

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
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TELECOMMUNICATIONS

IN THE MATTER OF THE BOARD INVESTIGATION)	SUMMARY ORDER
REGARDING THE RECLASSIFICATION OF)	OF APPROVAL
INCUMBENT LOCAL EXCHANGE CARRIER (ILEC))	
SERVICES AS COMPETITIVE)	DOCKET NO. TX07110873

(SERVICE LIST ATTACHED)

BY THE BOARD:

By Order dated November 28, 2007, in response to a request from Verizon New Jersey, Inc. ("Verizon"), the Board determined that it is appropriate at this time to conduct a full investigation of and hearing on the question of whether incumbent local exchange carrier ("ILEC") provided mass market retail services should be declared competitive pursuant to N.J.S.A. 48:2-21-19(b), after review and consideration of the necessary criteria. This Summary Order memorializes the decision of the New Jersey Board of Public Utilities ("Board") at its public agenda meeting of July 9, 2008. At that meeting, the Board approved a Stipulation and Agreement among Board Staff, the New Jersey Division of Rate Counsel ("Rate Counsel") and Verizon New Jersey, Inc. ("Verizon"). This Order includes the Stipulation and Agreement and resolves this matter as it relates to Verizon. A separate Stipulation and Agreement among Board Staff, Rate Counsel and United Telephone Company of New Jersey, Inc. d/b/a Embarq ("Embarq") has been submitted for Board approval and will be addressed at a later Board Agenda Meeting. A final Order will be issued in this matter more fully setting forth the Board's analysis of the issues, the positions of the parties, and the reasoning underlying the Board's determinations, as part of its consideration of the proposed Embarq Stipulation.

Background/Procedural History

On November 28, 2007, the Board initiated a proceeding on its own motion in response to a letter dated November 14, 2007, from Verizon requesting that the Board commence a proceeding to investigate whether ILEC mass market retail services should be declared competitive pursuant to N.J.S.A. 48:2-21-19 (b). Specifically, the Board sought to determine if ILEC mass market retail telecommunications services satisfied the necessary elements of ease

of market entry, presence of other competitors, and availability of like or substitute services in the relevant geographic area.

In order to provide a full record and to allow for an inclusive and transparent process, the Board established a procedural schedule which provided for initial, reply and rebuttal testimony, public and evidentiary hearings and invited interested parties to petition the Board for intervention.

Initial testimony was filed on December 14, 2007, followed by reply testimony on January 10, 2008, and rebuttal testimony on January 29, 2008. Both Verizon and Embarq filed testimony in support of their requests for reclassification of listed services. Rate Counsel and Sprint Nextel Corporation ("Sprint"), an intervenor, filed testimony opposing reclassification. Three public hearings were held on February 11th, 13th, and 14th, 2008. Evidentiary hearings were held on February 25th and 26th, 2008.

The Board's action in connection with a request for reclassification is governed by the provisions of N.J.S.A. 48:2-21.19(b) ("Act"), which require, that certain tests be met prior to reclassifying a service as competitive.

N.J.S.A. 48:2-21.19(b) states:

The Board is authorized to determine, after notice and hearing, whether a telecommunications service is a competitive service. In making such a determination, the Board shall develop standards of competitive service, which, at a minimum, shall include evidence of ease of market entry; presence of other competitors; and the availability of like or substitute services in the relevant geographic area.

According to the language contained in the statute, the Board is required to address the three prongs of the test prescribed in the Act. The Board must determine whether Verizon's mass market services are sufficiently competitive to permit reclassification which would remove the Board's ability to regulate the rates for the relevant services, N.J.S.A. 48:2-21.19 (a), while ensuring that the public interest will be served.

Position of the Parties

Verizon

Verizon avers that all of its mass market services that have not already been deemed competitive should be declared competitive. In support of its position, Verizon argued that new and evolving telecommunications platforms enable a mixture of service providers, many of which are not traditional telephone companies, to offer a full array of communications services.

According to the Company, the convergence of communications technologies has enabled services offered by competitive local exchange carriers ("CLECs") and non-traditional competitors, such as wireless carriers, cable companies and voice over Internet protocol ("VoIP") providers to compete with the services offered by the Company.

Embarq

Embarq argues that technological changes and innovations have enabled numerous competitors to offer services which compete with Embarq, including CLECs, cable companies, VoIP providers, and wireless mobile providers, and therefore said services should be deemed competitive.

Rate Counsel

Rate Counsel submits that continued regulation of retail mass market services is appropriate and necessary to ensure that rates, terms, and conditions remain just and reasonable, and that safe, adequate and proper service is maintained. According to Rate Counsel, Verizon and Embarq have failed to show that there are competitive alternatives for residential basic service as well as directory assistance service. Rather, the carriers offer bundled services, which combine local, long distance service, and video in a single package. Rate Counsel's arguments center on its position that no telecommunications providers currently offer affordable stand-alone basic service.

Sprint

Sprint argues that the reclassification of basic retail telephone services should be reviewed in conjunction with interstate access charges. Basic retail services have always been provided as a regulated monopoly while access charges were established at high levels decades ago to subsidize low rates for basic services as part of an overall regulatory scheme. The company cites the Telco Act of 1992 as prohibiting the Board from reclassifying basic rates without a review of switched intrastate access rates. Using this as a pivot for its discussion, Sprint Nextel argues that intrastate access charges are a barrier to entry and that access charges cross subsidize basic services.

Settlement

On May 30, 2008, Verizon, on behalf of itself, Board Staff and Rate Counsel (the "Parties"), submitted a proposed stipulated settlement to the Board for approval. The Stipulation of Settlement is attached to and is incorporated in this Order as if it were fully set forth herein.

