

Date Mailed July 29, 2003

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Administration of the Mechanisms of Price Regulation Pertaining to
Verizon North Incorporated on Its June 1, 2003, Anniversary Date

2180-TI-138

FINAL DECISION

This decision determines prospective adjustments to the price cap index for Verizon North Incorporated (Verizon), and authorizes the amount by which Verizon may increase its rates or mandating the amount it shall reduce them.

Verizon is authorized to file tariffs that increase its rates by an average of 0.23 percent for price-regulated services.

Background

On June 26, 2003, the Commission issued a Notice of Proceeding (Notice) in this docket. The Notice initiated an investigation to administer the mechanisms of price regulation pertaining to the amount that Verizon may increase or must decrease its rates for price-regulated services. The price cap index is the mechanism established by the legislature in 1993 Wisconsin Act 496 (Act 496) for setting reasonable rates in lieu of rate-of-return regulation. The Commission applies Wis. Stat. § 196.196(1)(c), and Wis. Admin. Code § PSC 163.04 to determine prospective adjustments in the price cap index. Under Wis. Stat. § 196.196(1)(a), price-regulated

services include basic local exchange service as defined in Wis. Stat. § 196.01(1g), and standard business access lines and usage by small businesses with no more than three access lines.¹

In addition, the Commission initiated this proceeding to set new company-specific benchmarks for infrastructure investment, and make any other determinations necessary to administer the mechanisms of price regulation pertaining to Verizon's 2004 anniversary date.

Verizon's anniversary date is June 1. Pursuant to Wis. Admin. Code § PSC 163.04(8)(a), the Commission shall issue an order no later than 60 days after the utility's anniversary date authorizing the amount the utility may increase its rates or mandating the amount it shall reduce them. If a hearing is held, the time within which the Commission shall issue an order may be extended by another 60 days.

The Notice was mailed to all parties listed on Appendix A. Verizon was the only party to file comments. Any comments received have been considered in approving this final decision. No hearing was held in this docket and none was requested. As a result, this is not a Class 1 proceeding as defined in Wis. Stat. § 227.01(3)(a).

The Commission considered this matter at its open meeting of July 24, 2003.

Findings of Fact

1. The gross domestic product price index for the fourth quarter of 2002 was 111.25. This represented a 1.34 percent increase over the index value of 109.78 for the fourth quarter of 2001.
2. It is reasonable to give approximately equal weight to each of the seven service quality components specified in Wis. Admin. Code § PSC 163.04(2)(c)1., so that the maximum increase in the productivity offset for each component is 0.11 or 0.12 percent.

¹ In the order in docket 2180-TI-111, the Commission suspended the application of Wis. Stat. § 196.196(1)(a) to the extent that section regulates the provision of Basic Message Telecommunications Services.

3. Verizon's most recent actual performance for the following components meets the industry-wide standard and the company-specific 3-year average performance: average time interval for installation, overall network quality, percent repeat trouble reports, average employee answer time for repair calls, average employee answer time for business office calls, and percent of trunks exceeding call blocking threshold.

4. Verizon's most recent actual performance for speed of repair fails to meet one of the dual industry-wide standards, but meets the company-specific 3-year average performance.

5. It is reasonable to grant Verizon a waiver of the penalty for speed of repair.

6. Verizon's performance as of December 31, 2002, in actual deployment of new technologies, new interoffice fiber routes, self-healing interoffice fiber rings, and sites positioned for competitive collocation/access met the thresholds set to receive a full incentive for infrastructure deployment.

7. Verizon's performance as of December 31, 2002, in eliminating trouble reports by replacing problem cable segments met the threshold set to receive a half incentive for infrastructure deployment.

8. Based on the factors set forth in Wis. Admin. Code § PSC 163.04(2)(f), it is reasonable to assign Verizon a discretionary incentive.

9. Based on Appendix E, it is reasonable to allow Verizon to increase its rates for price-regulated services by an average of 0.23 percent, so that its 3-year maximum actual price index (API), presently equal to 100.90, is no more than the authorized 3-year maximum price cap index 101.13.

Conclusion of Law

1. Verizon is a telecommunications utility, as defined in Wis. Stat. § 196.01, engaged in providing telecommunications service to the public.

2. Verizon is a price-regulated telecommunications utility as defined in Wis. Stat. § 196.196.

3. The productivity offset for Verizon is 2 percent per Wis. Stat § 196.196(1)(c).

4. The maximum increase in the productivity offset for quality of service for Verizon's anniversary date is 0.8 percent.

5. The total maximum increase in the productivity offset for infrastructure deployment for Verizon's 2003 anniversary date is 0.1 percent and the total maximum decrease is 0.9 percent.

