STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on March 9, 2006

COMMISSIONER PRESENT:

William M. Flynn, Chairman

CASE 06-C-0289 - Report Concerning Intra LATA Presubscribed Interexchange Carrier Change Study.

ORDER ISSUING REPORT

(Issued and Effective March 9, 2006)

Section 102 of the Public Service Law directs the Commission to "conduct a study to analyze trends associated with customer change of use charges related to changes of a customer's local calling plan[1] and determine the extent to which these changes take place and the actual cost for a provider of telephone service to make all the necessary changes associated with such a change," and to "publish a report regarding the activity related to changes in local calling plans and the costs associated with the changes of such plans."

Pursuant to these directives, a study has been conducted, and the attached "Report on the Study of Costs Associated with IntraLATA Presubscribed Interexchange Carrier Charges" will be issued.

[1] "Customer local calling plan" is defined in PSL §102 as "any residential or single-line business telephone plan, exclusively for the purpose of completing regional intra LATA calls, offered by any telegraph corporation or telephone corporation, subject to section ninety of this article."

It is ordered:

1. The Report described in the body of this Order, and attached hereto, is hereby issued.

2. This proceeding is closed.

(SIGNED) _____ Commissioner

New York State
Public Service Commission

Report on the Study of

Costs Associated with IntraLATA Presubscribed Interexchange Carrier Change Charges

In Compliance with Chapter 190 of the Laws of 2005

March 9, 2006

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY

On July 12, 2005, Governor Pataki signed into law Chapter 190 of the Laws of 2005, which amends the Public Service Law (PSL) to add a new Section 102. The law took effect on November 9, 2005 and requires the Commission to provide a report to the Legislature on issues related to intraLATA carrier change charges within 120 days. The Public Service Commission (PSC) was directed to conduct a study to: 1) analyze trends associated with change of use charges applied when consumers change their intraLATA presubscribed interexchange carrier (ILP),[1] and 2) determine the actual costs associated with a provider making such changes.[2]

Changes in the telecommunications marketplace that have taken hold in recent years have substantially decreased the number of occurrences where customers pay ILP change charges. In New York, an ILP change charge is infrequently assessed by the local telephone service provider (known as the "local exchange carrier," or "LEC," – e.g., Verizon and Frontier) because it is typically applicable only when the customer changes the ILP without simultaneously changing the PIC. Because long distance services today are commonly marketed as a combination of intraLATA and interLATA service (and are frequently combined with local service to create a full service package), the demand for standalone ILP changes is low and likely to decline going forward. Moreover, as a marketing incentive, many long distance providers actually pay the PIC and/or ILP change charges to the LEC on behalf of the customer. As a result, when a telephone customer in New York changes his or her long distance provider, it is likely that the Commission-approved ILP charge will not apply, and even if it does, the long distance carrier which has just won that customer will often volunteer to pay the charge.

In addition, with the advent of new technology such as Voice over Internet Protocol (VOIP), digital telephone offering full service calling plans are supplanting traditional wire line long distance service. PIC and/or ILP change charges do not apply in these instances. Thus, these market dynamics also diminish the overall relevance, going forward, of PIC and ILP charges.

The actual costs incurred by the LEC for changing a customer's ILP usually include three components: the cost of performing the long distance carrier change, the cost of "unfreezing" a customer's service to allow a change to occur and refreezing the service to protect it from unauthorized changes, and costs associated with slamming. Upon completion of its review, and adjustment of certain inputs and factors, Department of Public Service Staff found that the total costs for the activities necessary to perform a PIC change, including the cost to administer PIC freeze and resolve slamming complaints, totaled $4.69 per occurrence per line in New York.

---

[1] ILP providers carry "toll" calls within the local customer's LATA (or region) and may be different from a customer's interLATA presubscribed interexchange carrier (PIC) or "long-distance" provider that carries both interLATA and interstate calls. Charges for changes to a customer's ILP provider are governed by state authority, while PIC change charges fall under federal jurisdiction.

[2] The law also directs that customers are not to be held accountable for charges incurred when a customer's long distance carrier is changed without that customer's permission (commonly known as "slamming").

To conduct the required study, Staff requested, and Verizon supplied, the PIC change cost study it had earlier filed with the Federal Communications Commission (FCC) as a part of the FCC's examination of PIC change charges. The study that Verizon provided to the FCC is valid for use here since the work performed was virtually identical -- be it for an interLATA or intraLATA carrier change. In addition, Staff requested Frontier Telephone to provide a cost study for its ILP change charges. Information was also solicited from New York State Telephone Association for ILP charges assessed by the 39 Independent telephone companies located in rural areas of New York State. Staff had numerous discussions with the companies relative to the studies and asked for back-up and additional information as necessary.

As part of Staff's analysis, the Verizon FCC PIC cost study was adjusted to reflect New York specific inputs since the study reflected aggregated inputs from across Verizon's entire footprint. The assumptions of Staff's adjustments to the Verizon PIC change cost study do not necessarily mirror those of the FCC, but are appropriate based on Staff's analysis. The present rate that Verizon has on file with the Commission in New York for changing the intraLATA carrier is $5.00.

Overall, given the declining trends in both PIC and ILP change volumes and revenues, and the diminished relevance of the impact of PIC and ILP change charges on the consumer in the competitive intermodal telecommunications environment, the study concludes that the current safe harbor rate is reasonably aligned with costs and a change to the existing safe harbor rate for ILP changes is not warranted at present.

II. INTRODUCTION

A. State Legislature Study Requirements

On July 12, 2005 the State Legislature, with approval of Governor Pataki, passed a bill (A2103B) that amended the Public Service Law by adding § 102, which became effective on November 9, 2005.[3] This provision of law requires the Public Service Commission to conduct a study to analyze trends associated with customers changing their intraLATA presubscribed interexchange carrier and the actual costs associated with a provider making such changes. In addition, the law requires that, in instances when the customer's local calling plan has been altered by another telephone corporation (a practice known as slamming), that telephone corporation shall pay any applicable change of use charges to the customer's provider of telephone service.

To aid in evaluating costs associated with changes to a customer's intraLATA presubscribed interexchange carrier (ILP) service, a review of the recent Federal Communications Commission (FCC) interLATA presubscribed interexchange carrier (PIC) charge proceeding was conducted. The intraLATA PIC process mirrors, for the most part, the FCC's interLATA process that established the existing safe harbor rate. This report evaluates the costs associated with ILP changes, reviews the trends associated with the different carriers' application of PIC and ILP change charges, and discusses the

[3] The text of Section 102 of the Public Service Law is included as ATTACHMENT 1.

potential impact of inter-modal competition on consumer demand for PIC and ILP changes going forward.

B. Definitions

For the purposes of this review, the following definitions are applicable:

LATA (Local Access and Transport Area) The geographic areas within which a local exchange telephone company (LEC) provides service.[4] Prior to the Telecommunications Act of 1996, and until subsequent approval by the FCC, LECs could not provide telecommunications services between LATAs.

InterLATA Presubscribed Interexchange Carrier (PIC) The carrier designated by the customer to transmit outgoing calls terminating in a LATA other than the LATA within where the call originated.

IntraLATA Presubscribed Interexchange Carrier (ILP) The carrier designated by the customer to transmit outgoing calls originating and terminating within the customer's own LATA, other than those calls which are treated as "local" calls by the customer's local telephone service provider. A customer may also designate its ILP provider upon local service activation or change its ILP any time thereafter.

Presubscription The selection of an interLATA and intraLATA interexchange service provider by a local telephone service customer. The selection can be made at the time new local exchange service is activated or at any time thereafter.

PIC and ILP Change The process by which a local telephone service provider processes a request by a customer or an Interexchange carrier to change the customer's PIC or ILP service.

PIC Freeze The "freezing" of a customer's account to prevent changes to the PIC and ILP service provider without the customer's consent.

Slamming The practice of switching a customer's PIC or ILP provider without the customer's authorization.