A public hearing was held on June 24, 2008 at the Board's Newark Office to receive public comment on the agreement. In total 11 parties participated in the public hearing including AT&T and Sprint; the Newark Regional Business Partnership, the Metropolitan Trenton African American Chamber of Commerce, the Greater Elizabeth and Middlesex County Chambers of Commerce, the Association of Independent Colleges and Universities, New Jersey Citizen Action, Catholic Charities of the Archdiocese of Newark, and the New Jersey Alliance for Action (the "Organizations"); and Hilda Harris on her own behalf.. In addition, the Board received written comments from three parties. At the hearing, AT&T stated that it did not oppose the settlement, but requested that the Board next address intrastate access rates. Sprint echoed the request that the Board commence a proceeding to review intrastate access charges. The Organizations all supported the Stipulation, especially, the provisions which would continue the availability of Life Line services. Only one party, Teletruth, submitted written comments opposing the Stipulation, asserting that Verizon continues to provide misleading data, and that the Stipulation, if approved, will harm residential and small business wireline customers.

STIPULATED FINDINGS

Based on the record, the Parties have agreed to the following facts:

- (1) The Verizon NJ mass market retail services at issue in this proceeding are listed in Exhibit A attached to the stipulation. These services include, but are not limited to, residential basic exchange service; single-line business basic exchange service; residential directory assistance service; and residential installation service.
 - (a) Verizon NJ has not raised the price of its residential basic exchange service (including touch tone) since 1985, when the price of this service for the highest rate group was \$9.18 per month. The current statewide price of this service is \$8.95 per month. If the price of this service were adjusted for inflation under the Consumer Price Index Inflation Adjuster, from 1985 to 2008, the price of the service would be \$18.22 per month.
 - (b) In 1985, the price of Verizon NJ's single-line business basic exchange service (including touch tone) for the highest rate group was \$14.83 per month. The current statewide price of this service is \$15.00 per month. If the price of this service were adjusted for inflation under the Consumer Price Index Inflation Adjuster, from 1985 to 2008, the price of the service would be \$38.43 per month.
 - (c) In 1985, Verizon NJ's non-recurring charges for installation of residential services were \$42.00. These charges are currently \$42.35. If these charges were adjusted for inflation under the Consumer Price Index Inflation Adjuster, from 1985 to 2008, they would be \$83.35.
 - (d) Verizon currently offers (4) four free DA calls per month, and charges \$.50 cents per chargeable DA call after the monthly call allowance has been exceeded. In the majority of states, the average rate is \$1.25 per chargeable residential DA call. In New Jersey, telephonic DA providers price their services from "free" to \$2.49 per call without a free call allowance.
- (2) With the exception of Verizon NJ's residential basic exchange service including usage, single-line business basic exchange service, non-recurring charges for installation of residential services, and residential DA service, the Parties agree that the remainder of Verizon NJ's mass market retail services be classified as competitive.
- (3) Verizon NJ's residential basic exchange service, single-line business basic exchange service, element charges for installation of residential services, and residential DA service shall remain rate regulated. The parties agree, however, that Verizon NJ should be permitted to adjust the rates for these services in accordance with the rate caps agreed to, and that the resulting rate caps will produce rates that are affordable and just and reasonable under the standards in PAR-2 and N.J.S.A. 48:2-21.17.

SETTLEMENT TERMS AND CONDITIONS

- (1) Verizon NJ's residential basic exchange service, single-line business basic exchange service, non-recurring charges for installation of residential services, and residential DA service shall remain rate regulated. Upon Board approval of this Stipulation and Agreement and upon effective date of the appropriate tariffs, Verizon NJ shall be authorized to charge no more for these services than the authorized rate caps set forth below:
 - (a) Residential basic exchange service: Verizon NJ shall charge no more than \$11.95 per month for the first year after the effective date of the appropriate tariffs; no more than \$14.45 per month for the second year; and no more than \$16.45 per month for the third year.
 - (b) Single-line business basic exchange service: Verizon NJ shall charge no more than \$18.50 per month for the first year after the effective date of the appropriate tariffs; no more than \$22.00 per month for the second year; and no more than \$25.50 per month for the third year. Notwithstanding the above, the parties agree that the actual rates for single-line business exchange service shall not exceed these caps or the multiline business rates in effect until the conclusion of the proceeding referenced in paragraph five (5) below, whichever is lower.
 - (c) Non-recurring charges for installation of residential services: Verizon NJ shall charge no more than \$45.00 for the first year after the effective date of the appropriate tariffs; no more than \$47.50 for the second year; and no more than \$50.00 for the third year.
 - (d) Residential DA service: Callers shall receive two (2) free call(s) per month. Once the monthly free call allowance has been exceeded, Verizon NJ shall charge no more than \$1.25 per chargeable DA call for the first year after the effective date of the appropriate tariffs; no more than \$1.50 per chargeable DA call for the second year; and no more than \$1.50 per chargeable DA call for the third year.
- (2) Any increases to Verizon's residential basic local exchange service are not applicable to Verizon's Lifeline services which remain regulated and may not be increased absent Board approval. Verizon will continue its outreach efforts to enroll eligible New Jersey residents in the Lifeline program.
- (3) Verizon shall also continue the following social services programs – in their current form, and, to the extent applicable at current rates – pending the proceeding identified in paragraph five (5) below:
 - (a) A 25% discount on local message units and intrastate intra-LATA message charges for hearing-impaired persons.

