Before the

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

In the Matter of the Application of Verizon New Jersey, Inc. For Approval (i) of a New Plan for an Alternative Form of Regulation and (ii) to Reclassify Multi-Line Rate Regulated Business Service as Competitive Services, and Compliance Filing	**Docket No. TO01020095**

Direct Testimony of

DOUGLAS S. WILLIAMS

witness for the

State of New Jersey
Division of Ratepayer Advocate

May 15, 2001

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INTRODUCTION

Qualifications

Q. Please state your name, position and business address.

A. My name is Douglas S. Williams. I am Vice President of Economics and Technology, Inc., ("ETI"), Two Center Plaza, Boston, Massachusetts 02108. Economics and Technology, Inc. is a research and consulting firm specializing in telecommunications economics, regulation, management and public policy.

Q. Please summarize your educational background and previous experience in the field of telecommunications regulation and policy.

A. I have prepared a Statement of Qualifications, which is attached hereto as Attachment 1.

Q. Have you previously testified before the New Jersey Board of Public Utilities ("Board")?

A. Although I have not made an appearance before the Board to date, I have participated in the preparation of testimony filed by other ETI witnesses on behalf of the State of New Jersey Division of the Ratepayer Advocate in Docket TO99120934 (the CTP alternative regulation proceeding) and in Docket No. TO00060356 (unbundled network elements).

Assignment

Q. On whose behalf is this testimony being presented?

A. I am appearing on behalf of the State of New Jersey Division of the Ratepayer Advocate (Ratepayer Advocate, or RPA).

Q. What was your assignment in this proceeding?

A. ETI was engaged by the New Jersey Division of the Ratepayer Advocate to review the analysis offered by Verizon New Jersey (Verizon, VNJ or the Company) in support of its proposal for a new Plan for Alternative Regulation (PAR-2). In particular, I analyzed certain aspects of what is considered to be the Company's "compliance" filing with the Board's December 22, 2000 Order; namely, the Company's proposed options for the geographic expansion of local calling areas and the collapsing of toll bands, and the Company's recommendation relating to basic service options in addition to Plain Old Telephone Service (POTS).

Summary of Testimony

Q. Please summarize the testimony you are presenting at this time.

A. In compliance with the Board's December 22, 2000 Order, Verizon New Jersey has devised four Scenarios for expanding local calling areas, in which either Zone 1 or Zones 1 and 2 intraLATA toll calling bands are eliminated. Verizon has developed new rates that would apply to residential and business customers to make the Company whole for lost toll and switched access revenues, as well as to recover the costs of implementing the calling area expansion. Verizon concludes that no plan for expanding local calling areas should be adopted, claiming that the optional calling plans offered by Verizon are sufficient to meet the needs of its customers.

The expansion of local calling areas is a well-recognized consumer benefit, and would be even more well-received in New Jersey, a state recognized as having disproportionately small local calling areas and disproportionately large intraLATA toll bills. The Board clearly believed that expanding local calling areas was a topic worth considering, else it would not have required Verizon to analyze and develop options for such a plan. While the four Scenarios developed by Verizon have not ultimately been supported by the Company, they remain valid options for expanding local calling areas. However, in order to derive the most benefit from expanding local calling areas, the Board should concurrently implement rate center consolidation. Rate center consolidation permits for the expansion of local calling areas by grouping together current minute rating areas into fewer, larger rating areas. Once the consolidation has been accomplished, the local calling area can be defined as between the fewer, larger rating areas.

Consolidating rating areas also provides the added benefit of conserving numbering resources. Under current guidelines, all carriers, both incumbent and competitive, require a block of 10,000 numbers in each of the 180 rate centers in New Jersey in which they seek to do business, irrespective of the customer demand for service. By significantly reducing the number of rate centers, the consistent and substantial drain on numbering resources that has resulted in the assignment of 6 *new* area codes in New Jersey in the past few years will be abated, and the need for new area codes in the future may well be eliminated.

It is my recommendation that the 180 current rate centers in New Jersey be consolidated into 21 rating areas that roughly conform to the state's county boundaries. Calling areas should be expanded to include all current exchanges within the new rate center, as well as all exchanges in the newly contiguous rate centers. This plan is aggressive enough to provide significant increases in the local calling areas for all consumers in New Jersey, as well as provide meaningful conservation of numbering resources so as to avoid unnecessary area code additions.

Expanding local calling areas typically results in the elimination of toll and switched access revenues to the incumbent carrier. However, as discussed by Ratepayer Advocate witness James Rothschild, Verizon New Jersey's earnings are significantly above competitive levels and include plentiful savings as a result of the recent mergers between Bell Atlantic and former incumbent LECs NYNEX and GTE. As a result, an annual revenue reduction of $175-million is warranted. This $175-million revenue reduction should be effected by

implementing the Ratepayer Advocate's proposed plan for county-wide rate center consolidation and expansion of local calling areas while retaining current rates for residential customers. Doing so will reduce Verizon's revenues by the amount of foregone toll and switched access revenue encompassed by this plan. Unfortunately, only Verizon is in possession of the data that is required to determine the *actual* revenue impact of this plan for rate center consolidation and local calling area expansion. The Company should be required to provide such a revenue analysis so that any necessary adjustments to the calling area expansion plan can be implemented in order to meet the $175-million target.

My testimony also addresses the expansion of basic service options. Despite the Board's request, Verizon New Jersey has provided no real "analysis" on options and customer choices for buying usage and features on an a la carte basis, including a dial tone service only. Verizon interpreted the Board's Order to mean that such an analysis would only be required if revisions to basic service were made, which they were not. The Company's interpretation of the Order and its shortcomings with respect to this analysis should not in any way dissuade the Board from pursuing the establishment of any expanded basic service options if there is sincere interest in making this option available to residential consumers. Along with analyzing the implementation of a dial tone only service, the Board should also require Verizon to bundle touchtone service with residential basic exchange service.

EXPANSION OF LOCAL CALLING AREAS

The Board's directive to analyze expanded local calling areas.

Q. Mr. Williams, what is the context within which the Board directed Verizon to analyze expanding its local calling areas?

A. In Section II, "Minimum Criteria For The New Plan Proposal & Procedural Schedule" of its December 22, 2000 Order issued in Docket No. TO99120934, the Board states, in relevant part, that

> VNJ shall include the Company's analysis and recommendations as to whether the Board should consider the following options as part of the new Plan: (1) geographic expansion of local calling areas and the collapsing of toll bands: with regard to the analysis of the geographic expansion of local calling areas, VNJ shall provide several options, each of which shall include the cost of the expansion, the number of access lines included in each new calling area and the expected rate impact to consumers; . . .[1]

Q. Please describe the Company's filing relating to the expansion of local calling areas.

A. As described in the Panel Testimony of Harold E. West, III and Dr. William E. Taylor, VNJ has submitted four Scenarios for expanding local calling areas. In each case, the general

1. Order, NJ BPU Docket No. TO99120934, December 22, 2000 ("December 22, 2000 Order"), at 6.

manner in which calling areas would be expanded is to eliminate toll bands as they currently exist. Scenarios 1 and 2 eliminated toll zone 1 (0-10 miles), while Scenarios 3 and 4 eliminated toll zones 1 and 2 (0-10 miles and 11-15 miles). Also, the Company has separate proposals as to how residence and business rates would be structured under these Scenarios. Under Scenarios 1 and 3, a single statewide rate for basic residence service and a single statewide rate for basic business service would be established. Under Scenarios 2 and 4, two rate groups each would be established for basic residence and basic business service. A time-of-day rate structure would be implemented for those residence calls that continue to be rated as toll, but these rates would be not be distance sensitive as they are today. Verizon has analyzed two options for business toll: Option A collapses all remaining business toll into a single $0.06 per minute rate, irrespective of time of day or distance, while Option B establishes a single $0.08 per minute rate with the same operational attributes.[2]

Q. Are there rate impacts to consumers associated with VNJ's Scenarios for expanding local calling areas?

A. Yes. Table 1 provides a summary of the proposed rates for each of the Scenarios and Options as envisioned by VNJ:

2. West/Taylor (VNJ), at 28.

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Table 1

Rates After Expanding Local Calling Areas - VNJ Scenarios

	Current Rates	Scenario 1 (eliminate Zone 1)	Scenario 2 (eliminate Zone 1)	Scenario 3 (eliminate Zones 1&2)	Scenario 4 (eliminate Zones 1&2)
Option A		***BEGIN PROPRIETARY<<			
RBES - flat rate	A - $7.10 B - 7.80 C - 8.30 D - 8.54				
BBES - message rate	A - $11.00 B - 12.11 C - 13.12 D - 13.31				
Option B					
RBES - flat rate	A - $7.10 B - 7.80 C - 8.30 D - 8.54				
BBES - message rate	A - $11.00 B - 12.11 C - 13.12 D - 13.31				

Notes: >>END PROPRIETARY<<

1) "Current Rates" exist in four rate groups. The rates appearing in the Table incorporate both the $0.65 State Credit and the $1.00 rate for Touch-Tone service, yet do not account for any amount of current toll usage.