III. BACKGROUND

A. Federal InterLATA PIC Change Proceedings

The Federal Communications Commission (FCC), acting pursuant to its authority to prescribe just and reasonable charges for and in connection with interstate communication service,[5] has addressed interstate interLATA PIC change charges several

[4] In New York, upstate LATA boundaries are generally conterminous with area codes and downstate LATAs correspond to: 1) the City of New York plus Long Island, 2) Westchester, Rockland and parts of Putnam and Orange Counties, and 3) Fishers Island.

[5] 47 U.S.C. §§ 201(b), 205.

times during the past two decades. In 1984, the FCC determined that it was reasonable for local exchange carriers (LECs) to recover costs associated with changing an end user's PIC. The FCC also found, however, that it was difficult to establish the exact costs incurred by LECs for executing end user PIC changes.[6]

Consequently, rather than setting mandatory rates, the FCC established a "safe harbor" rate for interLATA PIC change charges. The function of the safe harbor is to allow LECs to charge rates less than or equal to the safe harbor rate without being required to provide detailed cost justification. LECs, however, may charge more than the safe harbor rate if they submit to the FCC appropriate cost documentation justifying a higher rate.

In 1984, the FCC established a safe harbor rate of $5.00. The FCC reexamined PIC change charges in 1987, upon requests from LECs to increase the permissible charge.[7] The FCC declined to alter the $5.00 safe harbor rate at that time, because it found that carriers had not submitted sufficient cost support to justify increasing PIC change charges.

In 2002, the FCC concluded that significant industry and market changes had occurred since the 1984 safe harbor implementation, and commenced another proceeding to examine the safe harbor rate.[8] Commentors in that proceeding expressed various opinions; some suggested lowering the safe harbor rate, some favored maintaining it, and some advocated for eliminating the safe harbor altogether in favor of establishing individual LEC rates, based on each LEC's costs.[9] The FCC found that requiring all LECs to submit detailed cost information would be burdensome to LECs, and would be a drain on FCC resources. Therefore, the agency decided to retain the safe harbor approach to regulating interLATA PIC change charges.[10]

The FCC also found that costs are substantially less for electronically-processed PIC changes than for PIC changes which require manual processing.[11] Consequently, the FCC bifurcated the safe harbor into separate rates for electronically processed and manually processed PIC changes. Relying primarily upon detailed cost information filed by Verizon, the FCC set the new safe harbor rates at $5.50 for manually processed PIC changes and $1.25 for electronically processed changes.[12] The new safe harbor rates became effective on January 1, 2006.[13]

---

6 In the Matter of Presubscribed Interexchange Carrier Charges (the "PIC Charge Proceeding"), CC Docket No. 02-53, Report and Order(the "PIC Change Order"), 20 FCC Rcd 7661, 7662 (issued February 17, 2005), paragraph 2.

7 *Annual 1985 Access Tariff Filings*, CC Docket No. 86-125, Phase II, Memorandum Order and Opinion, 2 FCC Rcd 1416, 1445, paragraph 273 (March 9, 1987).

8 The PIC Change Order at 7661, paragraph 1.

9 *Id.*, at 7663-64, paragraph 5.

10 *Id.*, at 7664, paragraph 6.

11 *Id.* paragraph 7.

12 *Id.*, at 7668, paragraphs 16-17.

13 *Presubscribed Interexchange Carrier Charges*, CC Docket No. 02-53, Order, 20 FCC Rcd 16320, 16321, (issued October 14, 2005), paragraph 4.

Lastly, in response to arguments that LECs should not be allowed to assess separate interLATA and intraLATA PIC change charges when a customer changes his or her PIC and ILP simultaneously, the FCC required that LECs should only assess one-half of the applicable PIC change charge for such simultaneous changes.[14] If any costs remain that are not recovered, the FCC reasoned, those costs may be recovered through state-tariffed ILP change charges.

B. PSC IntraLATA Presubscription Proceedings

Consumer choice of intraLATA carriers became available in New York in December 1995 when the Commission directed Verizon to implement intraLATA presubscription (ILP) in accordance with a modified ILP tariff.[15] Prior to the ILP order, the Commission conducted a proceeding and established an extensive docket to record the steps it took to establish an ILP plan in New York. The order established competitively neutral ILP implementation and considered other issues related to ILP including informing customers that ILP choice existed, customer vs. IXC initiated PIC requests, PIC charges (and waivers), and how PIC freezes would be processed. The ILP order automatically assigned, or "froze" a customer's intraLATA carrier to New York Telephone (NYT, now Verizon) where an interLATA PIC freeze had already been imposed, and established that customers with a PIC freeze could change carriers by written request or via a three-way call with NYT and the IXC. At the time, NYT did not propose charging customers for the PIC freeze.

To address concerns raised by parties over the fairness of NYT's implementation of ILP, the Commission subsequently directed an examination of the process that NYT utilized to freeze and unfreeze a customer's intraLATA service. The Commission concluded that the existing three-way call process used by NYT to handle intraLATA PIC change orders on frozen accounts needed to be modified. Therefore, the Commission solicited comments on two alternatives to the three-way conference call confirmation method. In an order issued December 23, 1998, the Commission adopted NYT's plan to administer all intrastate PIC freezes through an automated 800 number, known as the voice response unit (VRU).[16] This system was intended to streamline the PIC freeze system and minimize competitive concerns of carriers seeking to obtain customers. Among other things, the Commission required NYT to notify customers of the freeze status of the customer's PIC and ILP on an annual basis, and also to include instructions on how to use the VRU system during the same billing cycle.

---

[14] *Id.* at 7670, paragraph 21. On April 14, 2005, Verizon filed a petition with the FCC requesting reconsideration of this rule. As of the time of this writing, the FCC has not yet acted upon Verizon's petition.

[15] Cases 28425, et al., Order Directing New York Telephone Company to File Revised Tariffs Implementing IntraLATA Presubscription, issued December 1, 1995.

[16] Cases 28425, et al., Order Adopting New York Telephone Company's IntraLATA Freeze Plan with Modifications. (issued December 23, 1998). Verizon originally contemplated the system to be voice activated; thus it was called the "Voice Response Unit" even though the system was not voice activated.

Slamming

Section 92(e) of the Public Service Law, which became effective on January 20, 1998, authorized the Commission to promulgate rules and procedures pertaining to unauthorized changes in providers of telephone service, consistent with federal law. The law prohibits changes to telephone service by a person or telephone corporation except through authorization and confirmation procedures established by the Commission and by federal law.

At the same time that the Commission was addressing ILP changes and PIC freezing to address competitive concerns raised by IXCs, the FCC implemented new rules to prevent slamming.[17] The FCC slamming rules strengthened the rights of consumers in three areas: 1) relief for slamming victims; 2) verification of PIC change requests; and 3) the method by which a consumer can freeze his or her existing carrier (thus prohibiting another carrier from claiming that it has been authorized to request a carrier change on behalf of the consumer). As a result, the FCC implemented PIC freeze rules that required verification written authorization, independent third-party verification, or by electronic verification relying on automatic numbering identification (AIN). In most aspects, these rules were consistent with the Commissions established PIC freeze requirements.[18]

Under the FCC's revised slamming procedures, states were given the option to become the primary forum for administering the federal rules and resolving slamming complaints. As the FCC rules adequately addressed the Commission's concerns regarding the need for strict anti-slamming protections, the Commission applies the FCC's slamming rules.

IV. PIC COST STUDY ANALYSIS

A. Commission Review of PIC Cost Studies

As indicated above, the safe harbor rates adopted by the FCC for an interLATA PIC change were rooted in cost studies submitted by Verizon to the FCC in the recent PIC charge proceeding. In that proceeding, the FCC found that:

> "Verizon's cost study provides the most detailed analysis of the costs" and found that commenters "do not contest the actual amounts of its costs."[19]

---

[17] Implementation of the Subscriber Carrier Selection Change Provisions of the Telecommunications Act of 1996 and Policies and Rules Concerning Unauthorized Changes of Consumers Long Distance Carriers, CC Docket No. 94-129, Second Report and Order, 14 FCC Rcd 1508 (December 23, 1998).