- (b) The Link-Up America program, which provides discounts on service connection charges for qualified low-income customers.
 - (c) Free DA calls for consumers with a visual or physical impairment who submit proper certifications to Verizon NJ.
 - (d) Repair priority given to consumers with serious illness or physical disability.
 - (e) Call block features offered at no charge to all customers.
- (4) With the exception of the services discussed in paragraphs one (1) through three (3), the remainder of Verizon's mass market retail services, listed in Exhibit A, shall be classified as competitive within the meaning of *N.J.S.A. 48:2-21.19*. Although competitive and not otherwise rate regulated, Verizon has voluntarily agreed that in order to reach an amicable resolution of this matter and to avoid rate shock and to otherwise ensure reliable service, the services listed immediately below shall be subject to rate caps until the conclusion of the proceeding referenced in paragraph five (5):
- (a) Caller Identification with Name: Verizon NJ shall charge no more than \$9.25 per month for the first year after the effective date of the appropriate tariff filings; no more than \$11.00 per month for the second year; and no more than \$12.75 per month for the third year.
 - (b) Non-Published Listings: Verizon NJ shall charge no more than \$2.20 per month for the first year after the effective date of the appropriate tariff filings; no more than \$2.95 per month for the second year; and no more than \$3.70 per month for the third year. Customers who have obtained a court order of protection shall receive non-published listings at no charge.
 - (c) Call Trace: Verizon NJ shall charge no more than \$1.25 per attempt for the first year after the effective date of the appropriate tariff filings; no more than \$1.50 per attempt for the second year; and no more than \$1.75 per attempt for the third year.
- (5) The Board shall initiate a proceeding to re-evaluate the competitiveness of the services identified in paragraphs 1, 2 and 3, within ninety days after the third anniversary of the issuance of the effective date of the appropriate tariffs reflecting the first year increases. The rate caps shall remain in effect until the conclusion of that proceeding.
- (6) Verizon shall continue to abide by all provisions and obligations contained in PAR-2, NJSA and NJAC. Verizon NJ shall continue to file and maintain tariffs for competitive services unless the Board determines that tariffs are not required for particular services.

- (7) Until the proceeding identified in paragraph five (5) is commenced, no party to this Stipulation and Agreement shall petition the Board to modify the rate caps in paragraphs one (1) through four (4) above. However, if the Board issues an order reducing intrastate access charges that Verizon is permitted to charge, Verizon may request that the Board adjust the rate caps established in the Stipulation and Agreement upon written request to the Board, after hearing, upon notice, wherein Verizon shall have the burden of proof to show that the increase, change, or alteration is just and reasonable given the reduction in access charges. Prior to any such rate adjustment, Verizon shall also demonstrate that the requested rates for residential basic exchange service will be affordable within the meaning of PAR-2. Rate Counsel reserves its right to oppose any such petition filed by Verizon. Moreover, any party may seek to modify the provisions of the Stipulation and Agreement, including the rate caps identified in paragraphs one (1) and four (4), in the proceeding identified in paragraph five (5).
- (8) Verizon shall provide Rate Counsel with several competitive reports currently filed with the Board.
- (9) Within 30 days of the Board's approval of the Stipulation and Agreement, and the effective date of the appropriate tariffs, Verizon shall withdraw its appeal with prejudice of the CLEC Reclassification Order Dkt. No. TX06120841 and the DA Reclassification Order Dkt. Nos. TX06010057 and TT97120889.

After careful review of the record and the attached Stipulation and Agreement, the Board **FINDS** that the proposed Stipulation and Agreement is a reasonable resolution of all Verizon issues of controversy, is in the public interest and in accordance with law. Where, as here, the Board has independently examined the record, and has provided opportunity for any nonconsenting party to be heard, the Board has the power to consider and rely upon non-unanimous stipulations as fact-finding tools. In the Matter of the Petition of Public Service Electric and Gas Company for Approval of an Increase in Electric and Gas Rates, 304 N.J. Super 247 (App. Div. 1997). Accordingly, the Board **HEREBY ADOPTS** the Stipulation and Agreement as its own, and incorporates it into the within Order as if fully set forth herein. The Board **ORDERS** the Parties to fully comply with the terms of the Stipulation and Agreement.

In addition, Verizon is HEREBY DIRECTED to:

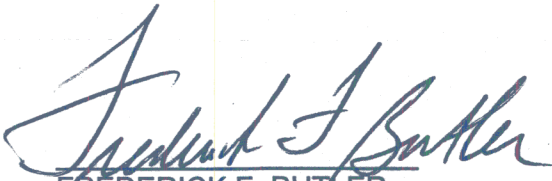
- 1) File tariffs with the Board setting forth the rates, terms and conditions as agreed to in the Stipulation and Agreement; and
- 2) Within 30 days of the effective date of the appropriate tariffs, Verizon shall withdraw its appeal with prejudice of the CLEC Reclassification Order and the DA Reclassification Order.

DATED: 7/14/08

BOARD OF PUBLIC UTILITIES
BY:



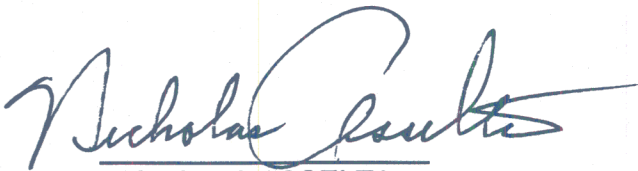
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COMMISSIONER



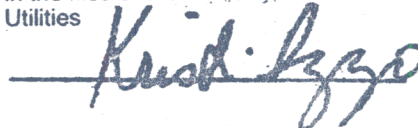
ELIZABETH RANDALL
COMMISSIONER

ATTEST:



KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities



**IN THE MATTER OF THE BOARD INVESTIGATION REGARDING THE
RECLASSIFICATION OF INCUMBENT LOCAL EXCHANGE CARRIER
(ILEC) SERVICES AS COMPETITIVE**

DOCKET NO. TX07110873

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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

In the Matter of the Board Investigation :
Regarding the Reclassification of Incumbent: :
Local Exchange Services (ILEC) as :
Competitive :
_____ :

Docket No. TX07110873

STIPULATION AND AGREEMENT

Pursuant to *N.J.A.C.* 14:1-8.1 and 1:1-19.1(a), the Parties (defined below in paragraph one (1)) hereby agree as follows:

I. BACKGROUND

- (1) The parties to this Stipulation and Agreement are Verizon New Jersey Inc. ("Verizon NJ"); the Staff of the New Jersey Board of Public Utilities ("Staff"); and the New Jersey Division of Rate Counsel ("Rate Counsel") (collectively, the "Parties").
- (2) Verizon NJ is an incumbent local exchange carrier ("ILEC") that operates under an "alternative form of regulation" ("PAR-2") within the meaning of the Telecommunications Act of 1992, *N.J.S.A.* 48:2-21.16 *et seq.* (the "1992 Act").
- (3) Pursuant to *N.J.S.A.* 48:2-21.19(a), the Board cannot "regulate, fix or prescribe" the rates of competitive services. *N.J.S.A.* 48:2-21.19(a). Verizon NJ may adjust the rates of any service deemed competitive under *N.J.S.A.* 48:2-21.19(b) without seeking prior Board approval.
- (4) Under PAR-2, rate adjustments for regulated services are permitted after notice and hearing if the resulting rates are affordable and "just and reasonable." *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 Services as Competitive Services, and Compliance Filing*, BPU Docket No. TO01020095, Decision and Order (June 19, 2002) at page 39.
- (5) Under PAR-2, rates may be based on, among other things, "the use of an index, formula, price caps or zone of rate freedom." *N.J.S.A.* 48:2-21.17.

- (6) On November 28, 2007, in response to a request from Verizon NJ, the Board commenced this proceeding to investigate the regulatory treatment of retail mass market services provided by ILECs in New Jersey. The Board invited input from any and all interested parties, including but not limited to all registered telecommunications providers in the state, other parties that may have an interest in the matter, and Rate Counsel.
- (7) By order dated December 18, 2007, the Board granted intervenor status to Verizon NJ, United Telephone Company of New Jersey, Inc. d/b/a Embarq ("Embarq"), Sprint Communications Company, L.P., Sprint Spectrum, L.P. and Nextel of New York, Inc. (collectively "Sprint Nextel"), and Rate Counsel. The Board originally granted XO Communications Services, Inc. ("XO") intervenor status, but later granted XO's request to modify its status from intervenor to participant. By order dated December 18, 2007, the Board granted participant status to AT&T Communications of NJ, L.P. ("AT&T"), Cablevision Lightpath - NJ, Inc. ("Lightpath") and The New Jersey Cable Telecommunications Association ("NJCTA").
- (8) On December 14, 2007, Verizon NJ and Embarq filed initial testimony in support of reclassifying ILEC-provided retail mass market services as competitive.
- (9) The Verizon NJ mass market retail services at issue in this proceeding are attached hereto as Exhibit A. These services include, but are not limited to, residential basic exchange service; single-line business basic exchange service; residential directory assistance ("DA") service; and residential installation service.
- (10) The U.S. Department of Labor, Bureau of Labor Statistics ("Labor Department"), Consumer Price Indexes ("CPI") program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services. The Labor Department's website (www.bls.gov) contains a "CPI inflation calculator" that uses the average CPI for a given calendar year (representing changes in prices of all goods and services purchased for consumption by urban households), and allows users to determine what the price of a good or service would be today if its price increased by the average CPI for a given period. The CPI is a publicly available index, published by the federal government, and is the type of index contemplated for use in *N.J.S.A. 48:2-21.17*. The results of applying the CPI inflation calculator to Verizon's residential basic exchange service; single-line business basic exchange service; and residential installation service are set forth immediately below:
 - (a) Verizon NJ has not raised the price of its residential basic exchange service (including touch tone) since 1985, when the price of this service for the highest rate group was \$9.18 per month. The

current statewide price of this service is \$8.95 per month, which is lower than comparable rates in the nearby states of New York, Pennsylvania, Delaware, Maryland and Virginia. If the price of this service were adjusted for inflation under the Consumer Price Index Inflation Adjuster, from 1985 to 2008, the price of the service would be \$18.22 per month.

- (b) In 1985, the price of Verizon NJ's single-line business basic exchange service (including touch tone) for the highest rate group was \$14.83 per month. The current statewide price of this service is \$15.00 per month. If the price of this service were adjusted for inflation under the Consumer Price Index Inflation Adjuster, from 1985 to 2008, the price of the service would be \$38.43 per month.
- (c) In 1985, Verizon NJ's non-recurring charges for installation of residential service was \$42.00. These charges are currently \$42.35. If this charge were adjusted for inflation under the Consumer Price Index Inflation Adjuster, from 1985 to 2008, it would be \$83.35.
- (11) Verizon currently offers four (4) free residential DA calls per month, and charges \$.50 cents per chargeable residential DA call after the monthly call allowance has been exceeded. In the majority of states, the average rate is \$1.25 per chargeable residential DA call. In New Jersey, telephonic DA providers price their services from "free" to \$2.49 per call without a free call allowance.
- (12) On January 10, 2008, Rate Counsel and Sprint Nextel filed testimony opposing the reclassification of ILEC-provided retail mass market services.
- (13) On January 29, 2008, Verizon NJ and Embarq filed rebuttal testimony.
- (14) The Board conducted public hearings at different locations across the state on February 11, 13 and 14, 2008. At these hearings, members of the public commented on whether the Board should reclassify the services at issue, and thus allow ILECs to adjust the rates of their mass market services without seeking prior Board approval.
- (15) The Board conducted evidentiary hearings on February 25 and 26, 2008. At these hearings, witnesses for the parties appeared under oath and were available for cross-examination on the subjects covered in their pre-filed testimony.

II. STIPULATED FINDINGS

- (16) The resolution of this contested matter through the adoption of the stipulated positions set forth herein best serves the interests of judicial

economy and preservation of valuable corporate, judicial and administrative resources and is, therefore, in the public interest.