6. The Commission has jurisdiction under Wis. Stat. § 196.196(1)(c) and Wis. Admin. Code ch. PSC 163 to issue an order determining prospective adjustments to the price cap index for Verizon, and authorizing the amount by which Verizon may increase its rates or mandating the amount it shall reduce them.

Opinion

Under Wis. Stat. §§ 196.196(1)(c) and (cm), in determining the amount the utility may increase its rates or mandating the amount it shall reduce them, the Commission shall consider: (1) the annual percentage change in the Gross Domestic Product Price Index (GDPPI); (2) a statutory productivity factor offset; (3) an increase in the productivity offset for inadequate service or insufficient investment; and (4) a decrease in the productivity offset to encourage infrastructure investment.

Gross Domestic Product Price Index (GDPPI)

According to Wis. Admin. Code § PSC 163.04(2)(a), the annual percentage change in GDPPI is calculated by using the most recent quarterly chain-weighted GDPPI index and the prior year's corresponding quarterly index, using the same revision series. According to Wis. Admin. Code § PSC 163.02(4), GDPPI means the figure as reported by the U.S. Department of Commerce (USDOC) in its Survey of Current Business. As reported in the USDOC's April 2003 Survey of Current Business, the GDPPI chain-type index for the fourth quarter of 2002 was 111.25. This represented a 1.34 percent increase over the restated index value of 109.78 for the fourth quarter of 2001.

Productivity Factor Offset

According to Wis. Stat. § 196.196(1)(c), the productivity offset is 2 percentage points for a telecommunications utility with less than 500,000 access lines at the time of electing to be price regulated. Since Verizon had less than 500,000 access lines as of January 1, 1995, the productivity offset for Verizon is 2 percent.

Increase in Productivity Offset for Inadequate Service

The service quality mechanism set forth in Wis. Admin. Code § PSC 163.04(2)(c), is based on comparing actual results to industry-wide standards and company-specific benchmarks. For Verizon's 2003 anniversary date, the maximum increase to the productivity offset for inadequate service specified in Wis. Admin. Code § PSC 163.04(2)(g) is 0.8 percent. The Commission finds that it is reasonable to give approximate equal weight to each of the seven service quality components specified in Wis. Admin. Code § PSC 163.04(2)(c)2., so that the maximum value for each component is either 0.11 or 0.12 percent.

The calculation of the increase to the productivity offset for inadequate service is shown in Appendix B. Actual performance is compared against industry-wide standards, as well as against Verizon's most recent 3-year average performance and performance ranges. These standards were approved in the Commission's order in docket 05-TI-629, issued November 12, 2002.

Speed of Repair. The 05-TI-629 Order reaffirmed a two-part industry-wide standard for speed of repair. If a company fails to achieve either part of this standard, it fails to meet the industry-wide standard for this component. One of those dual standards is that 95 percent of all routine out-of-service troubles be cleared within 24 hours for at least 10 months in any calendar-year period. Verizon has not met this standard, since it only exceeded 95 percent in nine months. The other standard is average time out of service. Verizon has met this standard. However, since Verizon did not meet one of the dual standards, it has failed to meet the industry-wide standard for this component. Based on this fact, and the fact that Verizon's performance improved upon its 3-year average, according to Wis. Admin. Code § PSC 163.04(2)(cp)2.a., an adjustment equal to 50 percent of 0.12 percent, or 0.06 percent, would be assessed for this component, increasing the productivity offset.

Wis. Admin. Code § PSC 163.04(2)(ct) allows the Commission to give special and individual consideration to exceptional or unusual situations and upon due investigation, to adopt penalties that may be lesser, greater, or different than those provided in Wis. Admin. Code § PSC 163.04(2)(cp). Verizon requests that the disincentive for this component be waived, due to such exceptional or unusual circumstances. Verizon contends that it would have exceeded the

95 percent within 24 hour standard in all 12 months if trouble reports received on days when such reports are more than twice the daily average for that calendar quarter in specified geographic areas are excluded from the calculation as non-routine. This is the same definition of non-routine trouble exclusions that was approved in the 05-TI-629 Order. This part of the 05-TI-629 Order was to become effective for 2003 service quality results, to be evaluated in 2004. If all standards approved in the 05-TI-629 Order were to be applied to Verizon's 2002 results, no penalties would be imposed for any service quality measurement.

The Commission finds that it is reasonable to waive the penalty for speed of repair due to exceptional or unusual circumstances. It is reasonable to apply the definition of non-routine troubles approved in the 05-TI-629 Order to Verizon's 2002 service quality results. Therefore, no adjustment to the productivity offset shall be assessed for this component.