[18] One area of inconsistency was with the electronic verification system. The Verizon VRU system relied on customer billing information rather than ANI data, which allowed customers to request a change from any telephone line and not the line for which the freeze was requested. Consequently, Verizon sought a waiver from the FCC to allow it to use the VRU as authorized in the Commission's requirements and the waiver was granted on August 6, 1999.

[19] PIC Change Order, paragraph 16.

In light of the FCC's endorsement, the similarity between the processes for performing interLATA and intraLATA PIC changes, and the relative freshness of the data used in the cost studies submitted to the FCC in 2004, a fundamental assumption of our review is that the Verizon interLATA PIC cost study is the most appropriate starting point for analyzing intraLATA (ILP) change charge costs.

In establishing safe harbor rates for PIC changes, the FCC had to determine which costs should be recovered through the PIC change charge. The major cost issues addressed by the FCC pertained to electronic vs. manual processes, PIC freezes, third-party verification (TPV), slamming and general overheads. Our analysis of ILP change costs follows the FCC approach and addresses the many of the same issues.

Review Procedures

Staff's preliminary review of the Verizon cost study revealed that it was prepared in a manner very similar to cost studies submitted by those companies and ultimately used by the Commission, with adjustment, in various other retail and wholesale rate proceedings.[20] The Staff team assembled to perform this PIC change charge study reviewed cost studies provided by Verizon and Frontier Telephone of Rochester, Inc. (FTR), and met with company personnel who provided a general overview of the cost studies and responded to questions the Staff had based on our preliminary review. At the same time, Staff reviewed relevant FCC decisions involving PIC changes and other related documents, including the comments submitted by Verizon in those proceedings, and also researched previous Commission proceedings involving ILP changes, PIC freezes and slamming.

Staff then examined the processes involved with PIC and ILP changes and the components of the cost studies in greater detail. As part of this examination, Staff visited a Verizon Customer Sales and Solutions Center to observe the activities performed in various PIC change scenarios,[21] and interviewed call center representatives. Staff also verified the labor rates and other cost factors used in Verizon's cost studies and performed various tests and other analyses of the underlying data, to assess whether or not they provided an appropriate basis for establishing PIC and ILP change costs.

---

[20] For example, similar cost studies were submitted Verizon and used by the Commission in Case 95-C-0657, et al., New York Telephone Company - Rates for First Group Of Network Elements, Opinion No. 97-2 (issued April 1, 1997); Case 98-C-1357 - Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements, Order on Unbundled Network Element Rates (issued January 28, 2002); and Case 02-C-1425, Proceeding on Motion of the Commission to Examine the Process and Related Costs of Performing Loop Migrations on a More Streamlined (e.g., Bulk) Basis, Order Setting Permanent Hot Cut Rates (issued August 25, 2004). An example where similar cost studies were submitted by FTR and used by the Commission to set rates is 95-C-0657, et al., Frontier Telephone of Rochester - Unbundled Network Elements, Thoroughfare Guide, and Legal Services Petition, Opinion No. 99-8 (issued July 22, 1999).

[21] It was observed that the activities and time spent by a call center representative would vary depending on the request being made by the customer, e.g., change PIC and LPIC, change PIC or LPIC only, change to the ILEC IXC carrier, PIC changes where PIC freezes are in place, PIC changes where the customer is unsure of available IXC choices, etc.

B. Overview of PIC and ILP Processes

PIC and ILP Change Process

As previously indicated, local exchange companies process requests to change a customer's choice of interLATA and intraLATA carrier. The request for PIC change can be initiated by the customer (or "end-user") or initiated by the long distance or regional toll provider (or "carrier") on behalf of the customer.

In the case of Verizon, an end user may initiate a PIC change by written request or by directly calling a service representative. Prior to actually processing the change, the Verizon representative first solicits enough identifying information from the caller (e.g., billing name, address, account number) to provide reasonable assurance that the person making the request is the account owner. The representative will also determine whether a PIC freeze has been activated on the account to prevent an unauthorized PIC or ILP change. Changes to a customer's PIC freeze status follow different procedures (explained below) and may take up to a day to process, in which case the customer must call back. Once the account is "unfrozen", the representative directly types the request into an order entry system where it is edited and processed in a manner similar to service order initiated PIC change requests. In instances where the customer is unsure of the available PIC and ILP providers in the area, the representative must recite what could be a lengthy list of carriers. In cases where the customer wants to change the PIC or ILP to the local LEC's long-distance affiliate, the representative will activate the Third-Party Vendor process (to confirm the customer's authorization of the PIC choice and change) during the call to request the PIC change.

Even though electronic systems are necessary to process an end-user initiated PIC change request, for this study, end-user initiated requests are primarily manual process due to the degree of human intervention that is necessary to process the change request. Verizon includes these costs in the intraLATA PIC charge in New York.

A carrier initiated PIC change request is received first by the PIC or ILP and then processed by the LEC, usually in an entirely electronic manner. Based on rules and policies established by the Commission and the FCC, the carrier should only submit a request for the customer only after getting authorization from the customer and an independent third-party verification of that authorization. Carrier initiated PIC changes processed via the Internet and electronic file transfers are almost entirely electronic processes with very little human intervention required.

Verifying PIC Changes by a Third-Party Vendor

Third-party verification (TPV) of a PIC change is an obligation of the interexchange carrier which acquires the customer through a PIC or ILP change. Use of the TPV must be included in a LEC's processing of a PIC or ILP change when the end-user requests that his or her PIC or ILP be changed to the LEC's long-distance affiliate. In that instance, the LEC representative transfers the customer to an independent third-party vendor, who verifies the customer's authorization to change the PIC. In that

instance, the representative will send the call, while the customer is on the line, to an independent third-party vendor to verify the customer's authorization to change the PIC.[22]

PIC Freeze Process

For Verizon, orders involving a change in PIC freeze status are processed through two channels, by Verizon's retail customer service representatives and through the Voice Recognition Unit (VRU) system. The VRU is an automated 800 system that allows customers the ability to freeze and unfreeze their PIC and ILP services. The Commission endorsed this method of changing PIC freeze status because it was viewed to be the most cost effective at the time and the most consumer friendly process.[23] Although a Verizon representative may also process the PIC freeze change,[24] Verizon urges end-users to utilize the VRU as much as possible to reduce time spent on PIC and PIC freeze changes by the service representative.

C. Review of the Verizon Cost Study filed in the FCC PIC Proceeding

Overview

Verizon provided the FCC two geographically distinct costs studies to support its safe harbor rate: Verizon-East and Verizon-West. The safe harbor rates it proposed were based on a weighted average (based on PIC change volumes) of the results of the Verizon-East and West cost studies.

The PIC change charge developed by Verizon East and West models is made up of several components that include all relevant costs associated with the PIC change, including costs for administering PIC freezes and the resolution of slamming complaints. The Verizon model calculates the direct costs associated with PIC change requests for both manual and electronic processing. These costs include: labor costs associated with time spent by Verizon service representatives interacting with the customer and entering order data; Staff and information technology (IT) systems support labor costs, computer investments; bill entry and service order processing costs; and joint and common costs.

In establishing safe harbor rates for PIC changes, the FCC had to resolve various issues raised by the parties regarding which costs should be recovered through the PIC change charge. The major issues addressed by the FCC were for the costs related to PIC freezes, third-party verification (TPV), slamming and loadings.

Components of the Verizon PIC Cost Model

In the FCC proceeding, Verizon, among others, argued that PIC freeze costs should be recovered through the PIC change charge. Verizon argued that the PIC freeze

---

[22] FCC rules 47 C.F.R. Section 64.1190 requires LECs to allow a three-way conference call with the carrier submitting the PIC change.

[23] Cases 28425, et al., Order Adopting New York Telephone Company's IntraLATA Freeze Plan with Modifications, (issued December 23, 1998), at 6.