- (17) The terms and conditions covered by this Stipulation and Agreement reflect negotiated terms and conditions that include concessions made by the Parties in the spirit of compromise to bring the matter to an appropriate resolution.
- (18) It is a condition of this Stipulation and Agreement that the Board adopt a final Order approving this Stipulation and Agreement without change or further conditions. Should the Board fail to adopt a final Order approving this Stipulation and Agreement, then this Stipulation and Agreement shall be deemed null and void and of no force and effect. The Parties agree that this Stipulation and Agreement is a negotiated agreement and represents a reasonable balance of the competing interests involved in this proceeding. The contents of this Stipulation and Agreement shall not in any way be considered, cited or used by any of the Parties as an indication of any Party's position on any related or other issue litigated in any other proceeding or forum, except to enforce the terms of this Stipulation and Agreement.
- (19) This Stipulation and Agreement is voluntary, consistent with the law, and fully dispositive of all issues regarding Verizon NJ's services in controversy in this proceeding.
- (20) This Stipulation and Agreement contains the entire understanding of the Parties, and there are no other terms, conditions, representations or warranties that form a part hereof.
- (21) The Parties could not agree on whether Verizon NJ mass market retail services at issue in this proceeding meet the statutory reclassification criteria under *N.J.S.A. 48:2-21.19*.
 - (a) With the exception of Verizon NJ's residential basic exchange service including usage, single-line business basic exchange service including usage, non-recurring charges for installation of residential services, and residential DA service, the Parties agree that the remainder of Verizon NJ's mass market services shall be classified as competitive.
 - (b) Verizon NJ's residential basic exchange service, single-line business basic exchange service, non-recurring charges for installation of residential services, and residential DA service shall remain rate regulated. The parties agree, however, that Verizon NJ should be permitted to adjust the rates for these services in accordance with the rate caps set forth in Section III below, and that the resulting rate caps will produce rates that are affordable

and just and reasonable under the standards in PAR-2 and *N.J.S.A.* 48:2-21.17.

III. SETTLEMENT TERMS AND CONDITIONS

To resolve the dispute without the expense, inconvenience, and uncertainty of further litigation and with specific acknowledgement by all Parties that the terms and conditions of the specific services covered by this Stipulation and Agreement represent terms and conditions negotiated among and between the Parties, with all Parties making concessions in the interests of amicable resolution, the Parties stipulate to the following:

- (22) Verizon NJ's residential basic exchange service, single-line business basic exchange service, non-recurring charges for installation of residential services, and residential DA service shall remain rate regulated. Upon Board approval of this Stipulation and Agreement, and upon effective date of the appropriate tariffs, Verizon NJ shall be authorized to charge no more for these services than the authorized rate caps set forth below:
 - (a) Residential basic exchange service: Verizon NJ shall charge no more than \$11.95 per month for the first year after the effective date of the appropriate tariffs; no more than \$14.45 per month for the second year; and no more than \$16.45 per month for the third year.
 - (b) Single-line business basic exchange service: Verizon NJ shall charge no more than \$18.50 per month for the first year after the effective date of the appropriate tariffs; no more than \$22.00 per month for the second year; and no more than \$25.50 per month for the third year. Notwithstanding the above, the parties agree that the actual rates for single-line business exchange service shall not exceed these caps or the multiline business rates in effect until the conclusion of the proceeding referenced in paragraph twenty-six (26), whichever is lower.
 - (c) Non-recurring charges for installation of residential services: Verizon NJ shall charge no more than \$45.00 for the first year after the effective date of the appropriate tariffs; no more than \$47.50 for the second year; and no more than \$50.00 for the third year.
 - (d) Residential DA service: Callers shall receive two (2) free call(s) per month. Once the monthly free call allowance has been exceeded, Verizon NJ shall charge no more than \$1.25 per chargeable DA call for the first year after the effective date of the

appropriate tariffs; no more than \$1.50 per chargeable DA call for the second year; and no more than \$1.50 per chargeable DA call for the third year.

- (23) Any increases to Verizon NJ's residential basic local exchange service are not applicable to Verizon NJ's lifeline services which remain regulated and may not be increased absent Board approval. Verizon NJ will continue its outreach efforts to enroll eligible New Jersey residents in the Lifeline program.
- (24) Verizon NJ shall also continue the following social services programs – in their current form, and, to the extent applicable at current rates – pending the proceeding identified in paragraph twenty-six (26) below:
 - (a) A 25 % discount on local message units and intrastate intra-LATA message charges for hearing-impaired persons.
 - (b) The Link-Up America program, which provides discounts on service connection charges for qualified low-income customers.
 - (c) Free DA calls for consumers with a visual or physical impairment who submit proper certifications to Verizon NJ.
 - (d) Repair priority given to consumers with serious illness or physical disability.
 - (e) Call block features offered at no charge to all customers.
- (25) With the exception of Verizon NJ's services discussed in paragraphs twenty-two (22) through twenty-four (24), the remainder of Verizon NJ's mass market retail services, listed in Exhibit A, shall be classified as competitive within the meaning of *N.J.S.A. 48:2-21.19*. Although competitive and not otherwise rate regulated, Verizon has voluntarily agreed that in order to reach an amicable resolution of this matter and to avoid rate shock and to otherwise ensure reliable service, the services listed immediately below shall be subject to the following rate caps until the conclusion of the proceeding referenced in paragraph 26:
 - (a) Caller Identification with Name: Verizon NJ shall charge no more than \$9.25 per month for the first year after the effective date of the appropriate tariff filings; no more than \$11.00 per month for the second year; and no more than \$12.75 per month for the third year.
 - (b) Non-Published Listings: Verizon NJ shall charge no more than \$2.20 per month for the first year after the effective date of the

appropriate tariff filings; no more than \$2.95 per month for the second year; and no more than \$3.70 per month for the third year. Customers who have obtained a court order of protection shall receive non-published listings at no charge.