2) A single statewide rate applies in Scenarios 1 and 3, and two rate groups are established for Scenarios 2 and 4. VNJ provided no specifics regarding the manner in which the two rate groups would be defined

Sources: West/Taylor (VNJ), at 28-29 and Exh. 7; BA-NJ Tariff BPU NJ No. 2, §5.2.1.

VNJ has developed its proposed rates assuming revenue-neutrality;[3] that is, VNJ seeks to raise basic service rates by an amount that will compensate it for lost toll and switched access revenues (resulting from toll minutes of use that become local after expanding local calling areas) and the recovery of implementation costs. As demonstrated in Table 1, VNJ's Scenarios for expanding local calling areas by eliminating either intraLATA Zone 1 or Zones 1 & 2 contemplate increasing flat-rate residential charges to between ***BEGIN PROPRIETARY<< >>END PROPRIETARY***[4] (inclusive of Touch-Tone, the State Credit and implementation costs), depending upon the Scenario, Option and rate group classification. When compared to current residential flat-rate prices (inclusive of Touch-Tone and the State Credit) that *do not include* any toll usage or, obviously, any implementation costs, rates are increased by between ***BEGIN PROPRIETARY << >> END PROPRIETARY*** (the effect on current Rate Group D customers under VNJ's Scenario 1, Option A or B) to as much as ***BEGIN PROPRIETARY << >> END PROPRIETARY*** (the effect on current Rate Group A customers under VNJ's Scenario 4, Option A or B).[5]

3. *Id.*, at 28.

4. *Id.*, Exhibit 7, at 2.

5. Because VNJ does not discuss how the two "rate groups" under Scenarios 2 and 4 would be categorized, I have assumed that VNJ's current Groups A and B would be classified in rate group 1 and that current Groups C and D would be classified in rate group 2.

Q. Is there any requirement that expanding local calling areas be performed on a revenue-neutral basis?

A. No. Although the Board had requested that Verizon file information on "the expected rate impact to consumers" for implementing local calling area expansion, there is certainly no requirement that it be conducted in a revenue-neutral manner. As is addressed in the testimony of Ratepayer Advocate witnesses Lee Selwyn and James Rothschild, the significant revenues currently being earned by VNJ, particularly with respect to residential services,[6] would permit the Board to adopt a plan for calling area expansion without raising retail rates.

Q. What costs have been identified by VNJ as arising from the implementing the Company's expanded local calling area scenarios?

A. According to VNJ, "substantial one-time networking costs for reprogramming, contact personnel costs, billing system modifications and customer notification" would be incurred to implement any one of the Company's Scenarios for expanding local calling areas. All such costs are incorporated into the rate increases proposed by VNJ, and would be recovered

6. Consistent with the testimony of VNJ witnesses Matt, Meacham, Prosini and Taylor, "residential services" refers to all services purchased by residential subscribers, including RBES, the federal Subscriber Line Charge, Touchtone, toll, vertical services and the state credit. Matt/Meacham/Prosini/Taylor (VNJ), at 14-15. As discussed in the testimony of Ratepayer Advocate witness Selwyn, switched access and unlisted number services should also be included within the "residential services" group.

over a five-year period. Based upon the data provided by VNJ, it would appear that the monthly cost recovery ranges from ***BEGIN PROPRIETARY<< >>END PROPRIETARY*** for business customers under Scenarios 1 and 2 to ***BEGIN PROPRIETARY<< >>END PROPRIETARY*** for residential customers under Scenarios 3 and 4.[7]

Q. Mr. West and Dr. Taylor contend that, if implemented on a "break-even basis," Verizon's plan for expanding local calling areas will cause local rates to increase to as much as $12.80 for residential service and $13.37 for business service.[8] Do you agree?

A. If one assumes VNJ's cost and revenue analysis to be correct, and one also assumes that VNJ should be permitted to implement expanded local calling areas on a revenue-neutral basis, then local rates for RBES and BBES service would increase to this amount. I disagree, however, with the characterization that residential and business consumers will necessarily be *paying more* for service than they do today under VNJ's current rate and calling area structure.

Q. Please explain.

7. West/Taylor (VNJ), Exhibit 7, at 9 and 14.

8. West/Taylor (VNJ), at 28.

A. VNJ has proposed rate revisions that are designed to maintain the level of its *net* revenues under each of the four local calling area expansion Scenarios that it has proposed. The Company contends that, in addition to foregoing toll and access revenue that it currently realizes as a result of the existing (small) calling area structure, it will be required to incur certain "new" costs for network upgrades and billing system revisions in order to accommodate the new and enlarged calling areas. Thus, under the new rate structure, the *average* customer would realize a decrease in toll charges, but that decrease would be offset by an increase in the fee for local calling, to reflect the enlarged local calling area. When implementation costs are taken into consideration, the *average* customer would be expected to pay only *slightly* more on a monthly basis than he or she does under existing rate structures.

Q. Is it possible to calculate the actual net rate increase that customers would incur under VNJ's proposed plans for expanding local calling areas?

A. Clearly, the effect on each customer will be different, based upon the customer's current amount of Zone 1 and/or Zone 2 calling. If we speak instead of averages, then the true average rate increase to consumers can be estimated by calculating the average per-line cost that VNJ claims it will need to incur in order to implement the calling area plan, which, as stated above, ranges from ***BEGIN PROPRIETARY<< >>END PROPRIETARY*** for business customers under Scenarios 1 and 2 to ***BEGIN

PROPRIETARY<< >>END PROPRIETARY*** for residential customers under Scenarios 3 and 4.

Q. Does VNJ support the adoption of a plan for expanding local calling areas?

A. No. According to VNJ, the Company "presently offers a wide variety of optional calling plans, at competitive rates, which meet the varying toll calling needs of [its] customers."[9] VNJ also contends that local calling areas were historically established based on population reach, and that rate groups have not been realigned to coincide with population growth. It would appear in this respect that VNJ is taking the position that local calling areas have not been expanded in *geographic* terms, but they have been expanded if one considers the number of people customers can call on a local basis.[10] Finally, VNJ points to Southern New Jersey and the existing "large geographic calling areas" as a reason to refrain from expanding other local calling areas, because such a plan would not "benefit all customers."[11]

Q. Do you agree with the Company's conclusions?

9. *Id.*, at 29.

10. *Id.*

11. *Id.*

A. No. I believe that the reason the Board directed VNJ to address the issue of local calling area expansion in the first place was because the Board sees merit in the consumer-oriented benefits associated therein (which I will discuss later in my testimony). VNJ's blanket statement that it believes its optional calling plans are sufficient to address the desires of its customer base flies in the face of the Board's directive.[12]

Verizon's argument that population increases justify the retention of small calling areas is clearly without merit. Assuming as true the statement by Mr. West and Dr. Taylor that, under the current structure of local calling areas, a swelling population has increased the number of people to whom local calls can be made, it must also be true that the population *outside* of the local calling area has also increased, thus increasing the number of people that must be called using VNJ's profitable toll service. What is perhaps more important is the fact that it is not evident that VNJ is *required* to define local calling areas based upon population reach, despite the fact that Verizon has chosen to do so in the past.[13] VNJ has

12. I also believe it to be more than a little ironic that in the PAR-2 proceeding, VNJ trumpets its optional calling plans as the best way to meet consumers' needs, yet in its Competitive Telecommunications Plan (CTP) filed in May, 2000, VNJ attempted to all but eliminate customer choices and options for residential basic exchange service customers. *See*, Testimony of Harold E. West, III, BPU Docket No. TO99120934, May 18, 2000, at Exhibit A.

