Settlement, if necessary, to fulfill its statutory obligation to protect the public against improper and unreasonable rates, and that the Commission also reserves the right to reopen the ARP if there is a significant change in market conditions that harms the ratepayers and competition. Commissioner Gaynor agreed with the need for price caps on residential discretionary services. She also expressed concern for preserving the degree of local exchange competition already achieved in RI, particularly in the business sector, and emphasized the need for vigilance in monitoring the impact on the competitive local exchange market of the additional retail pricing flexibility afforded Verizon by the ARP. She expressed particular concern that CLECs not be caught in a price squeeze for the UNEs supplied by Verizon, while at the same time acknowledging that Verizon needed additional retail pricing flexibility to enable it to compete at retail with RI's full facilities-based CLEC (Cox). In view of RI's unique circumstances, she endorsed the Settlement's LRIC price floor on rate decreases, but stated her understanding that if the LRIC were less than TELRIC, a full cost-justification would be submitted by Verizon for the rate decrease. Commissioner Gaynor also expressed concern that price discrimination not be allowed between similarly-situated residential customers. Finally, Commissioner Gaynor expressed concern that Verizon's service quality not decline as a result of the ARP.

If Verizon accepts the Commission's modifications to the Settlement Agreement, the ARP will be in effect for three years. Significant elements of the ARP include:

- Verizon will continue to fund internet access for schools and libraries for an additional two years, through December 31, 2004. Verizon's commitment for funding shall not exceed \$4 million.
- Except as provided for under an exogenous event, Verizon shall not increase Primary Residence Basic Exchange rates by more than \$1.00 per line per year over the initial two-years of the ARP. Verizon may increase Primary Residence Basic Exchange rates in the third year of the ARP only upon Commission review and approval.
- The lifeline credit will increase by an amount equal to any increase in the Primary Residence Basic Exchange rate.

- Except as provided for under an exogenous event, Verizon shall not increase the Residential Local Usage rates identified at Appendix A, page 1 of the Settlement Agreement for the initial two years of the ARP.
- Except as provided for under an exogenous event, aggregate rates for all Intrastate Switched Access Services shall not be increased by Verizon. Individual increases or decreases to switched access rates will be permitted only after filing with and approval by the Commission.
- Rates and charges for all other tariffed retail services, including new services, may be increased or decreased at Verizon's discretion in response to market conditions; *provided, however*, that any price decreases for current services and initial rates for new services shall be subject to a price floor equal to the Long Run Incremental Cost for such services, with Verizon bearing the burden of proof on this issue.
- Verizon will be allowed to reflect the impacts, positive or negative, of exogenous events on its costs or revenues. However, the cumulative amount to be recovered of any increases in the Company's costs and/or decreases in revenues due to exogenous events will be reduced by \$1 million in the initial year that the Company seeks such recovery. Generally, the annual impact of exogenous events shall not exceed \$2.5 million; there is a carryover provision for any excess.
- The Quality of Service Plan, which provides for a penalty of up to .5% of annual revenues, shall continue, as modified by the Settlement Agreement.
- Verizon will continue to file annual financial reports with the Commission.

A transcript of the Commission's January 10, 2002 open meeting discussion relating to this docket is available at the office of the Commission Clerk.

The open meeting adjourned at 2:55 P.M.