- (c) Call Trace: Verizon NJ shall charge no more than \$1.25 per attempt for the first year after the effective date of the appropriate tariff filings; no more than \$1.50 per attempt for the second year; and no more than \$1.75 per attempt for the third year.
- (26) The Board shall initiate a proceeding to re-evaluate the competitiveness of the services identified in paragraphs (22)(a) through 22(d), twenty-three (23) and twenty-four (24) within ninety (90) days after the third anniversary of the effective date of the appropriate tariffs reflecting the first year increases. The rate caps for the services identified in paragraphs twenty-two (22) through twenty-five (25) shall remain in effect until the conclusion of that proceeding. As part of that proceeding, Rate Counsel may seek reclassification of any retail mass market competitive services listed in Exhibit A.
- (27) Verizon shall continue to abide by all provisions and obligations contained in PAR-2, and applicable statutory and regulatory obligations set forth in Title 48 of New Jersey Statutes Annotated and Title 14 of the New Jersey Administrative Code. This Stipulation and Agreement shall not change Verizon NJ's service quality obligations under PAR-2, and Verizon NJ shall continue to file and maintain tariffs for competitive services unless the Board determines that tariffs are not required for particular services. Either party may seek to modify these obligations in the proceeding identified in paragraph twenty-six (26).
- (28) Until the proceeding identified in paragraph twenty-six (26) is commenced, no party to this Stipulation and Agreement shall petition the Board to modify the rate caps in paragraphs twenty-two (22) and twenty-five (25) above. However, if the Board issues an order reducing intrastate access charges that Verizon is permitted to charge, Verizon may request that the Board adjust the rate caps established in this Stipulation and Agreement upon written request to the Board, after hearing, upon notice, wherein Verizon shall have the burden of proof to show that the increase, change, or alteration is just and reasonable given the reduction in access charges. Prior to any such rate adjustment, Verizon shall also demonstrate that the requested rates for residential basic exchange service will be affordable within the meaning of PAR-2. Rate Counsel reserves its right to oppose any such petition filed by Verizon. Moreover, either party may seek to modify the provisions of this Stipulation and Agreement, including the rate caps identified in paragraphs twenty-two (22) and twenty-five (25), in the proceeding identified in paragraph twenty-six (26).

- (29) In the event of a catastrophic event, such as an act of God, Verizon NJ may petition the Board for relief arising from such catastrophic event.
- (30) Verizon NJ shall provide Rate Counsel and the Board with the reports listed on Exhibit B hereto.
- (31) Within 30 days of the Board's approval of this Stipulation and Agreement, and the effective date of the appropriate tariffs, Verizon NJ shall withdraw its appeal with prejudice of the CLEC Reclassification Order¹ and the DA Reclassification Order.²
- (32) This Stipulation and Agreement shall be governed by the substantive law of New Jersey without regard to choice of law rules.
- (33) If any provisions of this Stipulation and Agreement are held to be invalid or unenforceable by a court of competent jurisdiction, the other provisions of this Stipulation and Agreement shall remain in full force and effect.
- (34) The entire Stipulation and Agreement has been reviewed by and is acceptable to the Parties and their counsel as to form, content and meaning. The Stipulation and Agreement was drafted jointly by the Parties; it was not drafted by any one Party and shall not be construed against any Party based on its preparation.
- (35) In the event of default or breach of any term and/or condition of this Stipulation and Agreement, the injured Party shall be entitled to file or use this Stipulation and Agreement to enforce the terms and conditions thereof.
- (36) This Stipulation and Agreement may be executed in multiple counterparts, each of which shall be an original and all of which shall constitute one agreement.
- (37) Any notice to be given pursuant to this Stipulation and Agreement shall be in writing and shall be given or made by confirmed facsimile or by certified, registered or overnight mail addressed as follows or to any other address upon thirty (30) days' advance written notice to the other Parties:

¹ I/M/O Board Investigation regarding the Reclassification of Competitive Local Exchange Carrier ("CLEC") Services as Competitive, N.J. B.P.U. Docket No. TX06120841, Telecommunications Order (June 29, 2007) (the "CLEC Reclassification Order").

² I/M/O Board's Review of the Classification of Verizon New Jersey Inc.'s Director Assistance Services as Competitive and Associated Service Quality, N.J. B.P.U. Docket Nos. TX06010057 and TT97120889, Decision and Order (June 28, 2007) (the "DA Reclassification Order").

To: Verizon New Jersey Inc.
540 Broad Street
Newark, NJ 07102
Attn: Richard A. Chapkis

To: Rate Counsel
31 Clinton Street, 11th Floor
Newark, NJ 07101
Attn: Christopher White

To: Board Staff
2 Gateway Center, 8th Floor
Newark, New Jersey 07101
Attn: Anthony Centrella

Division of Law
124 Halsey Street, 5th Floor
Newark, New Jersey 07101
Attn: Caroline Vachier

- (38) This Stipulation and Agreement may not be amended or any part of its provisions waived, except by a writing executed by all of the Parties. This Stipulation and Agreement is the valid, legal and binding obligation of the Parties, enforceable against them in accordance with their terms.
- (39) The parties hereby agree to be bound to this Stipulation and Agreement, and they acknowledge that they are authorized on behalf of their respective clients to execute this Stipulation and Agreement and to bind their respective clients by their signatures below.
- (40) The Parties collectively request that the Board approve the Stipulation and Agreement and adopt it as a final decision and order therefore bringing all issues regarding the Verizon NJ services at issue in this proceeding to closure.

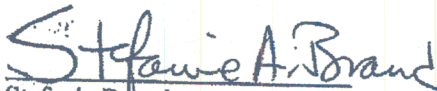
In witness whereof, and with the advice of counsel and intending to be legally bound, the Parties have executed this Stipulation and Agreement of Settlement.

Respectfully submitted,



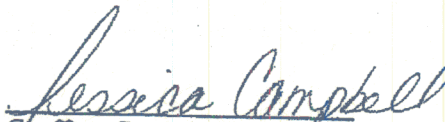
Richard A. Chapkis
Vice President
& General Counsel
Verizon New Jersey Inc.