13. As stated in Verizon's current tariff, "[t]he rate group classification is based on the number of customers in the local service area." New Jersey Bell Telephone Company, Tariff B.P.U.- N.J. - No. 2, Section 5.1.2, first revised page 21, effective January 1, 1984. If VNJ were required to define local calling areas based upon population reach, I certainly would have expected the Company to raise this issue as a reason for rejecting the adoption of its own expanded local calling area proposals.

stated that it has not realigned rate groups to account for population increases,[14] but in fact there is no requirement that these rate groups be maintained at their current breakpoints.[15] VNJ states that neglecting to realign rate groups has resulted in "many customers in rate groups A-C ... paying monthly rates that are less than they should be based on population increases."[16] Even though VNJ implies that more exchanges should be shifted into higher density rate groups and thus incur higher monthly rates, Verizon ignores the fact an argument could be made that the rate groups themselves should be redefined (i.e., enlarged) over time as population increases, which would preserve the ratio of local calls to toll calls.

Most absurd among Verizon's arguments, however, is the Company's discouragement of expanding local calling areas because it would not benefit all customers, such as those in Southern New Jersey.[17] The Company admits that the calling areas in Southern New Jersey are larger geographically than elsewhere in the state; thus, consumers in that part of the state *already realize the benefits of expanded local calling areas*, and at no extra cost as

14. West/Taylor (VNJ), at 29.

15. As currently structured, exchanges in Rate Group A have between 0 and 40,000 customers in their local service area; Rate Group B has between 40,001 and 115,000; Rate Group C has between 115,001 and 300,000; and Rate Group D has between 300,001 and 600,000 customers. New Jersey Bell Telephone Company, Tariff B.P.U. - N.J. - No. 2, Section A5, first revised page 21, effective January 1, 1984.

16. West/Taylor (VNJ), at 29.

17. The number of access lines that would not see an increase in local calling area under VNJ's Scenario 3 and 4 is only ***BEGIN PROPRIETARY<< >>END PROPRIETARY***. West/Taylor (VNJ), Exhibit 7, at 2, 10 and 12.

compared to consumers in the rest of the state. Expanding local calling areas in other parts of the state would simply allow all other customers to realize the benefits that are already being enjoyed by consumers in Southern New Jersey. Additionally, VNJ claims that the Scenarios presented by the Company would "leave many of these [Southern New Jersey] local calling areas unchanged."[18] That is all the more reason to move forward, so that consumers in all parts of New Jersey, who are subject to the same structure of *local* rates, will also be offered fully comparable local service. The priority in expanding local calling areas is to focus upon those exchanges with calling areas that are smaller than others. The fact that some Southern New Jersey calling areas would not be affected by VNJ's proposed expansion Scenarios is certainly not a problem. Furthermore, VNJ's conclusion presupposes that its Scenarios for expanding local calling areas are the only alternatives for consideration by the Board. As I will discuss shortly, that is decidedly not the case: The options for expanding local calling areas are plentiful, and certain plans could be adopted that would enlarge all calling areas in the entire state.

Q. Do you believe there to be other reasons why VNJ has refrained from recommending the adoption of local calling area expansion?

A. Yes, I do. By virtue of retaining small *local* calling, VNJ also preserves large *toll* calling areas, i.e., those areas outside of the local calling region yet within the LATA. As I will

18. West/Taylor (VNJ), at 29.

discuss later in my testimony, the pricing distinctions between local and toll calls today have no basis in cost. Costs for completing telephone calls have decreased significantly over time, and distance is no longer a cost driver; thus, today there is little if any difference in the economic cost of switching, transporting, and terminating a local call versus a toll call. In markets where vigorous competition exists (such as the interLATA toll market), decreases in costs have triggered decreases in prices, and as a result consumer use of interLATA toll service has dramatically increased.[19] Meanwhile, penetration rates for basic service in New Jersey have been maintained at roughly the same level since 1984,[20] while the monthly rate for basic local service has remained essentially unchanged for that same period.[21] These market dynamics demonstrate the existence of a growing toll market and a flat basic service market. The Company has a better opportunity to increase revenues by retaining a disproportionately large intraLATA toll market, and thus has an incentive to retain small local calling areas and large toll calling areas so as to reap the benefits of these market dynamics.

19. FCC, Common Carrier Bureau, Industry Analysis Division, *Trends in Telephone Service*, December 2000, at Table 11.1.

20. *Id.*, at Table 17.2.

21. Verizon indicates that residential services are currently offered at 1985 rates. *See* West/Taylor (VNJ), Exhibit 7, at 15.

The benefits of expanding local calling areas.

Q. Why should local calling areas be expanded?

A. Expanding local calling areas is a well-recognized consumer benefit. For those consumers subscribing to flat-rate calling service, expanding local calling areas permits flat-rate calling within a larger geographic area. Residential consumers are known to value flat-rate calling plans over measured or message rate services, as demonstrated by the ***BEGIN PROPRIETARY<< >>END PROPRIETARY*** penetration rate for flat-rate service in Verizon New Jersey's serving territory.[22] Verizon itself acknowledges that "the vast majority of residence customers select the unlimited local usage option."[23] Consumers generally relate well to fixed-price services, as it offers a certain amount of predictability in the monthly bill.[24] Subscribers to message rate and low-use message rate service also benefit from expanding local calling areas because of the wider region in which lower-cost message units apply. In both cases, customers avoid being charged higher toll rates for calls in the newly expanded region.

Q. Is there evidence that New Jersey consumers would appreciate larger local calling areas?

22. VNJ response to RPA-120, attachment A.

23. West/Taylor (VNJ), Exhibit 7, at 15.

24. Other communications services, including wireless and Internet services, have migrated towards flat-rate pricing in apparent recognition of the customer's desire for these offerings.

A. Yes. Consumer preference for larger local calling areas is evident from the number of subscribers to the optional toll plans that VNJ currently offers. These customers have elected to pay higher monthly rates in order to either reduce or avoid altogether the per-minute charges for calls to areas outside of their current local calling area. Table 2 indicates the number of customers currently subscribing to the various optional toll plans offered by VNJ.

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Table 2

A Substantial Quantity of Residence Customers
Purchase Optional Toll Calling Plans from VNJ

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VNJ Optional Toll Calling Plan	No. of Residence Subscribers
Optional Toll Treatment	
Selective Calling	
Expanded Calling Area	
Consumer Opportunity Savings Plan	
Fixed Rate Toll Plan	
Weekend Choice	
Unlimited Calling Area Service	
Personal Unlimited Plan	
Total	

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Source: VNJ response to RPA-120.

All told, there are about ***BEGIN PROPRIETARY<< >>END PROPRIETARY*** residential access lines, or ***BEGIN PROPRIETARY<< >>END PROPRIETARY*** of all residential lines, for which customers are currently paying extra

for either an outright expansion of their local calling areas or a reduction in the per-minute toll charges to certain exchanges.[25]

The Board has been exposed to the fact that New Jersey's local calling areas are generally small in comparison to other states.[26] Aside from this generally accepted fact, two specific observations corroborate this point. First, New Jersey maintains the 6th *highest* average intraLATA toll revenue per access line among states nationwide.[27] Generally, the smaller the local calling area, the more use of intraLATA toll subscribers will be compelled to make. New Jersey's position at the high end of the national range supports the fact that New Jersey's local calling areas are smaller than many other states.

Second, according to the analysis conducted by VNJ in analyzing expanded local calling areas, ***BEGIN PROPRIETARY<< >>END PROPRIETARY*** of 180 local calling areas are increased simply by eliminating intraLATA toll mileage zone 1 (1-10 miles), thereby impacting ***BEGIN PROPRIETARY<< >>END PROPRIETARY*** of the access lines in the state.[28] Eliminating mileage zone 1 is likely the most rudimentary and conservative method for expanding local calling areas; the fact that it impacts so many

25. *See* VNJ response to RPA-120.

26. *See*, for example, BPU Docket No. TO99120934, Tr. 1282.

27. Attachment 2 to my testimony contains a table showing average intraLATA toll revenues by state.

28. West/Taylor (VNJ), Exhibit 7, at 5.

exchanges and the great majority of access lines lends further weight to the argument that New Jersey's current calling areas are generally quite small.