[24] If the customer refuses or cannot use the VRU (e.g., the customer may not have touch tone dialing) they may request that the representative processes the PIC freeze change for them.

option benefited the entire PIC process by enabling consumers to prevent unauthorized PIC changes. The FCC disagreed, however, concluding that PIC freeze services are optional in nature and should be assessed only to customers using the service.[25] Finding that it is unreasonable to require customers requesting a PIC to pay the costs of a PIC freeze service used by customers who are less likely to change their PIC, the FCC concluded that PIC freeze costs cannot be recovered through the PIC change charge.

The FCC also rejected Verizon and other parties' proposal that the costs of the TPV be recovered through the PIC change charge, noting:

> LECs are not required to conduct TPV under our rules unless a customer is switching to the service of the LECs' long distance affiliates (or from a competitive LEC to the LECs themselves for local service). To the extent TPV is used to verify a change to a LEC-affiliated carrier, LECs should not be allowed to recover these costs from customers switching to competing long distance providers.[26]

The FCC found that that TPV costs should be recovered by the LEC from its long-distance affiliate. Additionally, the FCC differentiated what it saw as voluntary-incurred TPV costs compared to mandatory TPV costs and concluded that the LEC may only recover such mandatory TPV costs from customers who switch to the LEC's long-distance affiliate.

The Verizon PIC model recovers costs associated with investigating and resolving slamming complaints. The FCC found that, on a per PIC change basis, these costs were slight, and citing the direct and indirect benefit of investigating slamming complaints to all consumers,[27] it concluded that slamming costs should be recovered through the PIC change charge.

Verizon, and others, also argued to the FCC that the cost of PIC change charges should also include a reasonable allocation of common costs, such as legal, executive, marketing, and other costs that are not incurred in relation to any specific service, but are required for LECs to provide all of the services they offer, including the PIC change service. The FCC concluded that the parties opposing the inclusion of such costs offered no justification for treating the PIC change service differently from other incumbent LEC services with respect to the inclusion of reasonable common costs.[28]

Findings of the FCC PIC Cost Proceeding

The major changes to the previous safe harbor rate for interstate PIC changes approved by the FCC can be summarized by the impact of its determinations in three areas: the decision to bifurcate the PIC rate depending on manual and electronic

[25] PIC Change Order, paragraph 12.
[26] *Id.*, paragraph 13.
[27] *Id.*, paragraph 14.
[28] *Id.*, paragraph 15.

processing; the disallowance of PIC freeze costs; and the disallowance of the TPV cost component.

The FCC's PIC change proceeding considered whether or not PIC change charge rates should be bifurcated for manual and electronic (or mechanized) processing of PIC-change charges.[29] Although Verizon's comments to the FCC strongly opposed bifurcated rates for PIC change charges, it nonetheless provided individual cost studies for PIC changes processed manually and mechanically. As noted, the FCC rejected Verizon's arguments and adopted bifurcated rates, because of the substantial difference between the costs of electronically processed PIC changes and PIC changes that require manual processing, as revealed by Verizon's own studies.

As noted above, the FCC also concluded that the costs associated with PIC freeze functions and third-party verification should not be included in the costs considered for the PIC change rate. The result of the FCC's melding and adjusting the Verizon East and West PIC change cost studies produced costs of $5.50 for manually processed PIC changes and $1.25 for electronically processed changes. These are the new federal safe harbor rates for interLATA PIC changes. Making the same adjustments to the Verizon's East-only PIC change cost study would produce costs of $1.34 for a mechanically (or electronically) processed PIC change and $5.53 for a manually processed PIC change.

	Manual	Electronic
FCC adjusted Verizon PIC Cost (East-West)	$5.50	$1.25
FCC adjusted Verizon PIC Cost (East only)	$5.53	$1.34

Additionally, the FCC determined that in cases when a LEC processes a PIC change request that includes a change in both PIC and ILP providers, the LEC may charge only half of the PIC rate.[30] The FCC contemplated that the other half charge would be assessed through the state-tariffed ILP change rate.[31]

D. PSC Analysis of the Verizon-East Cost Study

Overview

The Verizon-East PIC cost study incorporated in the weighted East-West cost study used by the FCC to calculate the safe harbor rate included activities of Verizon affiliates serving 12 states, including New York.[32] Staff used the Verizon-East cost study as the starting point for our review to determine costs associated with intraLATA PIC changes. Our review and analysis establishes the costs to perform ILP changes manually

---

[29] C Docket No. 02-53, In the Matter of Presubscribed Interexchange Carrier Charges, Further Notice of Proposed Rulemaking (issued April 23, 2004), paragraph 6.

[30] PIC Change Order, paragraph 21.

[31] As per the current tariff, Verizon waives the ILP charge in instances where both ILP and PIC changes are requested (see P.S.C. NY No.11—COMMUNICATIONS, Section 13.3.3(B)(7).

[32] The other affiliates included in the Verizon-East cost studies were Maryland, Virginia, West Virginia, Delaware, Pennsylvania, New Jersey, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, and Washington, D.C.

and mechanically as well as melding of those costs to determine an average ILP change cost. The unadjusted results of the cost study for PIC Changes performed by Verizon-East are summarized below:

Category	Manual PIC Change	Mechanized PIC Change	Average Cost
Direct Labor & Benefits	$3.50	$0.62	$2.78
Computer Investments	$0.21	$0.10	$0.31
Bill Entry	$0.05	$0.02	$0.08
Service Order Processing	$0.09	$0.04	$0.13
Common Overhead Loading	$1.77	$0.36	$1.51
Revenue Loading	$0.47	$0.10	$0.41
Subtotal PIC Change Cost	$6.10	$1.24	$5.22
PIC Freeze/TPV Costs	$0.72	$0.72	$0.72
PIC SLAM Cost	$0.06	$0.06	$0.06
Total PIC Change Cost	$6.88	$2.02	$6.00

Times and Occurrence Factors used in Verizon-East PIC Change Study

The Verizon-East PIC cost study model relies on calculations using several factors to produce costs associated with the manual and electronic processes in a PIC change on a per line basis. For manual activities, the calculation of costs follows a straight-forward calculation to calculate costs on a per PIC change basis:

Activity cost = average time* activity occurrence %* labor rate.

Average time represents the time to complete the activity; activity occurrence % is the percentage that a specific activity occurs compared to all changes; and the labor rate is the labor rate associated with the activities' job function. The average times used in the study were based on survey results from the service centers where the activities were performed or by estimates by subject matter experts. Typical occurrence factors were based on order and line count databases.

To determine the reasonableness of the times used in the Verizon-East PIC cost study, Staff visited a Verizon service center to observe typical PIC and ILP change processing scenarios. Staff's observations found that, generally, the times represented by Verizon in its cost study for PIC and ILP change requests were reasonable.[33]

[33] It was observed that the activities and time spent by a call center representative would vary depending on the request being made by the customer, e.g., change PIC and ILP, change PIC or ILP only, change to the ILEC IXC carrier, PIC changes where PIC freezes are in place, PIC changes where the customer is unsure of available IXC carriers, etc. Staff estimated that these calls ranged anywhere from 2.5 to 6.5 minutes.

PIC Freeze, Third-Party Verification, and Slamming Costs

The Verizon-East PIC cost study includes costs associated with administering PIC freezes. The cost study assigns costs associated with PIC freezes as a percentage of all PIC changes. In New York, changes to PIC freeze status can be initiated by a customer accessing an automated system (via an 800 number), referred to as the VRU. Verizon representatives are instructed to refer customers to the VRU to process changes, but as mentioned in a previous section of the report, the service representative may also process the PIC freeze change manually should the customer insist. Accordingly, Staff would expect that the PIC freeze component of the Verizon-East PIC cost study should reasonably include electronic and manually processed PIC freeze costs.