Dated: July 1, 2008



Stefanie Brand
Director
New Jersey Division
of Rate Counsel

Dated: July 1, 2008



Geoffrey Gersten, DAG
Jessica Campbell, DAG

ANNE MILGRAM
Attorney General of New Jersey
Attorney for the Staff of the
Board of Public Utilities

Dated: July 1, 2008

EXHIBIT A

SERVICE	DESCRIPTION	TARIFF REFERENCE
700/900 Call Blocking Option	Prevents local exchange residence and business lines, as well as PBX trunks and Centrex lines not equipped with Automatic Route Selection (ARS), from completing calls to 700/900 information service numbers.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A10.4.3
Additional Listings	Optional additional residence and business listings which appear in the telephone directory.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.7.1
Alternate Local Message Unit Rate Treatment (Econopak)	Local message unit rate treatment in the following exchange areas: South Orange, Orange, Union City, Jersey City, and Newark.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A105.2.5
Announcement Services - Audiotext	Dial-It Network permits a large group of callers to simultaneously utilize the public switched network to directly dial a designated "976" telephone number from all exchange and public service type Company network services within the same LATA.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A9.5.1 and A9.5.2
-Automatic Answering and Announcement Service	This service furnished, where suitable facilities are available, for such purposes as weather forecasts, time-of-day, news reports or advertising.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A9.5.2
Break Hunt Arrangement	When exchange access lines or PBX trunk groups are arranged in an incoming hunting sequence, the sequence may be broken to meet the customer's night service or reduced operating needs.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A10.3.2
Business Answering Line	An offering whereby an individual central office (exchange access) line arranged for one-way (incoming) service terminates in the answering bureau's intercept facilities either directly or by means of a concentrator-identifier service.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A9.3.1
Call Block	Provides customers with a way to block incoming calls from up to a maximum of 6 telephone numbers. Route to a standard announcement.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A105.4.1
Call Forward Busy Line / Don't Answer	Combination of two features on one exchange access line. Call Forwarding Busy Line allows all calls that are made to a line showing a busy condition to be automatically forwarded to another line; Call Forwarding Don't Answer allows all calls that are made to a line that does not answer to be automatically forwarded to another line.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.6

EXHIBIT A

Call Forwarding	Capability to forward calls to another number	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.3
Call Trace	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.3. Provides for call detail information regarding the origination of a call on a single activation basis.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.1
Call Waiting	Audible tone signal over an existing connection to indicate incoming call.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.3
Caller ID	Enables display of incoming calling number of a CPE device attached to customer line. Includes ACR Anonymous Call Rejection - allows customer to reject calls from parties that have used blocking to prevent the display of their telephone number on the Caller ID device.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A105.4.1
Caller ID Manager with Name	Allows a customer who is on a call to receive the name and telephone number of a second caller and then determine how to manage that call - either put one on hold and answer the other, connect the second call to a hold or busy announcement or a voice messaging service; or conference the two calls together.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A105.4.3.5
Caller ID with Name	Same as Caller ID, but name of incoming caller is displayed, as well as number.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.1
Central Office Concentrator Service	An arrangement provided at the option of the telephone answering bureau.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A109.3.5
Concentrator-Identifier Service	Concentrator Identifier service equipment, has a maximum capacity of 100 answering lines and six channels between equipments provided in connection with Secretarial Answering Service.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A109.3.1
Conference Service	Connections among three or more exchange services within the same LATA on one connection at the same time.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A6.2.3
Convention Hall Service	For furnishing of switched telephone communications services for a number of customer-provided station sets at one or more locations of the same interconnected system, including Joint User locations. For use in the managing and operating of a public auditorium or exhibition hall, the service provides Touch-Tone dialing, exchange and toll connections, and inter-communications between station sets of the same system.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A9.1.7

EXHIBIT A

Directory Assistance Service- Residential 411, List Service, Connect Request Service	Residential Directory Assistance- Customers may obtain assistance in determining telephone numbers by dialing Directory Assistance (DA); List Service - the furnishing of telephone numbers in written form by the Directory Assistance offices to match the names and addresses submitted by the Company by a customer according to a prescribed format; and Connect Request Service - provides DA customers with the ability of having their requested telephone numbers automatically dialed for an additional charge.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.7.2
Do Not Disturb	Provides residential customers the ability to block or allow incoming calls to their line during customer specified blocks of time. Calls blocked by the customer will not ring at the customer's premises or provide Caller ID information.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.18
Distinctive Ring	Distinctive Ring enables customers to have one or two additional telephone numbers assigned to a single local exchange line. Each number will ring distinctively so that it may be identified on an incoming call.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.7
Econopak	Local message unit rate treatment in the following exchange areas: South Orange, Orange, Union City, Jersey City, and Newark.	B.P.U.-N.J. No.2, Exchange and Network Services, Section AI 05.2.5
Exchange Access Lines -Basic	Basic exchange service is telecommunications service furnished to a residential and single line business line within a specified geographical area for the purpose of local calling and to gain access to and from the telecommunications network for message telecommunication service. Basic exchange service includes Touch Tone service. Basic exchange service as defined herein does not include O.K., Trunks, Centrex Network Exchange Access Facilities, and ESSX-1 Network Access Registers.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.2.1 Section AI05.2.1.A (Business Flat Rate)
Foreign Central Office District	Provides the customer with basic exchange access service from a central office serving a district (other than the district in which the customer is located) in that same exchange area.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.1.5
Foreign Exchange	Provides for the connection of a customer's location to a central office other than the central office in which the customer resides.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.1.4