Q. How do New Jersey's local calling areas compare to other states?

A. A complete review and determination of the size of all local calling areas in all states is a monumental undertaking, and I have not attempted to develop such an analysis given the time frames allotted for this proceeding. As referenced above, the fact that New Jersey maintains the 6th highest average toll revenues per access line in the US provides a fairly good indication as to the size of its local calling areas in relation to those in other states. Aside from that fact, I am aware that calling areas in the nearby Verizon states of New York and Delaware are considerably larger than those of New Jersey. A "Regional Call Plan" ("RCP") was implemented for the New York Metropolitan LATA in 1987.[29] Seven "regions" were established with all calling within each region provided on a local call basis. For example, all five boroughs of New York City are in the New York City region, and local rating applies to all intra-region calls, which may involve distances of up to about 40 miles. The other six RCP regions are Nassau, West Suffolk, East Suffolk, Southern Westchester, Northern Westchester, and Rockland. Intra-region local-rated calls may in some cases involve distances of close to 50 miles. In 1990, Delaware adopted an expanded local calling

29. New York Telephone Company - Generic Telephone Rate Design Proceeding, State of New York Public Service Commission Case No. 28978, *Opinion and Order Concerning Rate Design Issues* (Opinion No. 87-5), April 6, 1987, at 127-132.

area plan by aligning local calling areas approximately with county lines under a 3-region calling plan with local rate treatment applying for all calls within each of Delaware's three counties (New Castle, Kent and Sussex).[30] In addition, both Pennsylvania and Maryland have recently opened proceedings on rate center consolidation which, as I will discuss shortly, has the potential for major expansion in local calling areas.[31] Although neither state has yet adopted a plan for rate center consolidation, doing so would further enlarge the size of the calling areas in these Verizon states as compared to New Jersey. Interestingly, all four of these nearby Verizon states are among the ten states with the *lowest* monthly toll revenue per access line.[32]

Large local calling areas are, in fact, quite common. In California, all calls of 12 or fewer miles are always rated as local, as are all calls between contiguous exchanges irrespective of their rate center-to-rate center distance. The minimum distance for a toll call in Georgia is 25 miles, and local calls within the Atlanta local calling area cover distances of well in excess of 50 miles. Denver, Phoenix, Minneapolis/St. Paul, Seattle, Indianapolis, and Washington, DC, offer expansive local calling areas. Even if both toll mileage zones 1 and

30. In the Matter of the Proposed Amortization of the Diamond State Telephone Company's Straight-line Depreciation Reserve Deficiency to Account 608 Depreciation Expense, Over a Three-year Period, Delaware Public Service Commission Docket No. 86-20 (Consolidated) Phase II Rate Design, *Findings Opinion and Order of the Public Service Commission* (Order No. 3216), November 2, 1990, at 7-8.

31. *See* PA PUC Docket No. M-00011452 and MD PSC Case No. 8853.

32. Virginia, Maryland, Delaware and New York rank 4th, 7th, 8th and 10th, respectively, in terms of the *lowest* amount of toll revenue per access line. *See* Attachment 2.

2 were eliminated in New Jersey, which would establish a local calling area of 15 miles, the state would still have local calling areas that remain small by comparison with many other jurisdictions.

Q. Other than avoiding toll charges, are there other economic benefits to expanding local calling areas?

A. Yes. The presence of toll charges suppresses use of telephone service. Where, as here, the actual economic cost of providing the service is a tiny fraction of the charge that VNJ imposes for its use,[33] society suffers allocative inefficiencies by foregoing consumption (use of the telephone network) that would otherwise produce benefits in excess of cost. Expanded local calling stimulates economic activity across a broader geographic area, increases consumer access to competing suppliers of goods and services thereby affording opportunities for lower prices, and expands the geographic size of suppliers' markets, making them more efficient and potentially reducing their per-unit operating costs.

Elimination of toll charges can also help to encourage telecommuting, making it less costly for those working at home to contact their place of employment or other business contacts. It also enhances social contacts among people living in nearby communities whose children, for example, might attend the same school.

33. *See* Matt/Meacham/Prosini/Taylor (VNJ), at Tables 3 and 4.

The consumer and positive public policy benefits associated with expanding local calling areas provide compelling reasons for the Board to continue to pursue this goal, despite Verizon's position to the contrary.

Q. Mr. Williams, if the Board were to consider adopting a plan for expanding local calling areas, should Verizon's proposals be considered viable options?

A. Verizon's proposals for expanding local calling areas, which the Company does not actually support, would increase local calling areas by eliminating toll charges in either Zone 1 or Zones 1 and 2. Under Verizon's proposal, monthly rates for residential and business services would in many cases increase to account for the lost toll and switched access revenue to VNJ, as well as recover the costs for implementing the plan. The impact upon each customer's monthly bill is entirely dependent upon the individual customer's usage of toll services, but on average, monthly bills would increase slightly.

Verizon's proposals are certainly viable alternatives for the Board to consider, yet calling area expansion could also be implemented via rate center consolidation. As I discuss in the following sections of my testimony, expanding local calling areas via rate center consolidation offers the same benefits to consumers (by increasing the scope of the local calling area) while also conserving numbering resources (which could very easily have the effect of eliminating the need to introduce new area codes in New Jersey in the future). Moreover, the revenue reduction recommended by Ratepayer Advocate witness James

Rothschild could, and should, be used to expand local calling areas via rate center consolidation with no impact upon retail rates. This proposal should be adopted by the Board.

EXPANDING LOCAL CALLING AREAS THROUGH RATE CENTER CONSOLIDATION

The current area code crisis nationwide and in New Jersey.

Q. Please describe how expanding local calling areas can be accomplished through rate center consolidation.

A. Rate center consolidation is a mechanism that the Board could employ to increase the size of the local calling areas in New Jersey. There are two specific benefits to implementing rate center consolidation. First, the local calling areas can be defined in any number of ways. As I will discuss shortly, consolidating rating areas establishes the local calling area within those rate areas that have been consolidated, but the local calling area boundary can also be extended to encompass other rating areas (consolidated or otherwise), just as they do today. Second, rate center consolidation is an effective number conservation measure that, depending upon the aggressiveness of the consolidation plan, could well stem the need for the further introduction of new area codes in New Jersey.

Q. Why should the Board be concerned with area codes and number conservation in this proceeding?

A. Area code relief and number conservation are very important policy issues that are confronting the telecommunications industry at both the state and federal level. While this

proceeding is certainly about Verizon's proposed Plan for Alternative Regulation - 2, the fact that the Board requested analysis on expanding local calling areas allows for a discussion on the merits of rate center consolidation as a way for the Board to accomplish two entirely compatible policy goals, that is, to expand local calling areas while at the same time to take important steps toward solving the numbering crisis in New Jersey.

Q. Please describe the "numbering crisis in New Jersey" to which you refer.

A. Like many other states across the country, New Jersey has experienced a dramatic rise in the number of area codes assigned over the past six years. In 1995, New Jersey had only three area codes, each of which was capable of supporting about 7.8-million telephone numbers, or 23.4-million telephone numbers in total. By 1999, the number of area codes had doubled to six, and by the end of this year (2001), three more area codes will be cut into service, bringing the state's total to nine. These nine area codes will be capable of supporting roughly 70-million telephone numbers, or more than eight telephone numbers for every person residing in New Jersey.[34]

A similar trend exists outside of New Jersey as well. Whereas in 1995 only 144 geographic area codes had been assigned in all of North America, today at least 309 codes have been

34. The total amount of available numbers (70.2-million) divided by the total population of New Jersey (8.4-million) equals 8.3 telephone numbers per person. US Census Bureau, 2000 Census of Population, http://quickfacts.census.gov/qfd/states/34000.html accessed May 8, 2001.

assigned or are designated for assignment.[35] The FCC has been addressing numbering issues in its *Number Resource Optimization* docket, CC Docket 99-200, for the better part of two years, but has made little headway in curtailing the demand for numbering resources that have produced the seemingly endless creation of new area codes across the country. Given the current trends both nationally and in New Jersey, there is every reason to believe that New Jersey hasn't assigned its last area code.

Q. How are rate centers linked to demand for telephone numbers?

A. Historically, numbers have been assigned to individual service providers in blocks of 10,000.[36] Because central office codes are linked to specific geographic locations known as "exchanges" or "rate centers," carriers desiring to do business in multiple communities will require one central office code assignment of 10,000 numbers (or 1,000, where pooling has been implemented) in each such community, regardless of the actual, or even approximate, volume of customers that will be served by that carrier.

Q. Why were rate centers established in the first place?

35. *See* http://www.nanpa.com/area_codes/npa_introduced.html and http://www.nanpa.com/area_codes/npa_planned.html (April 26, 2001).

36. Within the past year, numbers have been assigned in blocks of 1,000 in a handful of jurisdictions where "thousands-block pooling" has been implemented. In June, 1998, Illinois became the first state to implement a thousands-block number pooling trial, followed shortly thereafter by New York. Other states, including Maine, California, New Hampshire, Texas, Illinois, and Connecticut have also implemented number pooling trials.