Other Components. For average time interval for installation, overall network quality, percent repeat trouble reports, average employee answer time for repair calls, average employee answer time for business office calls, and percent of trunks exceeding threshold, Verizon's 2002 performance meets the industry-wide standard and the company-specific 3-year average performance. Therefore, according to Wis. Admin. Code § PSC 163.04(2)(cp)1.a., no adjustment to the productivity offset shall be assessed for these components.

Adjustment to Productivity Offset for Infrastructure Investment

The calculation of the adjustment to the productivity offset for infrastructure investment applicable to Verizon's 2003 anniversary date is set forth in Appendix C. The calculation is based on comparing actual performance against thresholds approved in the Commission's order in docket 2180-TI-135, dated May 3, 2002.

Verizon's 2002 infrastructure investment related to new technologies and new interoffice fiber routes met the threshold for a full incentive of 0.27 percent for each component. Verizon's 2002 infrastructure investment related to self-healing interoffice fiber rings and sites provisioned for competitive collocation met the threshold for a full incentive of 0.12 percent for each component. Verizon's 2002 infrastructure investment related to number of service improvement troubles eliminated met the threshold for a half incentive of 0.06 percent for this component.

Discretionary Adjustment to the Productivity Offset

According to Wis. Admin. Code § PSC 163.04(2)(f), in addition to the adjustments to the productivity offset for infrastructure investment and quality of service as discussed previously, the Commission may also, at its discretion, increase or decrease the productivity offset by up to 0.1 percent for utilities with less than 500,000 access lines. To determine this discretionary adjustment, Wis. Admin. Code § PSC 163.04(2)(f) sets forth the factors the Commission may consider to the extent they relate to the utility's infrastructure investment and quality of service. While an incentive may be granted for factors related to either quality of service or infrastructure investment, a disincentive may be imposed only for factors relating to infrastructure investment.

In its application and in comments, Verizon requests that the Commission grant the full discretionary incentive of 0.1 percent, due to its track record of superior performance, not only in 2002, but over the past eight years, in all measurable areas of utility performance standards. Verizon states that achieving superior performance in a single year is a substantial accomplishment, and moreover, sustaining a high standard consistently over time is even more challenging and should be considered by the Commission in making its award.

One factor that may be used to justify either a discretionary incentive or penalty is customer satisfaction. Verizon's customers appear to have been more satisfied in 2002 as compared both to prior years and to other companies. The Commission received 183 complaints during 2002 from Verizon customers. This represented a 25 percent decrease from 2001. Verizon's ratio of 0.44 complaints per 1,000 access lines during 2001 was much lower than either SBC Wisconsin's ratio of 1.45 or CenturyTel's ratio of 0.97.

Verizon's infrastructure investment expenditures during 2002 were approximately \$43 million, or \$107 per access line. This is substantially less than Verizon's average annual infrastructure investment of \$163 per line over the period 1996-2001. It is also substantially less than the median of all incumbent local exchange carriers' investment for 2002 of \$160 per line. Verizon attributes this reduction to less spending related to growth,² less investment related to road moves and other construction activity, the completion of switch replacements in 2001, and a decreased need for upgrades to switches.

In addition, Verizon's deployment of Digital Subscriber Line (DSL) service lags other companies. As of December 31, 2002, DSL service was available in 15 percent of Verizon's central offices. By comparison, DSL service was available in 74 percent of the central offices served by other Wisconsin incumbent local exchange carriers, excluding SBC Wisconsin. The Commission encourages Verizon to address DSL investments in the future.

² Verizon lost approximately 6,000 access lines during 2002.

Giving consideration to all these issues, the Commission determines that Verizon should be awarded a discretionary incentive of 0.05 percent.

Calculation of Price Cap Index

The calculation of the annual PCI based on the above determinations and Wis. Admin. Code § PSC 163.04 is shown in Appendix D. A summary of PCI and actual price index (API) values is shown in Appendix E.

It is reasonable, based on the calculations shown in Appendices D and E, that Verizon be allowed to increase its rates for price-regulated services an average of 0.23 percent as a result of the order in this docket, so that its three-year maximum API, presently equal to 100.90, is no more than the authorized three-year maximum PCI of 101.13. This index, when applied to current rates, determines the level of rates that is reasonable on a prospective basis, pursuant to Wis. Stat. § 196.196(1)(c) and Wis. Admin. Code § PSC 163.04.

Based on the performance results of Verizon and the Commission decision's on the waiver request and on the discretionary adjustment, Verizon may file tariffs to increase rates. Alternatively, Verizon has the option to defer this permitted increase for up to three years or to forgo the increase.

Order

1. This order shall be effective on July 31, 2003.

Docket 2180-TI-138

2. Verizon may file tariffs that increase its rates by an average of 0.23 percent for price-regulated services so that its 3-year maximum actual price index is no more than the authorized 3-year maximum price cap index of 101.13.