EXHIBIT A

Foreign Listings	Any of the types of additional listings covered in the tariff that may be provided either in a different directory or in the same directory under a different geographical heading from that under which the customer is normally listed.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.7.1
IntelliLinQ BRJ (Residential)	Simultaneous access, transmission and switching of voice, data and imaging services on a business line. ~ IntelliLinQ Basic Rate Interface (BRI) Service is an optional, network service arrangement which uses the Basic Rate Interface (BRI) architecture. ISDN describes the end-to-end digital telecommunications network architecture which provides for the simultaneous access, transmission and switching of voice, data and imaging services. (Normally 2B+D channels.)	B.P.U.-N.J. No.2, Exchange and Network Services, Section A105.4.14
Joint User Service	A shared arrangement which allows the business exchange telephone service of a customer (i.e., customer of record) to be used by other individuals, firms or corporations when designated by the customer.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A2.2.12
Low Use Message Rate Service	A local message is a communication from a telephone or other Customer Provided Equipment (CPE) to another telephone or CPE bearing the designation of a central office within the local service area established from time to time by the Company as the local service area for the exchange serving the calling telephone.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.2.2 Section A105.2.5A (Econopak Service)
Make Busy Arrangements	Service whereby the customers incoming hunting sequence may be broken to meet the customer's night service or reduced operating needs.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A10.3.2
Message Service Interface	Enables the customer to use the call related data to provide clients with services such as centralized call coverage and voice messaging functions.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A9.6.3
Network Interface Jacks	A standard registered jack or interface device.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A10.1
Non-Published Listings	Customer requested, primary listings omitted from the directory, subject to additional monthly and nonrecurring charges.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.7.1

EXHIBIT A

Non-recurring Charges	Charges applied for work done in connection with the same service at the same time at one or more locations of that service.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A3.
Number-to-Number Referral Service	Provides a recorded announcement that states the line number status and a referral number for calls placed to a disconnected or changed residence or business line number.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A10.3.3
Priority Call	Distinguishes up to a maximum of six calling telephone numbers from all others by using a distinctive alerting signal.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A105.4.1
PBX Trunks (Residential)	A transmission path which serves as an exchange access line connecting P.B.X. switching equipment or similar equipment with a central office.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A105.2.1.B
Remote Call Forwarding	Automatic reverse charge service customer can arrange for others to call him without paying the toll charge from a specific exchange to the customer's location.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.4
Repeat Dialing	Automatically redials last outgoing telephone number dialed by the customer.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.1
Residence Service Variety Package (RSVP)	A custom calling type of service comprised of standard and optional features.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A105.4.5
Return Call (*69)	*69 automatically provides a voice statement of the telephone number of the most recent incoming call and when activated then dials that telephone number.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.1
Ring Count Change Interface	Allows customer's clients to request, via customer service, a change in the number of rings before calls are forwarded via Call Forwarding-Busy Line Don't Answer or Call Forwarding-Don't Answer, rather than requiring clients to make this change via a separate call to the company.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A9.6.6
Select Class of Call Screening	A service by means of which the administrative handling of toll calls, made by the customer's telephone users, is performed by Company employees.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A10.4.1
Select Forward	Provides a way to forward incoming calls from up to a maximum of 6 calling numbers to another numbers.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A105.4.1
Selective Calling Service	Alternate rate treatment for dial-type communication to exchange areas within a customer's LATA that would otherwise be 1 - 10 or 11-15 mile toll routes and to adjacent exchange areas within a residence customer's LATA that would otherwise be a 16-20 mile toll route.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A6.3.2

EXHIBIT A

Service Observing Arrangements	Enables a customer to monitor the quality of service rendered on telephone calls in the conduct of business without an audible indication to the parties conversing that a call is being observed.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A2.5.4
Special Assistance Charges - Local	Operator assisted local calls, including local Customer Requested Interrupt and Busy Line Verification	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.2.2D
Speed Dialing	Provides for calling a seven or ten digit number by dialing only a few digits. Comes in 8 number and 30 number version	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.3
Switched Redirect	When activated by the customer, will redirect all or part of the customer's incoming switched voice and data calls to another location(s) or other site. Customer locations mean premises other than the company premises owned or leased by the customer or a subsidiary of the customer.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A109.6.5
Telephone Answering Service	Arrangement whereby the patron arranges to have calls answered when his/her telephone service is unattended.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A11
The WorkSmart Package	A discount billing arrangement for business customers under a fixed term.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.17
Three Way Call Transfer	This feature allows exchange service customers to transfer incoming calls to another party, thus freeing their line to initiate or receive other calls. This feature also enables the customer to add a third party to a call in progress and, after establishing the three-way conference, to drop off the call without disconnecting the remaining end users. Usage continues to be recorded and will be charged to the originator of the three-way conference.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.1.4
Three Way Calling	Allows an existing call to be held and a third telephone number to be dialed and added to the connection.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5A.11
Toll Diversion	Limits directly dialed calls to the central office designations in the customers local calling area; also denies access to zero (operator) dialing.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A1.0.4.2
Tone Block	Provides Call Waiting subscribers with the ability to deactivate Call Waiting and prior to initiating a call.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A5.4.3

EXHIBIT A

V-H Measurements	Method of measurement for determining mileage distances based on vertical and horizontal grid lines to determine rate to be charged to customers for mileage in connection with Foreign Exchange, Secretarial, and other private line type services provided to single line business and residence customers.	B.P.U.-N.J. No.2, Exchange and Network Services, Section A11
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EXHIBIT B

REPORTING REQUIREMENTS

Provide to Board and Rate Counsel:

- a. Copies of FCC Form 477 filings when filed at the FCC (filed every six months for New Jersey).
- b. If the Board does not grant Verizon NJ's pending waiver petition, copies of semi-annual monitoring reports that Verizon NJ files with the Board.
- c. Copies of annual reports filed with the Board, including revenues and associated ARMIS reports showing number of NJ residential and single-line business customers.
- d. Copies of the quarterly report showing the number of Lifeline and Link-up connections.
- e. Copies of tariff filings showing rate changes to competitive services.
- f. Data related to the demand for discretionary features and NJ numbers ported to all entities upon request in the proceeding referenced in paragraph 26 of the attached Stipulation and Agreement. [Data related to discretionary features is subject to two (2) year retention timeframes].