A. When the telephone network was first developed, distance played a major role in determining the cost of completing a call. Rate centers were first developed to permit "local" calls to be distinguished from "toll" calls, and in the case of "toll" calls to calculate the distance between the originating and terminating ends of the call. Local/toll and distance-based distinctions were justified on the basis of costs, and rate structures were properly based upon those cost relationships. Today, however, those distinctions are no longer operative insofar as the costs of telephone calls are concerned – there is virtually no difference between the cost of a local call vs. that for a toll call, or for a call of relatively short distance vs. one covering thousands of miles – and the persistence of rate structures premised upon those archaic cost relationships are themselves an anachronism. Rate centers supported a pricing structure that is not only unnecessary in today's telecommunications network environment, but one that is actually inconsistent with the costs that VNJ and other ILECs incur in providing telephone calls. The explosion in telecommunications technology over the past two decades has both reduced the cost of telephone calls to a mere fraction of a cent per minute,[37] and has essentially *eliminated* distance as a cost-driver for all telephone calls. Thus, any physical distinction that may have once existed between local and toll calls is effectively obsolete, which in turn eliminates the need for rate centers as a device for calculating the (no-longer-required) distance attribute.

37. For example, the proxy TELRIC rates for switching adopted by the FCC in its *First Interconnection Order* are well below one cent per minute. *See* Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, *First Report and Order*, CC Docket 96-98, 11 FCC Rcd 16222-23 (1996) ("*First Interconnection Order"*).

Q. Is distance-based pricing evident in other telecommunications markets?

A. Distance has ceased to be a basis for pricing in all of the sectors of the telecommunications industry that are now or that have become robustly competitive. In the long distance industry, distance has disappeared as a rate element in interstate long distance pricing structures. The price of a 10-mile interstate call from Newark to Manhattan is exactly the same as the price of a 5,000-mile call from Bangor, Maine to Honolulu.

Wireless carriers have largely eliminated distance as a pricing element. Both Sprint PCS and AT&T Wireless Services offer standard calling plans that do not distinguish local from long distance calls, nor do such plans otherwise charge on the basis of distance. Also, Internet service businesses have eliminated both distance and usage as pricing elements.

In fact, the only segment of the telecommunications industry where distance-based pricing (in the form of local/toll distinctions and/or mileage-based rates) persists is in the largely noncompetitive local telecommunications sector.[38] Any physical distinction that may have once existed between "local" and "toll" calls is now all but obsolete, which in turn eliminates the need for rate centers as a device for calculating distance attributed as a cost

38. Indeed, the fact that this pricing remnant of a monopoly era persists in the case of local telephone services serves to confirm the lack of effective competition in this sector. If the same level of competition existed in the local and intraLATA toll markets as currently exists in the interstate toll market, undoubtedly the distinction between local and toll calling and distance based pricing would have been eliminated. Rate centers could not survive were local markets effectively competitive.

driver. Verizon New Jersey appears to acknowledge this fact to some extent too, considering that in each of its 4 Scenarios for expanding local calling areas, the toll rates that remain are restructured to be distance-insensitive.[39] However, Verizon does not advocate for the adoption of expanding local calling areas, and does not propose to restructure its distance-based toll rates as a general matter.

Consolidating rate centers will have the effect of expanding local calling areas and eliminating some usage that is currently rated as "toll."

Q. How will consolidating rate centers affect local calling areas?

A. Rate center consolidation involves the combining of multiple individual rate centers into a single, larger geographic area. This change has several ratemaking implications. First, it effectively eliminates the ability to make distance measurements between points within the new expanded rate centers. Second, it places some of the small, previously noncontiguous rating areas into direct geographic contiguity with one another either by including both within the same expanded rate center or because the new expanded rates centers applicable to each of the two formerly noncontiguous exchanges are now contiguous. As a result of both of these effects, some formerly toll-rated routes would become local either because the two communities have been consolidated into the same rating area or because, while still in separate rating areas, local rather than toll rating will apply over that route. For example,

39. West/Taylor (VNJ), at Exhibit 7.

assume there are 100 rate centers ("exchanges") within a LATA. Assume further that the local calling area for each exchange is defined as the "home" exchange plus all contiguous exchanges. Thus, the local calling area for each exchange probably encompasses itself plus around four to six adjacent exchanges. Suppose that the total number of rate centers were reduced from 100 to, say, 20, such that each "new" rate center would embrace approximately five "old" rate centers. Under the same "home and adjacent exchange" definition of "local calling area" each new, expanded rate center would be contiguous with four to six other expanded rate centers, resulting in local calling areas embracing in the range of 25 "old" exchanges.[40]

Of course, consolidating rate centers and enlarging local calling areas will necessarily eliminate some calling routes currently rated as toll. The extent to which toll calling is converted to local calling, and the resulting expansion of the local calling area, depends entirely upon the scope of the plan for rate center consolidation. One form of rate center consolidation is "rate center elimination," in which all rate centers within each LATA are consolidated into one rating area, and all calls within the LATA are then rated as local. In that case, the toll and switched access revenue previously generated by those calls would be eliminated. Alternately, if the total number of rate centers is reduced by only a factor of two,

40. Whereas today the local calling area for each individual exchange might be unique, following the consolidation of rate centers, all five of the original exchanges would now have identical local calling areas.

the impact upon toll usage would be much smaller because this initiative would have a minimal impact upon calling areas, but would also do little to conserve number resources.

Consolidating rate centers will provide the added benefit of conserving NXX codes, and will prevent the need for the future addition of area codes in New Jersey.

Q. How will consolidating rate centers reduce the need for new area codes in New Jersey?

A. The recent run on area codes in New Jersey occurred not because of the increase in the number of cell phones, pagers, fax machines and internet access lines, as is widely reported. Rather, demand for area codes has increased principally because of the assignment of telephone numbers to carriers in blocks of 10,000 (an NXX code) in each and every rate center in which the carrier seeks to provide service. There are 180 rate centers in New Jersey; thus, a carrier seeking to address the statewide market would need to obtain 1.8-million telephone numbers (almost one-quarter of an entire area code), irrespective of the actual customer demand for that carrier's service. It is important to remember that a carrier must request and obtain telephone numbers *before* it can offer service to a customer. As such, even carriers that are not functioning as competitors in the market have contributed toward the drain on numbering resources.

By consolidating rate centers, the quantity of number blocks required to provide service over a given geographic area is reduced. While rate center consolidation will likely not materially affect the incumbent LEC's number assignments, it will enable CLECs to use only a single

NXX code to serve the entire expanded rate center instead of multiple NXX codes that are currently required where numerous small rate centers are defined. However, inasmuch as the largest single source of demand for additional NXX codes is, in fact, coming from CLECs, rate center consolidation can materially reduce that demand for additional NXX codes.[41]

Reducing demand for numbers via rate center consolidation will result in a "give-back" of unused numbering blocks by CLECs, and these numbers can then be reassigned to other carriers. All carriers will experience an increase in utilization of telephone numbering resources, because blocks of numbers will not be left stranded and unusable in rating areas where customer demand is low. High utilization of telephone numbers will reduce or even eliminate the need to introduce more area codes in the future.

Q. Are there costs associated with implementing rate center consolidation?

A. Yes, there will be some costs incurred by the incumbent carrier, Verizon New Jersey, in consolidating rating areas and revising the local calling area boundaries. Billing databases that identify local and toll rate treatment for given pairs of NXX codes will need to be

41. CLEC demand for NXX codes in New Jersey between July, 1997 and January, 2001 has increased by 427%, whereas New Jersey ILECs demonstrated a net reduction in NXX codes over that same period. Local Exchange Routing Guide, July 1997 and January 2001. As discussed in Ratepayer Advocate witness Selwyn's testimony regarding Verizon's Petition to reclassify multi-line business services as competitive, CLEC possession of NXX codes is in no way indicative of the presence of competition.

modified, and some network capacity expansion may also be needed to handle any increase in traffic volumes resulting from the conversion of "toll" routes to "local" rate treatment. These are essentially the same types of cost that would arise under the type of "toll elimination" approach suggested by VNJ, i.e., where one or two toll mileage zones are re-rated to local rate treatment.[42] Of course, to the extent that rate center consolidation should eliminate the need for any additional area codes in New Jersey for many years to come, any costs associated with implementing rate center consolidation will be offset by the *future cost savings* from avoidance of area code activity.

The costs incurred by incumbent carriers associated with the introduction of a new area code have been estimated at between $8.5-million and $11.5-million per area code.[43] Aside from carriers, society as a whole also incurs costs when new area codes are introduced. To the extent that the number conservation efforts in New Jersey serve to prevent the need to expand the current ten-digit dialing system (which is currently forecast to reach exhaust within the next ten years), substantial societal costs will be avoided.[44] There is thus no

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42. The Company has offered no opinion as to how those costs for rate center consolidation would impact the estimated costs for expanding local calling area plans as set forth in Exhibit 7 to the panel testimony of VNJ witnesses West and Taylor. *See* VNJ response to RPA-125.

