

DT 02-083

Verizon New Hampshire, Inc.

Tariff Filing To Introduce Corporate Rewards

Order Approving Petition

O R D E R N O. 24,055

September 18, 2002

APPEARANCES: Victor D. Del Vecchio, Esq. for Verizon New Hampshire; F. Anne Ross, Esq., of the Office of Consumer Advocate, for residential ratepayers of New Hampshire; and E. Barclay Jackson, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On April 25, 2002, Verizon New Hampshire (Verizon) filed with the New Hampshire Public Utilities Commission (Commission) tariff material introducing the Corporate Rewards Plan. The proposed tariff amendment represents an optional toll calling plan that provides Verizon's business customers with various discounts based on the total volume of intraLATA calls (measured local, toll, and toll-free). The proposed tariff would amend Tariff No. 83, Part A, Section 15, and Part M, Section 1, by adding the Corporate Rewards Plan to those sections. Verizon also included supporting information in the form of a service description, a price floor analysis, and the changes to effective rates and charges.

The proposed amendment is a refiling of the same amendment Verizon filed on October 31, 2001, in Docket No. DT 01-214, which the Commission denied without prejudice on December 20, 2001, by Order No. 23,872. In that order, the Commission indicated that any refiling of the Corporate Rewards tariff amendment should be accompanied by a showing of the current annual revenue generated by customers who would be eligible for the proposed tariffed rates, an explanation of what impact the proposed tariff would have on other customers, and an explanation of how the proposed tariff could be fairly examined in the absence of an overall rate design analysis.

After initial review of the filing, the Commission issued Order No. 23,972, extending to June 24, 2002, the time for examination of the proposed Corporate Rewards tariff, pursuant to RSA 378:6,IV. Order No. 23,972 also directed Verizon to submit the balance of the material required by Order No. 23,872, and all supporting testimony, no later than May 24, 2002, and scheduled a hearing on the matter for June 4, 2002.

On June 4, 2002, the Office of Consumer Advocate (OCA) notified the Commission of its participation in this docket on behalf of residential ratepayers of New Hampshire. No other party intervened. Pursuant to a Secretarial Letter issued June

27, 2002, the hearing date was later changed to August 6, 2002 at Verizon's request.

During the hearing on August 6, 2002, the Parties and Staff discussed with the Commission possible methods to manage the fact that much of Verizon's filing was marked as proprietary and confidential information. The Commission determined that proprietary documents would be sealed, and Verizon would supply redacted versions for public view.

II. POSITIONS OF THE PARTIES AND STAFF

A. Verizon New Hampshire, Inc.

Verizon's proposed Corporate Rewards Plan is an optional calling plan designed primarily for larger business customers, providing three discount opportunities. The first discount opportunity is a volume discount on usage that allows customers to aggregate their measured local, in-state toll and in-state toll-free minutes of use. The second discount opportunity is an access line discount that applies to PRI, BRI, Flexpath, and Centrex lines, provided those lines are not already discounted. The third discount proposed is a loyalty discount of 2% that first applies in month 13 of a customer's participation and caps out at 5% after year five.

Verizon avers that the Corporate Rewards Plan in New Hampshire is a competitive response crafted to address the

significant competitive losses it has experienced. The intent of Corporate Rewards is "win back and retention," to win back customers who have been lost to the competition and to retain current customers. Verizon wants to compete for intrastate toll minutes with all other carriers, it says, including its own Long Distance affiliate when one is formed in New Hampshire. Verizon argues that Corporate Rewards will shore up its deteriorating usage market.

Pointing out that other states have approved the plan, Verizon contends that competitors are not inappropriately disadvantaged by the introduction of Corporate Rewards. Further support for that argument, Verizon states, is evidenced by the absence of competitors at the hearing to contest the Corporate Rewards plan. Verizon asserts that to allow the Corporate Rewards Plan in New Hampshire is in the best interest of the ratepayers and the state.

B. Office of Consumer Advocate

The OCA argues that the deep discounts Verizon proposes should be rejected. In the OCA view, the impact of Verizon's Section 271 application and of the numerous bankruptcy filings by inter-exchange carriers may be strong enough to counterbalance the competitive pressures Verizon describes.

The OCA also recommends further examination of Verizon's competitive affiliates in post-271 jurisdictions, which may be acquiring some of Verizon's "losses." The OCA argues that switched access pricing at 6 cents a minute should be the benchmark for determining a price squeeze. Therefore, argues OCA, pricing below that cost is not justifiable.

The OCA complains that Verizon's Corporate Rewards tariff targets the customers most likely to seek alternative providers. The balancing act of trying to preserve the ILEC's regulated revenues and protect ratepayers while at the same time fostering competition is difficult, according to the OCA, and would be upset by the approval of the proposed tariff.

C. Staff

Staff avers that the Corporate Rewards tariff has the possibility to improve the incumbent's net revenues by diminishing the level of losses induced by competition. At this time, Staff asserts that the amount of the improvement to net revenues is uncertain. However, Staff agrees that the Corporate Rewards tariff will improve revenues to some extent, even if the win-back assumption is too optimistic. Thus, the ILEC's revenue loss may be reduced. Therefore, Staff does not object to the tariff and recognizes that it is a reasonable response to competition.

III. COMMISSION ANALYSIS

The information presented during the hearing in this docket provided insights into the current competitive landscape in New Hampshire. We appreciate the level of detail presented, which demonstrates the likely competitive responses. We find that the proposed Corporate Rewards tariff is in fact a rational response by a company experiencing a competitive challenge. This type of challenge was foreseen and encouraged by the Telecommunications Act of 1996. (TAct). The TAct does not prohibit the Commission from authorizing Verizon to respond to such challenges in a rational, non-discriminatory manner. See 14 USCS §253.

We have interpreted RSA 374:22-g as requiring the Commission to foster a competitive telecommunications market by preventing and remedying discriminatory behaviors. In doing so, however, we are not required to maintain a particular balance of market share among providers. Where the incumbent provider is able to demonstrate a loss of market share due to competition, and proposes to stem its losses and attempt to regain portions of that market in a reasonable and non-discriminatory manner, we will approve the proposal. Further, such approval is warranted where the Company shows that approval of the tariff will prevent significantly increased pressure on net revenues, and thus on

jurisdictional rates generally. In this instance, Verizon has made such a showing and we will approve the proposed Corporate Rewards tariff.

The OCA pointed out on the record that it appears Verizon is experiencing a similar loss in toll minutes for residential customers as it has for business customers. Corporate Rewards is Verizon's response to lost business toll minutes, but the Verizon witnesses did not know whether Verizon was planning to respond with a similar optional toll plan to address lost residential toll minutes. On this record it is not clear why the Company would not offer an optional residential discount plan if the circumstances were analogous. Therefore, we will direct Verizon to investigate whether a similar plan for residential customers would produce the same effect on net revenues as Corporate Rewards is expected to do, and report back to us in 90 days.

Based upon the foregoing, it is hereby

ORDERED, that Verizon's proposed Corporate Rewards tariff, as amended, is hereby APPROVED; and it is

FURTHER ORDERED, that Verizon investigate and report within 90 days from the date of this Order, whether a plan similar to Corporate Rewards for residential customers would also improve net revenue.

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

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Michelle A. Caraway
Assistant Executive Director