The components of the costs associated with administering PIC freezes are illustrated in the table below:

Category	Amount
Direct Labor & Benefits	$1.54
Computer Investments	$0.14
Third Party Verification (TPV)	$2.25
Service Order Processing	$0.13
Common Overhead Loading	$1.86
Revenue Loading	$0.50
Total PIC Freeze/TPV Costs	$6.42
% PIC Freeze per PIC Change	11.3%
PIC Freeze Cost per PIC Change	$0.72

As the table indicates, Verizon attributes a significant amount of PIC freeze costs to the TPV. The TPV cost of $2.25 reflects the amount Verizon claims it must pay the third-party vendor to perform the verification process with the customer. These costs are incurred by Verizon on a per transaction basis.

As indicated above, the Commission has mandated that incumbent LECs must perform PIC freezes. The ability to activate and change a customer's PIC freeze status is essential to assuring no unauthorized changes to a customer's account and is a necessary prerequisite to the PIC change process. As observed by Staff, time spent by the Verizon service representative to advise customers and administer the PIC freeze is a typical occurrence in a PIC change request. Administration of PIC freezes have obvious manual and electronic costs and, as indicated, should be recovered in a PIC charge.

Direct TPV costs and costs associated with the time spent by the Verizon representative when TPV is necessary are also included in this cost study. Such costs are only applicable when used to verify a PIC change to the LEC long-distance affiliate. We find these costs necessary to PIC changes and, therefore, Staff would expect the appearance of reasonable TPV costs in the PIC change process.

The Verizon-East PIC cost study includes costs for activities necessary to investigate slamming complaints. Those costs are included in the table below. Although slamming complaints are processed by the Verizon Resolution Center (VRC) located in Texas, this center investigates and resolves all slamming complaints and, therefore, the associated costs are appropriate for inclusion in the Verizon-East PIC cost study. The cost study estimates that it takes Verizon personnel 36 minutes to resolve the average slamming complaint. As stated previously, the Commission applies the FCC's slamming protections. Consistent with the FCC's analysis of Verizon's PIC cost components, we include slamming costs as part of PIC change charge costs.

Category	Amount
Direct Labor & Benefits	$20.88
Common Overhead Loading	$9.59
Revenue Loading	$2.57
PIC Slam Cost per Line	$33.04
% PIC Slam per PIC Change	0.2%
PIC Slam Cost per PIC Change	$0.06

Direct Labor and Benefits Costs

Stated generally, Verizon determines direct labor and benefit costs by estimating work times needed to perform the required activities to do a PIC change and multiplying them by the appropriate labor rates. In a prior proceeding Verizon described labor rates as follows:

> Directly assigned labor rates include the total of the basic wage and salary costs for productive employees, including costs for clerical support, management supervisory personnel with direct reporting responsibilities, and those cost-causative loadings, such as payroll taxes and benefits, that are assigned to the basic wages and salaries. Thus, the directly-assigned labor rates include direct labor costs and the costs of travel, other tools and work equipment, payroll taxes, benefits, and motor vehicles.[34]

Verizon's starting point for labor rates was an average of 2002 labor rates in states where the personnel were expected to do the various tasks. Verizon did not increase its non-management labor rates for inflation in 2003 but did increase its management labor rates at 1.04% for 2003. In setting rates, the Commission has always considered labor trending factors when using old data.

[34] Case 98-C-1357, Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements, Pre-filed Panel Testimony Of Bell Atlantic - New York On Revised Costs And Rates For Unbundled Network Elements And Related Wholesale Services, p. 104.

Computer Investments, Bill Entry and Service Order Processing

The Verizon-East PIC cost study indicates that it must utilize certain specialized computer equipment to perform PIC changes. The starting point to determine the cost per PIC change was estimates of the investment costs of the equipment provided by Verizon's Information Technology (IT) department. The investment cost was then converted to annual operating costs through the application of various cost factors individually determined that provide for maintenance, depreciation, other taxes as well as financing and related income tax costs. Verizon then determined the computer investments cost per PIC by dividing the resulting annual costs by the actual volume of related PIC Changes in 2003.

The Verizon-East PIC study also provides for the bill entry cost per PIC change. These costs are said to be related to error correction, customer accounts processing, bill production, bill inquiry, remittance collections/treatment, postage, capital expenses, and certain shared costs. The specific amounts were said to be based on data trended from 1998.

Verizon claims Service Order Processing is needed to ensure the end user customer's account information is updated to reflect the current PIC and ILP information. Verizon determined this cost component by first dividing Verizon - East Service Order Processing (SOP) as well as Billing and Ordering Support System (BOSS) costs for calendar year 2000 by the total Verizon - East SOP volume for calendar year 2000. Verizon then divided the result by the estimated average number of telephone lines per customer, 4.1, to obtain the per PIC change.

Common Overhead and Revenue Loadings

In the Verizon-East PIC cost study, an overhead loading factor is applied to the subtotal of the costs determined above, i.e., direct labor and benefits + computer investments + bill entry + service order processing. In its original cost studies submitted to the FCC, Verizon included common overhead factors of 45.91% for Verizon-East and 47.63% for Verizon-West. As we elaborate in the next section, the overhead factors in Verizon's PIC change cost studies are substantially higher than those used in previous cost studies submitted by Verizon and adopted by the Commission for rate purposes. For example, in a pending proceeding, relating to Verizon's Public Access Line (PAL) rates, Staff recommends the use of a 10% overhead loading factor.[35]

Verizon developed the common overhead factors in its PIC change cost studies submitted to the FCC by dividing the costs reflected in its 2003 ARMIS 43-01 Report (Annual Summary Report) for Customer Operations Marketing Expenses, Corporate Operations Expenses as well as the estimated portion of Depreciation and Amortization Expenses related to Support Plant, by the amount shown for Total 2003 Operating Expenses less the above costs to be recovered.

[35] Cases 03-C-0428 and 03-C-0519, Staff White Paper on Cost Study Methodology and Other Costing Issues to Establish Public Access Line Rates (issued January 7, 2005), pp. 16-18.

Customer Operations Marketing Expenses includes amounts recorded in FCC Accounts 6611, Product Management and 6613, Product Advertising. These costs are not usually part of Verizon's overhead loading factor but rather are a component of the Annual Cost Factors that are applied to plant investment costs, as explained above for computer investments. As will be elaborated, without further detailed analysis, we do not believe it appropriate to make the change implied by Verizon's cost studies in isolation as it would impact all the various products and services that could be costed. Thus, our adjusted analysis utilizes the methodology traditionally used in the cost studies that have been examined by the Commission.

Corporate Operations Expenses includes amounts recorded in Account 6720, the General Administrative Summary Account and Account 6790, Provision for Uncollectible Notes Receivable. The estimated portion of Depreciation and Amortization Expenses related to Support Plant was determined by first dividing the total balance of General Support Plant at December 31, 2003 by the balance of Total Plant in Service on that date and multiplying the result times reported 2003 total Depreciation and Amortization Expense.

The final component of Verizon's cost studies is the application of the revenue loading (RL) factor to the subtotal of costs determined through and including the overhead factor just described. Verizon's PIC change cost studies utilize an RL designed to provide for the cost of uncollectible accounts, regulatory assessments and various non-income related taxes. However, the RL factors proposed by Verizon in its comments to the Staff white paper in the PAL proceeding do not provide for the recovery of non-income-related taxes because Verizon's tariff generally allows the company to recover those taxes as a separate line item on customer's bills. Thus, Verizon's cost studies in effect assume that practice does not apply to PIC Change Charges. Verizon determined its RL using actual 2003 accounting data for Verizon-East.

Conclusion

Based on Staff's analysis of the Verizon-East PIC change cost study, it appears that the cost components included in the study are reasonable for estimating the cost of ILP changes. Likewise, the activity times and occurrence factors used by Verizon to produce manual activity costs per PIC transaction are reasonable. However, Staff's analysis differs from that of the FCC in several areas.