Dated at Madison, Wisconsin, _____

By the Commission:

Lynda L. Dorr
Secretary to the Commission

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See attached Notice of Appeal Rights

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in Wis. Stat. § 227.01(3), a person aggrieved by the order has the further right to file one petition for rehearing as provided in Wis. Stat. § 227.49. The petition must be filed within 20 days of the date of mailing of this decision.

If this decision is an order after rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not an option.

This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

Revised 9/28/98

APPENDIX A

This proceeding is not a contested case under Wis. Stat. ch. 227. Therefore there are no parties to be listed or certified under Wis. Stat. § 227.47. However, an investigation was conducted, and the persons listed below participated.

Public Service Commission of Wisconsin
(Not a party but must be served)
610 North Whitney Way
P.O. Box 7854
Madison, WI 53707-7854

VERIZON NORTH INCORPORATED
Mr. Dan Matson
100 Communications Drive
P.O. Box 49
Sun Prairie, WI 53590

SBC WISCONSIN
Mr. Michael Klasen
722 North Broadway
Milwaukee, WI 53202-4396

CITIZENS UTILITY BOARD
Mr. Steve Hiniker
16 North Carroll Street Suite 300
Madison, WI 53703-2763

WISCONSIN DEPARTMENT OF JUSTICE
Mr. Ed Hughes
123 West Washington Avenue
Madison, WI 53707-7857

WISCONSIN STATE TELECOMMUNICATIONS ASSOCIATION
Mr. Nick Lester
6602 Normandy Lane
Madison, WI 53719

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Disincentive for Inadequate Service

Component	Maximum Potential Disincentive	VERIZON'S Performance 2002	Industry-Wide Standard	3 Year Average Performance	Maximum of Performance Range	VERIZON'S Disincentive
Average time interval for installation (days)	.12%	0.5	2.27	1.60	1.76	0.00%
Overall network quality:						
Trouble reports per 100 access lines	.12%	12.68	20.00	16.85	18.53	0.00%
Exchanges with more than 5 troubles per 100 lines for at least 3 months		0	0			
Speed of Repair:						0.00%
Average Time Out of Service (hours)	.12%	10.5	14.05	11.83	13.02	
Months with 95 or more percent of routine out-of-service troubles cleared within 24 hours		9	>=10			
Percent repeat trouble reports	.11%	13.02%	14.86%	15.05%	16.56%	0.00%
Average employee answer time for repair calls (seconds)	.11%	7.26	20.00	9.91	10.90	0.00%
Average employee answer time for business office calls (seconds)	.11%	18.64	60.00	31.05	34.16	0.00%
Percent of trunks exceeding call blocking threshold 3 consecutive months	.11%	0.000%	0.209%	0.085%	0.094%	0.00%
Total disincentive for inadequate service	.80%					0.00%

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Adjustment to Productivity Offset for Infrastructure Investment

Component	VERIZON'S Actual 2002	Maximum Productivity Offset Values		Productivity Offset Benchmarks			VERIZON's Resultant Incentive
		Disincentive	Incentive	Disincentive	Half Incentive	Full Incentive	
New Technologies	22		.27%		8-11	12	.27%
New Interoffice Fiber Routes	3		.27%		2	3	.27%
Self-Healing Interoffice Fiber Rings	2		.12%		1	2	.12%
Sites Positioned for Competitive Collocation/Access	5		.12%		3-4	5	.12%
Troubles Eliminated-Cable Replacement	2,908	.10%	.12%	<= 2,143	2,859-3,573	>= 3,574	.06%
Total Infrastructure Investment		.10%	.90%				.84%

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Calculation of Annual Price Cap Index

Annual Change in Gross Domestic Product Price Index		1.34%
Productivity Factor Offset	(2.00%)	
Adjustments to Productivity Offset:		
Service Quality (Appendix B)	0.00%	
Infrastructure Investment (Appendix C)	0.84%	
Commission Discretion	0.05%	
Total Adjusted Productivity Offset		(1.11)
Total		0.23%
Annual Price Cap Index +[1+▲GDPPI-PROD+INC-PEN]*100		100.23

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Summary of PCI and API Values

Annual PCI	100.23
Unadjusted Cumulative PCI	102.33
Three-Year Maximum PCI	101.13
Annual API	100.00
Unadjusted Cumulative API	102.08
Three-Year Maximum API	100.90
Allowed Rate Increase or (Required Decrease) ³	0.23%

³ Since the 3-year maximum PCI is greater than the 3-year maximum API, Verizon may increase its rates for price-regulated services so that the 3-year maximum API does not exceed the 3-year maximum PCI.