

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF DELAWARE**

IN THE MATTER OF THE TARIFF FILING )  
BY VERIZON DELAWARE INC. FOR ITS )  
ANNUAL APPLICATION OF THE PRICE CAP ) PSC DOCKET NO. 01-007T  
FORMULA IN ACCORDANCE WITH § 707(b) )  
OF THE TELECOMMUNICATIONS TECHNOLOGY )  
INVESTMENT ACT (FILED MARCH 30, 2001) )

**ORDER NO. 5729**

This 5th day of June, 2001, the Commission finds, determines, and Orders the following:

**I. Background and Price Index Report**

1. Since 1994, Verizon Delaware Inc. ("Verizon" or "the Company"), has chosen to be regulated under the provisions of the Telecommunications Technology Investment Act, 26 Del. C. §§ 704-11 ("TTIA").<sup>[1]</sup> One of the major elements of the TTIA regime is a "price cap" mechanism for the regulation of rates for "basic services." 26 Del. C. §§ 705(a), 707. Under that mechanism, the rates for basic services are adjusted annually utilizing a formula keyed to the annual percentage change in an overall gross national product price index less an assumed three percent (3%) productivity-gain offset. 26 Del. C. § 707(b); TTIA Rule §§ 3.4, 3.4.1.

2. On March 30, 2001, Verizon filed, pursuant to TTIA Rules §§ 3.1 and 3.2, its Annual Price Index Report for 2001. In the Report, Verizon sought approval for "targeted" rate decreases to four specific services in order to implement a downward price index adjustment for the year 2001. Verizon calculated the price cap adjustment factor for 2001 to be .993, derived from comparing the new Price Index (953) with the

Price Index for 2000 (960). See TTIA Rules § 3.4.1. In turn, the new Price Index was computed by assuming: (a) a 2.6 percent increase in the GDP fixed weight index; (b) the statutory 3 percent productivity-gain offset; and (c) an "exogenous cost"<sup>[2]</sup> credit adjustment of 0.3265575 percent. This exogenous credit adjustment results from Verizon's and this Commission's efforts over the last few years to "factor" into the price cap adjustment mechanism the increased costs Verizon has come to bear to provide E911 services. Originally, prior to the enactment of the TTIA, the Commission allowed Verizon (then Bell Atlantic-Delaware, Inc.) to recover its recurring costs for providing E911 services by means of an offset against an overall negative rate surcharge otherwise ordered in a rate-of-return regulation docket. See PSC Orders Nos. 2972 (Aug. 23, 1988) and 3123 (Dec. 19, 1989). Those pre-TTIA rates - including this embedded revenue for E911 services - were carried forward as the original prices subject to price cap adjustment under the TTIA. In Verizon's Annual Price Cap Reports for the years 1999 and 2000, Verizon sought, and the Commission approved, exogenous cost "offsets" to otherwise greater price cap decreases to close the gap between the costs Verizon bore in those years to provide E911 service and the "embedded revenue stream" for such service carried forward from pre-TTIA days. See PSC Orders Nos. 5150 (June 23, 1999) and 5468 (June 6, 2000). These "offsets," when coupled with the "embedded revenue stream" increased the revenues to Verizon to "cover" its present E911 costs.

Verizon's year 2001 filing also includes an exogenous cost adjustment related to its E911 costs and revenues. However, in contrast to the year 1999 and 2000 filings, Verizon's year 2001 exogenous cost adjustment represents not an "offset" to a price cap decrease but an additional decrease. According to Verizon, this decrease reflects that

in the year 2000, the total embedded revenue stream for E911 services (resulting from the original "embedded revenue stream" plus the exogenous cost adjustments permitted in the year 1999 and 2000 filings) resulted in \$200,761 in revenues beyond Verizon's E911 costs of \$1,677,071. Verizon thus proposes, by this year's exogenous cost adjustment, to reflect this excess recovery by a further (although small) downward adjustment<sup>[3]</sup>.