First, costs associated with manual and electronic processing should not be bifurcated to produce separate charges as required by the FCC. It is reasonable to assume that mechanized processing, such as that for carrier initiated PIC changes, while reliant on electronic systems, will require some manual intervention. As long as the electronic and manual aspects of the PIC change are allocated properly in the cost study, there is no need to bifurcate the charge. Such bifurcation also would seem to add unnecessary administrative burdens to accounting and billing of the charges, thereby forfeiting the benefits of a safe harbor rate.

Second, Staff also disagrees with the removal of PIC freeze and TPV costs from recovery in the PIC change rate. As stated above, we may not agree on the level of costs

for certain components represented in the Verizon-East PIC cost study. However, we agree that such activities are necessary. Thus, the associated costs are appropriately in the PIC change charge.

E. Analysis of Other PIC Cost Studies

Staff also requested a cost study supporting PIC change charges from Frontier Telephone Company of Rochester (FTR), the second largest incumbent operating in New York. Staff did not request cost studies from the remaining 38 independent LECs regulated by the Commission because the access lines served by these carriers comprise approximately only 7% of the total access lines served by telephone companies in the state. It would have been burdensome for the smaller companies to perform detailed cost studies on their PIC change charges and, likewise, a burden for Staff to review all such studies.

As with the Verizon PIC cost study, Staff followed the same process steps to review FTR PIC cost study. After a preliminary review of Frontier's cost study, Staff met with company personnel who provided a line by line explanation of the costs included in the study and responded to questions based on the preliminary review. Frontier's unadjusted costs for its manual intraLATA PIC change charge are summarized below.

Manual IntraLATA PIC Change Charge Costs	
Category	**Average Cost**
Customer Care Representative	$1.76
Outbound Team	$0.32
Supervisory Intervention	$0.00
TPV	$2.27
Other Operating Costs	$0.35
Average Direct Cost Per Manual LPIC Change	$4.71
Corporate Overheads	$0.38
Operating Profit	$0.61
Average Cost Per Manual LPIC Change	$5.70

Compared to the Verizon cost study, Frontier did not provide as much detail to support its costs for PIC and ILP change charge. Frontier's cost study only addresses the manual PIC and ILP change processes only. Likewise, Frontier provided only estimates to determine the time it takes a representative to process a change. The overall percentages used to calculate the manual versus electronic ILP orders included data from other states and centers not located in New York. Staff notes that the cost developed by the study FTR submitted differs materially with the current ILP rate in their tariff.[36]

[36] The existing rate in FTR's tariff PSC No. 3 Section 17, Page 8 is $10.00. Staff will continue to review the ILP cost study submitted by FTR to determine its consistency with the filed tariff rate and whether changes to the rate are necessary.

V. ANALYSIS OF NEW YORK INTRALATA PIC CHANGE CHARGES

A. Evaluating New York-Specific IntraLATA PIC Change Charges

Assumptions

To evaluate New York-specific IntraLALA PIC (ILP) change charges, Staff used the Verizon-East PIC change cost study as a base. Similar to the FCC's analysis, the Verizon model best represents the activities, systems and investments necessary to process PIC changes and provides more complete detail of the associated cost components. Staff's approach assumes that processes to complete ILP changes are identical to the processes to complete PIC changes. Contrary to the findings of the FCC proceeding, a basic assumption of the analysis is that it is not necessary to bifurcate electronic and manual processing to produce separate rates. Additionally, the costs for administering PIC freezes and the use of the TPV are maintained.

In our attempt to evaluate appropriate charges for intraLATA PIC changes in New York, Staff examined the Verizon-East PIC change cost study using New York specific inputs where possible, and made adjustments to certain factors consistent with how such factors were utilized in similar Commission proceedings.

At Staff's request, Verizon incorporated New York specific data its Verizon-East PIC change cost study. A summary of those adjustments are listed:

Item Adjusted	Reference	Adjustment	Result
PIC change volumes	Verizon East PIC Study, WP 8.1	Used NY specific PIC change volumes.	Increased CSSC Activity Occurrence to 68%
Service center work times	Verizon East PIC Study, WP 3.1	Used NY specific weighted average times.	Increased CSSC Average Time per Line to 4.18 minutes.
Direct per minute labor rates	Verizon East PIC Study, WP 7.1	Used NY specific rates (col. K), trended for 2004 -2006.	Increased labor rates for CSSC, BSC and RCMC activities.

Staff Adjustments to the Verizon-East PIC Change Cost Model

Staff found two shortcomings with the Verizon-East PIC change cost study. The first relates to the use of 46% common overhead loading factor, which utilizes (unallocated) total operating expenses as a basis of allocation. If Verizon applied this approach consistently for all costs that support all its various rates, such a method may be appropriate. However, that is not the case. For all other cost studies that Staff is familiar with, the allocation base also included, for example, other costs such as certain operating taxes, the cost of money and related income tax expense on assets. Adding these items to the allocation base significantly decreases the common overhead percentage factor

ultimately determined. Thus, the adjusted cost study utilizes the 10% overhead rate recommended in the Staff white paper in the PAL proceeding.

Verizon's inclusion of the various "other taxes" in its Gross Revenue Loading factor, as applied, would result in an over recovery of costs, as most of those taxes may be recovered separately from the customer when billed. Thus, similar to the overhead adjustment, Staff adjusts the Verizon-East PIC cost study to incorporate the RL factor in the Staff PAL white paper, i.e., 2.73%, rather than the 8.44% used by Verizon.

Conclusion

The impacts of Staff's adjustments to the Verizon-East PIC model to produce New York specific PIC costs are summarized in the chart below.

Category	Manual PIC Change	Mechanized PIC Change	Average
Direct Labor & Benefits	$3.92	$0.69	$3.10
Computer Investments	$0.21	$0.10	$0.31
Bill Entry	$0.05	$0.02	$0.08
Service Order Processing	$0.09	$0.04	$0.13
Common Overhead Loading	$0.43	$0.09	$0.36
Revenue Loading	$0.13	$0.03	$0.11
Subtotal PIC Change Cost	$4.83	$0.96	$4.09
PIC Freeze/TPV Costs	$0.55	$0.55	$0.55
PIC SLAM Cost	$0.05	$0.05	$0.05
Total PIC Change Cost	$5.43	$1.56	$4.69

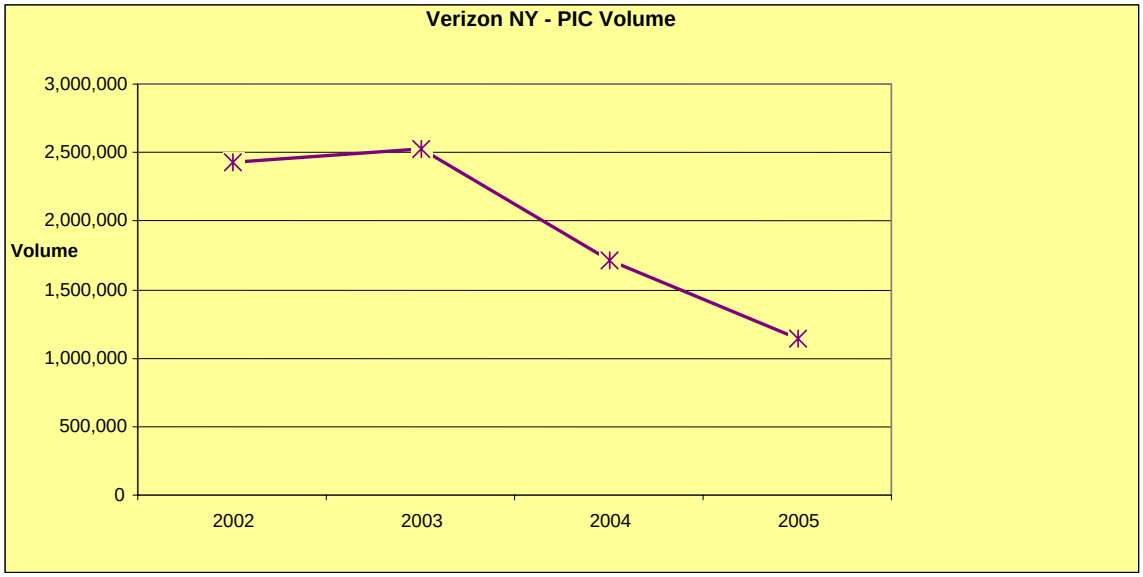
While Staff's adjustments produce a charge lower than the current tariff rate of $5.00, the level falls within the reasonable expectations of the existing safe harbor rate. By design, safe harbor rates do not require the precision of rates that would normally flow from an adjudicated rate proceeding. Additionally, the benefit of establishing safe harbor rates is to avoid the burden and cost of rate proceedings. Staff's adjustments here consider only those inputs where data was readily available and have not been challenged for accuracy by Verizon or other parties with a stake in PIC and ILP change charges. As discussed below, other factors must also be considered when reviewing the relevance of the safe harbor PIC change rate.