43. *See*, In the Matter of Number Resource Optimization, FCC CC Docket No. 99-200, *Comments of the National Association of State Utility Consumer Advocates to the Second Further Notice of Proposed Rulemaking*, February 14, 2001, at 31, citing *Comments of Verizon Pennsylvania, Inc.*, Docket No. P-00961071F0002 (Pa P.U.C.)(filed October 30, 2000), at 6.

44. *See* Number Resource Optimization, CC Docket No. 99-200, *Notice of Proposed*

(continued...)

reason to include the implementation costs for rate center consolidation in any plan adopted by the Board.

Overall, the merits of expanding local calling areas through rate center consolidation offer many advantages to the Board beyond the obvious consumer benefits associated with increasing the flat-rate calling area. The Board should adopt rate center consolidation as the preferred method of expanding local calling areas.

44. (...continued)
Rulemaking, 14 FCC Rcd 10337, at para. 34, citing NANC Meeting Minutes, February 18-19, 1999.

PROPOSAL FOR RATE CENTER CONSOLIDATION

Expanding local calling areas through rate center consolidation can be implemented without an offsetting increase in local rates.

Q. Please explain your proposal for implementing expanded local calling areas in New Jersey.

A. I have already discussed the fact that some amount of toll usage will be re-rated as local usage, and that certain costs may be incurred for the implementation of rate center consolidation in order to expand local calling areas. Whereas Verizon's local calling area expansion plans are presented on a revenue-neutral basis (which necessitates an increase in basic service rates in order to recover costs and lost toll revenues), there is in fact no need to raise residential rates after consolidating rate centers and expanding local calling areas.

Q. If rates remain the same, won't VNJ lose revenue?

A. Yes, but reducing VNJ's revenues is consistent with the recommendation of Ratepayer Advocate witness James Rothschild. Mr. Rothschild has calculated that, based upon Verizon's consolidated capital structure, its current level of earnings and the savings associated with the various mergers involving the former Bell Atlantic over the past few years, annual revenues should be reduced by $175-million. I propose that the entire $175-million revenue reduction be implemented through the expansion of local calling areas resulting from rate center consolidation.

Q. Won't a plan for expanding local calling areas via rate center consolidation affect the calling areas, and consequently the revenues, for business as well as residential customers?

A. Yes, but the effect is not as great because (a) the average business line makes fewer toll calls in the shortest mileage bands than the average residential line, and (b) when converted to local rate treatment these (formerly-toll) calls will still be subject to local message charges. Once the customer has used its allotment of 75 message units, it must pay $0.066 per message[45] for all other calls within the local calling area. The effect of expanding the local calling area will serve to increase the number of calls to which the $0.066 message unit rate applies.

Interestingly, and contrary to what one might expect, VNJ's Scenarios for expanding local calling areas in many cases result in a *reduction* in monthly business rates as opposed to an increase, particularly in high density areas.[46] The VNJ witnesses contend that business rates would increase to between ***BEGIN PROPRIETARY<< >>END PROPRIETARY***,[47] yet this rate includes Touch-Tone service and accounts for the State Credit, *as well as* the revenue differential between current message units and zone 1 and/or 2 usage. Current VNJ business message rates for Zones A-D, including Touch-Tone service

45. A message unit is defined as 5 minutes in length. Bell Atlantic - New Jersey, Inc. Tariff B.P.U. - N.J. - No. 2, Section A5, ninth revised page 36, effective October 7, 1997.

46. West/Taylor (VNJ), at 28.

47. *Id.*, Exhibit 7, at 2.

and accounting for the State Credit, range from $11.00 to $13.31,[48] *without* considering any zone 1 and/or 2 usage that the customer might incur. With current levels of toll usage included, it would appear that the effective monthly rates for certain business customers under VNJ's plan would be *lower* than those in effect today. Regardless of whether or not such an outcome would be anticipated after expanding local calling areas, it is nonetheless apparent that adjusting the local calling area for business customers does not impact business rates with the same magnitude as residential rates.

Of course, any business revenue effects that do arise from implementing a particular plan for expanding local calling areas could simply be remedied by adjusting (for example) the monthly rate for business Message Rate service, up or down, so as to maintain consistency in both Verizon's business revenues and on business customers' bills. This solution would preserve the intent of flowing the revenue reduction solely to residential consumers.

Focusing the revenue reduction on toll services makes sense.

Q. Mr. Williams, why does it make sense to focus the revenue reduction solely on residential toll service?

48. Bell Atlantic - New Jersey, Inc., Tariff B.P.U. - N.J. - No.2, Section A5, eighth revised page 30, sixth revised page32, seventh revised page 33, and eighth revised page 34, all of which went into effect on January 1, 1996.

A. As we discussed earlier, New Jersey's ratepayers have small local calling areas and spend a disproportionately large amount of money on toll service. Even though toll service has been declared "competitive" and other interexchange carriers do provide competing intraLATA toll services, the rates currently in effect are still well above cost in large part because VNJ's switched access rates are themselves still well above cost. VNJ's average residential per-line toll revenues exceed Total Service Long Run Incremental Cost by nearly 1500%.[49] Despite the fact that toll rates do not emulate what they perhaps should if the toll and access markets were truly competitive, the toll market is clearly far more competitive than the market for basic local service. Thus, a reduction in toll revenues is unlikely to have a serious anticompetitive impact on any particular carrier or group of carriers, as it simply reduces the overall size of the toll market. Alternatively, a reduction in revenues in the local market would have an adverse impact on CLECs seeking to provide service, particularly when the rates for the underlying unbundled network elements have not yet been established by the Board.[50]

49. Matt/Meachum/Prosini/Taylor (VNJ), at 14, Table 4. According to VNJ, the average monthly TSLRIC for residential toll on a per-line basis is ***BEGIN PROPRIETARY << >> END PROPRIETARY***, while average monthly per-line revenues are ***BEGIN PROPRIETARY << >> END PROPRIETARY***.

50. An open proceeding in BPU Docket No. TO00060356 is examining the appropriate rates for Verizon New Jersey's unbundled network elements.

Consolidating rate centers along county boundaries will provide substantial benefits to consumers by expanding local calling areas and reducing the drain on numbering resources.

Q. Do you have any ideas with respect to how the plan for rate center consolidation should be pursued by Verizon?

A. Given the sizable amount of intraLATA toll revenues in New Jersey, it would appear that the elimination of all rate centers within each LATA would not be a supportable plan at this point in time, since the revenue effect would be too great. Thus, in order to provide the greatest benefit to the greatest number of consumers, Verizon should follow a regional consolidation approach within each LATA, not unlike the regional call plans that were adopted both in New York and in Delaware. Under a regional approach, consolidation occurs within a certain number of rate centers, yet the local calling area is expanded to include not only the rate centers that have been consolidated, but all contiguous consolidated areas as well.

Q. Do you have a specific proposal?

A. Yes. I propose that rate center consolidation be conducted so as to group exchanges within the existing 21 county boundaries in New Jersey. Specifically, all rate centers within a county should be consolidated into a single rate center. The local calling area within a county would include all exchanges within the county *as well as* all contiguous counties,

subject, of course, to LATA boundaries, and modified (if necessary) to ensure that no existing local calling routes be re-rated as toll. The county is a well-recognized geographic area in New Jersey, so defining local calling areas by county will be effective from a consumer-education standpoint.

In addition, implementation of this plan will reduce the number of rating by a factor of nine, which will significantly reduce the current drain on numbering resources. Instead of requiring 1.8-million telephone numbers in order to provide service to consumers throughout New Jersey, CLECs will need only 210,000. Not only will such a plan for rate center consolidation reduce the future demand on numbers, it could also result in a significant "give-back" of telephone numbers already held by CLECs (and perhaps even incumbent carriers) that would no longer be needed under the larger rate center scheme.

Q. Will such a plan have a revenue impact upon VNJ of $175-million, the recommended revenue reduction as set forth by Mr. Rothschild?