3. Given that the overall downward rate adjustment under the price-cap formula would be less than 1 percent, Verizon sought to invoke the "aggregation" and "targeting" procedure authorized by TTIA Rules § 3.4.5(1). Under Verizon's proposal, the overall downward adjustment would be aggregated to a dollar amount (\$430,000) based upon the total of Verizon's 2000 basic service revenues. Such amount would then be "targeted" to reduce four particular rates: the "touch-tone" rate for residential customers, the "touch-tone" rate for business customers, the "touch-tone transmitting services" for business customers, and the "interconnection charge" for switched access service customers. See TTIA Rules § 3.4.5(1). The amount of rate reduction for each customer class (residential, business, and access service) is computed by allocating the \$430,000 downward rate adjustment amount based upon the proportion of Verizon's total basic service revenues derived from the Company's residential, business, and access service categories. Under Verizon's Annual 2001 Price Index report, the resulting rate reductions, effective July 1, 2001, would be as follows:

	<u>Current Rate</u>	<u>Price-Cap Adjusted</u>
<u>Rate</u>		
Residential "Touch-Tone"	\$ .42 per month	\$.38 per

month

Business "Touch-Tone" \$ .09 per month \$ .00 per

month

"Touch-Tone Transmitting \$3.75 per month \$ .00 per

month

Service" for Dial Tone  
Lines Equipped for DID  
Services, Foreign Exchange,  
and/or Private Lines  
Associated With Centrex  
C.O. Services

Interconnection Charge \$.002320 per \$.002181 per switched  
(Switched Access Service) switched mou mou

4. Pursuant to TTIA Rules § 3.2, Verizon published notice of its proposed price index adjustments in two newspapers, soliciting comments by any interested person. No person or entity responded. Moreover, the Division of Public Advocate did not seek to exercise its statutory right to intervene in the matter.

5. The Commission Staff has filed a memorandum supporting the rate reduction adjustments proposed by Verizon. The Staff concludes that the Company has complied with 26 Del. C. § 707 and the TTIA Rules in calculating the total adjustment and the rate adjustments for the four particular "targeted" services.

6. The Commission considered Verizon's Price Index Report at its public meeting on June 5, 2001.

## **II. Findings and Determination**

7. In light of the absence of any objections or comments, and given Staff's memorandum, the Commission will adopt Verizon's proposed downward rate adjustments as set forth in its Annual 2001 Price Index Report. As the Commission has said before, one of the benefits of a price-cap regime is the ability to avoid long, protracted rate

proceedings. Here Staff has voiced its view that the calculations and materials offered by Verizon to support its price-cap adjustments, including the exogenous cost credit, meet the requirements of the price-cap formula set forth in 26 Del. C. § 707, as well as the requirements of TTIA Rules § 3.4. No person has offered any contrary opinion. At the same time, as the Commission has suggested over the last few years, the Commission believes that it need not approve each of the precise figures, nor endorse each particular step of the various calculations, in order to now accept the final result of rate decreases for the four particular services. Rather, the Commission now approves the rate adjustments proposed in Verizon's Annual 2001 Price Index Report as adjustments derived from a reasonable application of the price-cap provisions of § 707 and the TTIA Rules.

Now, therefore, **IT IS ORDERED:**

1. That the rate adjustments proposed in the Annual 2001 Price Index Report filed by Verizon Delaware Inc., on March 30, 2001, are hereby approved. Verizon Delaware Inc., shall adjust its rates for "Touch Tone Calling Service" for residential and business lines as set forth in its Annual 2001 Price Index Report and as summarized at paragraph 3 of this Order. Verizon Delaware Inc., shall also adjust its "Interconnection Charge" for Switched Access Services as set forth in its Annual 2001 Price Index Report and as summarized at paragraph 3 of this Order. Such adjustments shall be effective for such services provided after June 30, 2001.

2. That Verizon Delaware Inc., shall, before July 1, 2001, file changes to its P.S.C.-Del.- No. 1 and P.S.C.- Del.- No. 35 tariffs to comply with the rate adjustments approved in this Order.

3. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

/s/ Robert J. McMahon  
Chairman

/s/ Joshua M. Twilley  
Vice Chairman

/s/ Arnetta McRae Commissioner

/s/ Donald J. Puglisi  
Commissioner

/s/ John R. McClelland  
Commissioner

ATTEST:

/s/ Karen J. Nickerson  
Secretary

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<sup>[1]</sup>The Commission adopted "Rules and Regulations for Implementing the Telecommunications Technology Investment Act" in PSC Order No. 4821 (June 9, 1998) ("TTIA Rules").

<sup>[2]</sup>See 26 Del. C. § 707(c)(6); TTIA Rules §§ 2.8, 3.4.1, 3.4.2.

<sup>[3]</sup>This amount has been converted into a percentage of Verizon's overall regulated revenues and the resulting percentage then plugged in as the "Z" factor in the price cap formula set forth in TTIA Rules § 3.4.1.