B. Trends in PIC and ILP Changes

The relevance of the level and application of interLATA PIC change rates going forward need to be considered in the context of existing and future market forces and their impact on consumers. As required by Public Service Law Section 102, trends in PIC and ILP changes have been explored.

Declining PIC and ILP Change Volumes

Verizon entered the long distance market in 2000. As the graph below indicates, the PIC and ILP change volumes peaked in 2003 when competition in the local, toll and long-distance telecommunications market flourished. Competition in all market segments continues. Staff expects that increased competition in the facilities-based local service market will diminish the role of ILECs in the PIC change process.



As indicated in the graph, PIC volumes are on a steady decline; this is an indication that customers are migrating services to full-service providers or they have taken their services off the traditional wire-line network. In cases where the consumer migrates to an alternative service, such as wireless, and VoIP, PIC changes are irrelevant. Further declines in PIC change volumes would impact PIC change costs slightly, because fixed costs associated with PIC changes would be spread out over fewer occurrences. Additionally, declining volumes would likely not support the investment necessary to incorporate electronic efficiencies into the primarily manually dependent PIC change process.

Consumer Impact of Safe Harbor Rate

Attachment 2 illustrates the rates charged by telephone companies in New York State for PIC and ILP changes. It appears that these rates are comparable to the existing safe harbor rate. Rates charged in other states are included in Attachment 3.

One of the advantages of the broad use of the safe harbor PIC change rate is the level of consistency offered to consumers when they shop for PIC and ILP service providers. However, from a consumer perspective, the application of the rate is inconsistent. It is likely that a consumer changing their PIC or ILP provider will never have to pay for the change as it is usually waived or absorbed by the carrier as an

incentive to change carriers.[37] Also, when the change involves both the ILP and PIC, many carriers, including Verizon, will only charge for the PIC change.[38] Staff's review of ILP processes found that standalone ILP change requests are minimal in comparison to PIC-only or combination PIC and ILP change requests. So, in only the minority of cases where a consumer changes its ILP service only (i.e., not in combination with the PIC), are they eligible to have the ILP charge applied. Similar to PIC-only, and combination PIC and ILP changes, the ILP provider may also waive the charge or pay it on behalf of the customer. Staff therefore concludes that the charge for ILP changes may not be applicable or inconsequential to the customer's decision to change IXC providers.

Consumers now have greater ability to shop around among competing LECs and full service providers to find lower PIC and ILP change charge rates, if they so choose. The growth of competitive services that include bundled local, toll, and long-distance services can only lead to the further decline in PIC and ILP change requests (as the migration to a new local carrier does not require ILP and PIC changing). Likewise, migrations off the traditional wire-line telephone network to providers using wireless, digital cable and VoIP platforms will also contribute to the decline in PIC and ILP change requests and further dilute the relevance of PIC and ILP change rates in the consumer's choice of PIC and ILP provider.

[37] The Verizon New York tariff allows PIC and ILP providers to indicate on the service order whether they wish to bill the end-user or bill the carrier for the ILP change (PSC NY No. 11—COMMUNICATIONS, Section 13.3.3(C)).

[38] Verizon tariff PSC NY No. 11—COMMUNICATIONS, Section 13.3.3(B)(7).

VI. FINDINGS

Despite the indication that ILP costs, based on Staff's analysis, are slightly lower than the established $5.00 rate, a change in the existing safe harbor rate for intraLATA ILP changes is unwarranted at this time. It is also reasonable to conclude that the rate currently charged for ILP change requests, should it actually be passed through to a consumer, is probably inconsequential to the consumer's decision to change providers.

The telecommunications industry has changed in the past five years to one of intermodal competition as technology such as wireless, Voice over Internet Protocol (VoIP), and digital telephone offering full service (local, toll and long-distance) calling plans are supplanting traditional timed long distance service. This dynamic brings into question the relevance, going forward, of PIC and ILP change charges. Moreover, even when stand-alone toll services are involved, in many instances the LEC processing the request or the acquiring carrier pays or waives the charge to the end user. As the industry continues to move from the monopoly legacy wire-line platform to broadband, wireless and cable platforms, many of the traditional rate structures will undergo significant changes as carriers attempt to meets the needs of its customers and address competitive pressures.

Overall, given the declining trends in both PIC and ILP change volumes, and the diminished relevance of the impact of ILP change charges on the consumer in the competitive intermodal telecommunications environment, Staff concludes that the current safe harbor rate is reasonably aligned with costs and a change to the existing safe harbor rate for ILP changes is not warranted at present.

ATTACHMENT 1

§ 102. IntraLATA presubscribed interexchange carrier-change charge study

1. As used in this section, the following terms have the following meanings:

(a) "Provider of telephone service" means a telephone corporation that provides intraLATA or local exchange telephone service to end-use customers.

(b) "Customer change of use charges" means intraLATA presubscribed interexchange carrier-change charges, that any provider of residential or single-line business telephone service levies upon the customer for the customer's change in intraLATA presubscribed interexchange carrier service or complete termination of that service.

(c) "Customer local calling plan" means any residential or single-line business telephone plan, exclusively for the purpose of completing regional intraLATA calls, offered by any telegraph corporation or telephone corporation, subject to section ninety of this article.

2. The commission shall conduct a study to analyze trends associated with customer change of use charges related to changes of a customer's local calling plan and determine the extent to which these changes take place and the actual cost for a provider of telephone service to make all the necessary changes associated with such a change. From its findings, the commission shall publish a report regarding the activity related to changes in local calling plans and the costs associated with the changes of such plans. The report must be published within one hundred twenty days of the effective date of this section. A copy of the report must be furnished to the temporary president of the senate, the speaker of the assembly, the chairperson of the senate standing committee on energy and telecommunications, and the chairperson of the assembly standing committee on corporations, authorities and commissions.

3. In cases where the customer's calling plan was altered by, or on behalf of, a telegraph corporation and/or telephone corporation subject to section ninety of this article, other than the customer's provider of telephone service, the telegraph corporation or telephone corporation shall pay the customer change of use charges to the provider of telephone service.