A. In order to fully develop a plan for rate center consolidation that incorporates estimates of its potential revenue effect, it would be necessary to analyze route-by-route traffic volumes and calling patterns between current rate centers. This information is in the sole possession of VNJ, and despite my request, this information has not been provided.[51] Thus, I am unable to

51. *See* VNJ response to RPA-364.

state with specificity whether this plan would have a revenue impact that is less than, greater than, or equal to the $175-million recommended reduction. Therefore, in adopting my recommendation, the Board should require Verizon New Jersey to calculate the revenue impact for implementing this plan. Once the revenue impact has been calculated, adjustments to the plan for consolidating rate centers could be made to reach the required $175-million target, with the input of all interested parties. So as to avoid the need to pursue this matter via a separate proceeding, Verizon should immediately prepare the required analysis and present it to the Board within 60 days, so that the issue can be decided by the Board prior to the closing of the record in this proceeding.[52]

52. 60 days should be a reasonable time frame, knowing that Verizon was able to calculate and testify to the revenue effects of its own calling area expansion plans within 55 days following the Board's December 22, 2000 Order.

EXPANDED RANGE OF BASIC SERVICE OPTIONS

VNJ has not proposed to expand its basic service options, based on its interpretation of the Board's Order.

Q. Mr. Williams, what did the December 22, 2000 Order require Verizon to file with respect to expanding its basic service options?

A. The December 22, 2000 Order stated, in relevant part, that:

> VNJ [is directed] to submit with the filing, all local service offerings that Verizon Corporation and its operating affiliates have introduced in their respective service territories, particularly those states where Verizon Corporation has introduced offerings in which geographical limitations have been lifted. Further, VNJ shall include the Company's analysis and recommendations as to whether the Board should consider the following options as part of the new Plan: ... (2) basic service options in addition to POTS: with regard to the analysis of any basic service revisions to be offered to customers, VNJ shall analyze options and customer choices that would permit customers the ability to buy usage and features on an a la carte basis, including, but not limited to, a basic service option for dial tone service only, where subscribers receive access to the network for a flat monthly fee, and pay for usage separately...

In response to the Board's directive, Verizon provided as Exhibit 1 to its February 15, 2001 Petition and Compliance Filing a summary of basic service offerings in Verizon's current service territory, along with the tariff pages and orders associated thereto. What is specifically lacking from Verizon's filing is any form of "analysis" prepared by the Company with respect to this filing. This issue was raised by the Ratepayer Advocate in its letter motion to the Board of February 26, 2001, which outlined the numerous ways in which

Verizon's February 15, 2001 filing was deficient with respect to the Board's specific requests.[53]

Q. Was any reason given by Verizon as to why there is no analysis or recommendation concerning other basic service options, such as those outlined by the Board in its Order?

A. According to VNJ witness Dennis M. Bone, "[s]ince Verizon NJ is not proposing any basic service rate revisions in this filing, [the Company] did not include any analysis of options and customer choices that would permit customers to purchase usage and features on an a la carte basis or that would include a separate dial-tone only option."[54]

Q. Do you agree with Mr. Bone's reasoning?

A. No, I do not. Although I am not an attorney and therefore do not offer a legal opinion, as per the Ratepayer Advocate's February 26, 2001 letter motion, the fact that Verizon is retaining basic service rates at their current levels is not in and of itself reason to refrain from responding to the Board's Order with a proper analysis and recommendation on alternatives to basic service options. Knowing that telecommunications is a declining cost industry, the

53. Letter motion from Blossom A. Peretz, Esq. to Frances L. Smith, February 26, 2001.

54. Bone (VNJ), at 9.

retention of local service rates at 1985 levels[55] may not constitute a *service* revision or an explicit change in *rates*, but it certainly impacts the cost/revenue relationship for basic service as recognized by Verizon. As discussed in the testimony of Ratepayer Advocate witness Lee Selwyn, Verizon has testified to the fact that total residential revenues exceed total costs;[56] therefore, as costs decline, the margin realized by Verizon increases, just as it would were a rate increase implemented by the Company. The Company's conclusion that an analysis of options and customer choices was unnecessary because it did not propose any "basic service revisions" is without merit.

Q. Did Verizon offer any discussion on basic service options?

A. Verizon witnesses West and Taylor devoted less than one page in Exhibit 7 to their testimony to "comply" with the Board's Order. This page included the above-referenced quote by the Board, a statement that VNJ did not propose any basic service revisions, a statement that VNJ is retaining its POTS-only service at 1985 rates, and a table with Verizon's current residential offerings for New Jersey. Verizon then states its opinion that a "stand-alone dial tone service" would not be offered at this time.[57]

55. West/Taylor (VNJ), Exhibit 7, at 15.

56. Matt/Meacham/Prosini/Taylor (VNJ), at 14-15.

57. West/Taylor (VNJ), Exhibit 7, at 15.

ALLEGEDLY PROPRIETARY DATA
HAS BEEN DELETED

Q. For what reasons did the Company decline to offer such a service?

A. Verizon states that "few customers" subscribe to its current Low Use Message Rate service,[58] which provides dial tone service and 20 Message Units for a single monthly price, with additional Message Units priced separately. Verizon states that since this service "closely approximates a dial tone only service," it is "unlikely" that many customers would find dial tone only service "attractive."[59]

Without offering the service to customers at a particular rate, VNJ's "conclusions" on how customers would react to a dial-tone line only service are unsupported and constitute opinion rather than fact. Verizon admits that no reports or studies were conducted to support the Company's assertion that customers would not find dial tone only service "attractive."[60] In its Order, the Board clearly expressed an interest in setting separate rates for dial-tone line and usage. By failing to provide an "analysis" of the impact on offering such a service, VNJ is attempting to simply sidestep the intent of the Board – in a manner that may serve to preserve revenues for itself.

Q. How so?

58. *Id.*

59. *Id.*

60. *See* VNJ response to RPA-124.d.

A. Although I have not conducted a formal study (and, apparently, neither has Verizon[61]), it is reasonable to conclude that many (or even all) current Low Use customers have made the affirmative decision to purchase Low Use service simply because it is the cheapest service available. These customers may know for certain that they make few outgoing calls within the local calling area, or perhaps the service is purchased for a vacation home or as an emergency line in an existing household. One would expect a dial-tone only service option to be priced at some level *less* than the current Low Use rates; thus, by failing to provide dial-tone only service, Verizon preserves the revenue differential between what the dial-tone only service rate would be and the current Low Use rate, less any message unit revenue generated by the dial tone only service. For example, if the dial tone only service were priced $1 below the current Low Use rate, and if all ***BEGIN PROPRIETARY << >> END PROPRIETARY*** Low Use customers actually preferred to purchase the lowest price service available, then by refusing to provide such a service permits VNJ to retain about ***BEGIN PROPRIETARY << >> END PROPRIETARY*** in

61. *See* West/Taylor (VNJ), Exhibit 7, at 15, wherein the witnesses state that "[i]t is *unlikely* that customers would find the dial tone only service attractive, especially at today's rates." Emphasis supplied.

additional annual revenues,[62] less any message unit revenue associated with the dial tone only service.[63]

To the extent that the tiny number of Low Use subscribers is a result of the comparability in rates between Low Use, Message Rate and Flat Rate service, then a lower-priced dial tone only service would increase the rate differential between these services; if large enough, one might see a migration of customers away from Message Rate or even Flat Rate service towards the cheaper service offering, thus making a more compelling case for offering the dial tone only service. Unfortunately, since Verizon has not provided any "analysis" relative to a dial tone only service offering, it is difficult to make such factual conclusions. Verizon's shortcomings with respect to this analysis should not in any way dissuade the Board from pursuing the establishment of such a service if there is sincere interest in making this option available to residential consumers.

Q. Does this conclude your testimony at this time?

A. Yes, it does.

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62. While this figure may appear to be a drop in Verizon's bucket, it is important to remember that these extra dollars are imposed upon those customers seeking the lowest priced service; in many cases, these customers are likely to be the least able to afford providing the Company with extra revenues.

63. The magnitude of message unit revenues depends entirely upon the quantity of message units Low Use customers purchase. In response to RPA-120.h, Verizon indicated that such data is not available.

Attachment 1

Statement of Qualifications

Douglas S. Williams

Douglas S. Williams is a Vice President at ETI with nearly seven years of experience in the field of telecommunications regulation. Mr. Williams provides economic, regulatory and statistical analysis and support to ETI's clients on a broad range of topics.