4. The commission shall notify customers of its findings on its official world wide website.

ATTACHMENT 2

NEW YORK STATE PIC & ILP CHANGE CHARGES		
CARRIER	PIC Charge Manual/Electronic	ILP Charge
Frontier Telephone of Rochester	$ 5.50/1.25	$ 10.00
Frontier of Ausable Valley	$ 5.50/1.25	$ 10.00
Frontier Communications of Seneca Gorham, Inc.	$ 5.50/1.25	$ 10.00
Frontier Sylvan Lake	$ 5.50/1.25	$ 10.00
Frontier of New York (Old Highland Telephone)	$ 5.50/1.25	$ 10.00
Citizen Communications	$ 5.50/1.25	$ 5.00
Odgen Telephone Company	$ 5.50/1.25	$ 5.00
ALLTel New York, Inc.	$ 5.50/1.25	$ 5.50/1.25
Armstrong Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Berkshire Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Cassadaga Telephone Corporation	$ 5.50/1.25	$ 5.50/1.25
Chautauqua & Erie Telephone Corporation	$ 5.50/1.25	$ 5.50/1.25
Champlain Telephone Corporation	$ 5.50/1.25	$ 5.50/1.25
Chazy & Westport Telephone Corporation	$ 5.50/1.25	$ 5.50/1.25
Citizens Telephone of Hammond, New York, Inc.	$ 5.50/1.25	$ 5.50/1.25
Crown Point Telephone Corporation	$ 5.50/1.25	$ 5.50/1.25
Dunkirk & Fredonia Telephone Corporation	$ 5.50/1.25	$ 5.50/1.25
Deposit Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Delhi Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Edwards Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Empire Telephone Corporation	$ 5.50/1.25	$ 5.50/1.25
Fishers Island Telephone Corporation	$ 5.50/1.25	$ 5.50/1.25
Germantown Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Hancock Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Middleburgh Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Margaretville Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Nicholville Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Newport Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Oneida County Rural Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Ontario Telephone Company, Inc.	$ 5.50/1.25	$ 5.50/1.25
Oriskany Falls Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Pattersonville Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Port Byron Telephone Company	$ 5.50/1.25	$ 5.50/1.25
State Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Township Telephone Company, Inc.	$ 5.50/1.25	$ 5.50/1.25
Trumansburg Telephone Company, Inc.	$ 5.50/1.25	$ 5.50/1.25
Vernon Telephone Company	$ 5.50/1.25	$ 5.50/1.25
Taconic Telephone Corporation	$ 5.50/1.25	$ 5.50/1.25
All Telecommunications, Inc.	$ 5.50/1.25	$ 5.00
Verizon New York	$ 5.50/1.25	$ 5.00

ATTACHMENT 3

VZ 6/14/02 COMMENTS TOFCC RE PIC CHANGE CHARGE
ATTACHMENT B: CALCULATION OF AVERAGE LPIC CHANGE RATES IN VZ STATES.

		RATE		2001 VOLUMES: Carrier-Initiated (Carr) and End-user Initiated (EU)				
LINE	STATE	PIC RATE	LPIC RATE	PIC/LPIC RATE	LPIC Carr	LPIC EU	LPIC Total	Weighted Avg
	A	B	C	D	E	F	G=E+F	H=C*(G/G56)
1	Alabama (Contel)	$5.00	$5.00	$10.00				
2	Alabama (GTE)	$3.20	$3.20	$6.40				
3	Alabama (Avrgd)	$3.98	$3.98	$7.96	130,424	45,750	176,174	$ 0.04
4	Arizona	$5.00	$5.00	$10.00	1,658	1,691	3,349	$ 0.001
5	California (Contel)	$5.00	$4.46	$7.23				$ -
6	California (WC)	$4.35	$4.35	$6.53				
7	California (GTE)	$4.46	$4.46	$6.69				$ -
8	California (Avrgd)	$4.51	$4.46	$6.74	988,400	644,017	1,632,417	$ 0.45
9	Connecticut	$5.00	$5.00	$5.00	6,934	3,419	10,353	$ 0.003
10	Delaware	$5.00	$5.00	$10.00	93,602	45,373	138,975	$ 0.04
11	Florida	$4.14	$4.14	$5.18	868,627	416,230	1,284,857	$ 0.33
12	Hawaii	$4.39	$4.39	$8.78	142,978	91,646	234,624	$ 0.06
13	Idaho	$4.35	$4.35	$8.70	57,981	23,871	81,852	$ 0.02
14	Illinois (Contel)	$3.86	$5.00	$8.86				$ -
15	Illinois (GTE)	$3.86	$3.86	$7.72				$ -
16	Illinois (Avrgd)	$3.86	$4.09	$7.95	337,676	100,203	437,879	$ 0.11
17	Indiana (Contel)	$5.00	$5.00	$5.00				$ -
18	Indiana (GTE)	$3.96	$3.96	$3.96				$ -
19	Indiana (Avrgd)	$4.17	$4.17	$4.17	400,780	135,357	536,137	$ 0.14
20	Kentucky (Contel)	$5.00	$5.00	$5.00				$ -
21	Kentucky (GTE)	$3.20	$3.20	$3.20				$ -
22	Kentucky (Avrgd)	$3.52	$3.52	$3.52	258,678	84,335	343,013	$ 0.07
23	Maine	$5.00	$5.00	$5.00	140,371	72,869	213,240	$ 0.07
24	Maryland	$5.00	$5.00	$10.00	737,957	361,485	1,099,442	$ 0.34
25	Massachusetts	$5.00	$5.00	$5.00	492,593	306,620	799,213	$ 0.24
26	Michigan	$3.91	$3.91	$7.82	308,692	135,703	444,395	$ 0.11
27	Missouri (Contel)	$5.00	$3.92	$8.92				$ -
28	Missouri (GTE)	$3.92	$3.92	$7.84				$ -
29	Missouri (Avrgd)	$4.73	$3.92	$8.65	142,246	79,619	221,865	$ 0.05
30	Nevada	$5.00	$5.00	$5.00	9,524	3,937	13,461	$ 0.004
31	New Hampshire	$5.00	$5.00	$5.00	123,293	61,489	184,782	$ 0.06
32	New Jersey	$5.00	$2.50	$5.00	923,151	627,382	1,550,533	$ 0.24
33	New York	$5.00	$5.00	$5.00	572,080	485,326	1,057,406	$ 0.32
34	North Carolina (Co	$5.00	$3.20	$8.20				
35	North Carolina (GT	$3.20	$3.20	$6.40				
36	North Carolina (Avı	$3.76	$3.20	$6.96	135,425	69,278	204,703	$ 0.04
37	Ohio	$3.90	$3.90	$7.80	376,364	131,253	507,617	$ 0.12
38	Oregon	$4.35	$4.35	$8.70	156,868	68,037	224,905	$ 0.06
39	Pennsylvania (fBA)	$5.00	$5.00	$10.00	595,270	446,223	1,041,493	$ 0.32
40	Pennsylvania (Con	$5.00	$5.00	$10.00				$ -
41	Pennsylvania (fGTI	$5.00	$3.95	$8.95				$ -
42	Pennsylvania (fGTI	$5.00	$4.14	$9.14	160,329	85,233	245,562	$ 0.06
43	Rhode Island	$5.00	$5.00	$5.00	92,198	43,201	135,399	$ 0.04
44	South Carolina (Co	$3.20	$5.00	$8.20				
45	South Carolina (GT	$3.20	$3.20	$6.40				
46	South Carolina	$3.20	$3.41	$6.61	91,481	29,504	120,985	$ 0.03
47	Texas (Contel)	$5.00	$5.00	$10.00				$ -
48	Texas (GTE)	$4.48	$4.48	$8.96				$ -
49	Texas (Avrgd)	$4.51	$4.51	$9.02	575,233	231,180	806,413	$ 0.22
50	Vermont	$1.75	$5.00	$5.00	72,891	37,998	110,889	$ 0.03
51	Virginia (fBA)	$5.00	$5.00	$10.00	720,034	396,255	1,116,289	$ 0.34
52	Virginia (Contel)	$5.00	$3.20	$8.20				$ -
53	Virginia (GTE)	$3.20	$3.20	$6.40				$ -
54	Virginia (f GTE Avr	$4.90	$3.20	$8.10	154,091	75,862	229,953	$ 0.05
55	Washington, DC	$5.00	$5.00	$5.00	115,566	62,152	177,718	$ 0.05
56	Washington (Conte	$5.00	$5.00	$5.00				$ -
57	Washington (GTE)	$4.35	$4.35	$4.35				$ -
58	Washington (Avrgc	$4.42	$4.35	$4.42	327,780	134,371	462,151	$ 0.12
59	West Virginia	$5.00	$5.00	$10.00	175,415	113,298	288,713	$ 0.09
60	Wisconsin	$3.90	$3.90	$7.80	146,615	60,281	206,896	$ 0.05
61	TOTAL				10,633,205	5,710,448	16,343,653	
62	**WEIGHTED AVERAGE VERIZON LPIC RATE**							$ 4.32