Mr. Williams contributes extensively in the analysis and preparation of reports, comments, expert testimony and briefs in the various state and federal regulatory and policymaking proceedings in which ETI participates. Mr. Williams has actively participated in a number of proceedings relating to the implementation of local competition in the telecommunications industry pursuant to federal and state legislation, covering such topics as interconnection, recurring and nonrecurring costing methodologies (embedded and forward-looking), competitive safeguards, price cap regulation, imputation, development of unbundled network elements, competitive barriers to entry, alternative regulation, Section 271 applications, and infrastructure development. He has participated extensively in projects in California, Hawaii, Nevada, New Mexico, Kansas, Texas, Illinois, Ohio, Pennsylvania, New Jersey, and Massachusetts on behalf of consumer advocates, public utility commission staff, and competitive local exchange carriers. Mr. Williams has also gained knowledge of the energy industry as well, having conducted critiques of various benchmarking analyses of Pacific Gas and Electric on behalf of the California Office of Ratepayer Advocate.

Mr. Williams has developed substantial expertise in numbering issues, having participated in a variety of proceedings at both the state and federal level. Mr. Williams contributed extensively to the second edition of ETI's report entitled, *"Where Have All the Numbers Gone?,"* which thoroughly examines the root causes of area code exhaust and possible solutions to the current numbering crisis. He has co-authored a number of rounds of comments and reply comments on behalf of both consumer advocate agencies and the Ad Hoc Telecommunications Users Committee in the FCC's current Number Resource Optimization proceeding. Mr. Williams was instrumental in assisting the Attorney General of the state of Massachusetts in analyzing and developing proposals for rate center consolidation, expanded local calling areas, and area code relief in eastern Massachusetts. Mr. Williams co-authored comments on behalf of the Maryland Office of People's Counsel in response to recent area code relief issues, and also co-authored a report on number conservation measures for the District of Columbia's Office of People's Counsel. In addition, Mr. Williams participated in area code and numbering issue proceedings in Pennsylvania and Ohio (for the offices of Ratepayer Advocate), in Illinois (for the Office of Attorney General), and in Iowa (for the Office of the Consumer Advocate).

Mr. Williams has spent considerable time conducting in-depth analyses on the risks and benefits of the various recent mergers between large incumbent telephone companies, including the impact such mergers would have on the development of local competition; the effect each merger would have on a state's ratepayers; and the quantification of net merger benefits to be shared with captive ratepayers. Analysis was performed on behalf of various consumer groups across the country, including: the Connecticut Office of Consumer Counsel (SBC/SNET merger), the Attorney General of the state of Illinois, the Citizens Utility Board (IL), the Cook County State's Attorney (IL), the Indiana Office of Utility Consumer Counselor, and the Ohio Consumers' Counsel (SBC/Ameritech merger), and the California Office of Ratepayer Advocate (Bell Atlantic/GTE merger).

In the period following enactment of the Telecommunications Act of 1996, Mr. Williams' work focused on the detailed analysis of various cost studies and cost proxy models that were filed by both incumbent local exchange carriers and competitive local service providers. As a result, Mr. Williams has become fluent with the forms and functions of numerous Total Service Long Run Incremental Cost studies and Total Element Long Run Incremental Cost Studies, and has conducted in-depth evaluation and criticism of assorted cost proxy models, such as the various RBOC cost models, the Hatfield Model, the Telecom Economic Cost Model, and the Integrated Cost Model.

Throughout his tenure at ETI, Mr. Williams has developed extensive knowledge of telecommunications tariffs, services and pricing issues. He provides alternative local carriers with detailed pricing summaries for numerous switched access, special access and local exchange telecommunications services. Mr. Williams also assists in the analysis of interstate contract tariffs for ETI's corporate clients. He has participated in the analysis of pricing issues associated with a multitude of custom network contract negotiations, and is currently aiming to expand ETI's management consulting capabilities into procuring and negotiating national local service contracts for large corporate users.

Mr. Williams has co-authored several reports and studies, specifically including:

- *"Assessing SBC/Pacific's Progress In Eliminating Barriers To Entry: The Local Market In California Is Not Yet Fully and 'Irreversibly Open',"* (with Susan M. Baldwin and Patricia D. Kravtin). Prepared for the California Association of Competitive Telecommunications Companies, May 2000.

- *"Telephone Numbering: Establishing a Policy for the District of Columbia to Promote Economic Development,"* (with Susan M. Baldwin and Sarah C. Bosley). Prepared for the District of Columbia Office of People's Counsel, February 2000.

- *"Study of the Impacts of the Iowa Communications Network upon the Iowa Telecommunications Industry,"* (with David N. Townsend, John T. McDermott and Andrew Reamer). Prepared for the Iowa Utilities Board, December 1995.

- *"Communications and the Household Budget: Where Will the Markets Be?"* (with David N. Townsend). ETI Research Report, presented as part of the *Communications International* Virtual Conference, April 1995.

- *"Consumer Telephone Services in the United States: A Product and Pricing Study,"* (with David N. Townsend and Chris B. Lee). A multi-client study prepared on behalf of the Eurodata Foundation and presented to representatives of the European Community, October 1994.

Mr. Williams received his Bachelor of Arts degree *cum laude* in Economics from Brandeis University and also conducted studies in French at La Sorbonne (Universite de Paris IV), Paris, France.

Attachment 2

Average per Line IntraLATA Toll Revenue, by State

Attachment 2

Average per Line IntraLATA Toll Revenue, by State

State	Annual IntraLATA Toll Revenue[1]	Switched Access Lines	Monthly Revenue per Access Line	State	Annual IntraLATA Toll Revenue[1]	Switched Access Lines	Monthly Revenue per Access Line
Nevada	$14,000,000	1,280,110	$0.91	Iowa	$53,000,000	1,421,435	$3.11
Minnesota	$30,000,000	2,342,765	$1.07	Indiana	$142,000,000	3,498,569	$3.38
Arizona	$30,000,000	2,241,645	$1.12	Pennsylvania	$335,000,000	8,188,586	$3.41
Virginia	$72,000,000	4,826,564	$1.24	Utah	$49,000,000	1,155,654	$3.53
Florida	$180,000,000	11,073,254	$1.35	Wyoming	$11,000,000	256,083	$3.58
Hawaii	$12,000,000	735,241	$1.36	Washington	$159,000,000	3,610,551	$3.67
Maryland	$67,000,000	3,928,947	$1.42	Montana	$18,000,000	382,224	$3.92
Delaware	$10,000,000	583,559	$1.43	Missouri	$171,000,000	3,370,626	$4.23
Louisiana	$41,000,000	2,354,492	$1.45	Wisconsin	$139,000,000	2,691,248	$4.30
New York	$234,000,000	12,889,986	$1.51	Oklahoma	$94,000,000	1,800,486	$4.35
North Carolina	$89,000,000	4,537,384	$1.63	California	$1,262,000,000	23,163,579	$4.54
Kentucky	$48,000,000	2,006,422	$1.99	Mississippi	$75,000,000	1,299,231	$4.81
Georgia	$114,000,000	4,471,590	$2.12	Kansas	$83,000,000	1,436,639	$4.81
Colorado	$72,000,000	2,809,742	$2.14	Rhode Island	$40,000,000	682,262	$4.89
Alabama	$58,000,000	2,241,645	$2.16	North Dakota	$17,000,000	264,275	$5.36
Ohio	$180,000,000	6,630,660	$2.26	South Dakota	$19,000,000	289,596	$5.47
Tennessee	$85,000,000	2,942,988	$2.41	Vermont	$25,000,000	356,609	$5.84
Texas	$362,000,000	12,104,206	$2.49	New Hampshire	$61,000,000	827,236	$6.14
Idaho	$21,000,000	699,639	$2.50	New Jersey	$518,000,000	6,975,670	$6.19
New Mexico	$28,000,000	927,634	$2.52	Arkansas	$85,000,000	1,118,519	$6.33
Illinois	$246,000,000	7,914,004	$2.59	Massachusetts	$355,000,000	4,648,345	$6.36
West Virginia	$28,000,000	862,629	$2.70	Connecticut	$197,000,000	2,418,468	$6.79
Oregon	$66,000,000	2,012,672	$2.73	Michigan	$731,000,000	6,181,345	$9.85
Nebraska	$29,000,000	872,663	$2.77	Maine	$106,000,000	732,338	$12.06
South Carolina	$62,000,000	1,694,287	$3.05	***Total***	*$6,923,000,000*	*171,754,302*	*$3.36*

Sources: Federal Communications Commission, Common Carrier Bureau, *Statistics of Communications Common Carriers,* August 11, 2000, Table 2.4: Switched Access Lines by Type of Technology for Reporting Local Exchange Carriers as of December 31, 1999; FCC, IndustryAnalysis Division, *State-by-StateTelephone Revenue and Universal Service Data,* April 2001, Table A-9: Infomation on Allocating ILECs' Intrastate Toll Revenues: 1999.

[1] Rounded to nearest one-million.