

## **DESCRIPTION AND JUSTIFICATION**

### **1.0 INTRODUCTION**

The Verizon Telephone Companies<sup>1</sup> hereby submit a Tariff Review Plan (“TRP”) and the necessary supporting data to establish a single set of merged price cap indices for the Verizon Telephone Companies. Currently, separate indices are maintained for Verizon East and Verizon West. In the East, the TRP Cost of Service Area (“COSA”) is called BNTR, but, in Verizon West, 26 separate COSAs were filed.<sup>2</sup> They will now be under a single TRP known as VZTC.

Today’s filing is consistent with Verizon’s past practice. On November 19, 1998, Bell Atlantic filed Transmittal 1093 and NYNEX filed Transmittal No. 528, which provided a single set of indices for the affiliated carriers of the former Bell Atlantic and NYNEX companies.

This filing proposes to merge the indices for the various Verizon companies in five baskets -- Common Line, Traffic Sensitive, Trunking, Special Access, and Interexchange -- into a single set of indices for the Verizon Telephone Companies.

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<sup>1</sup> The Verizon Telephone Companies include Verizon Delaware Inc., Verizon Maryland Inc., Verizon New England Inc., Verizon New Jersey Inc., Verizon New York Inc., Verizon Pennsylvania Inc., Verizon Virginia Inc., Verizon Washington, D.C. Inc., and Verizon West Virginia Inc. These companies will now be referred to as Verizon East. Verizon East is comprised of the former Bell Atlantic-North (NYNEX) and Bell Atlantic-South. The Verizon Telephone Companies also include Contel of the South Inc., Verizon California Inc., Verizon Florida Inc., Verizon North Inc., Verizon Northwest Inc., Verizon South Inc., Verizon Southwest Inc., and Verizon West Coast Inc. These companies will be referred to as Verizon West. Verizon West is comprised of the former GTE Telephone Operating Telephone Companies (GTOC) and GTE System Telephone Companies (GSTC).

<sup>2</sup> GTCA, GNCA, GTFL, GTID, GAIL, GAIN, GAMI, GTNC, GTOH, GTOR, GTPA, GTST, GTTX, GTVA, GTWA, GTWI, COAZ, COCA, COIL, COIN, CONV, CONC, COPT, COTX, COVA, COWA .



Although this filing proposes the merger of indices for all of the Verizon Telephone Companies, Verizon is not proposing to consolidate tariffs with this filing.

Verizon proposes this price cap index merger because combining the TRPs will reduce the administrative burden and internal procedures for both Verizon and Commission personnel in preparing and reviewing 27 separate TRPs and related work papers.

Currently, Verizon produces over 1,600 pages of TRP data when filing any related Price Cap filing. The size of these filings not only affects the Verizon personnel who prepare and file this material, but it also affects Commission staff and other industry members who review these papers. This filing will allow Verizon to file a single TRP, which will reduce the work required by all parties who prepare and review the material. And, as mentioned above, filing a single TRP is consistent with Verizon's practice in the past.

In addition to the consolidation of indices, Verizon is making a rate reduction to the Tariff F.C.C. No. 1, in the Special Access Basket, Internet Protocol – Virtual Private Network (IP/VPN) Administrative Change Charge nonrecurring charge. The results of these rate changes are reflected in the newly merged indices in the TRP. The rate detail for these changes is in Workpapers Rate and Revenues SA. The supporting documentation contains material in support of a price cap rate change. This rate change has no impact on the indices because the demand is zero. This rate will become effective on December 23, 2005.

## **2.0 DESCRIPTION AND JUSTIFICATION**



The following sections provide documentation in support of the merged price cap indices. The merger of indices, both at the basket and band level, was accomplished using a revenue-weighting methodology. The revenue-weighting methodology is the same as that first used in the consolidation of the former Bell Atlantic and NYNEX indices.<sup>3</sup> These methods are described below. Recalculated indices are displayed in the workpapers contained in Figure 1. Index calculations were performed using the most recent<sup>4</sup> price cap filings for both the former Bell Atlantic and GTE companies and are details in Workpaper Unified IND-1.

### **3.0 INDEX MERGER METHODOLOGY**

To ensure that the methodology is correct and accurate, Verizon tested the unified indices by ensuring that the revenues and headroom before consolidation (summed) and after consolidation were equal.

As part of the methodology review, the Annual Filing and the TRS filing were run individually, summed, and compared to the unified revenues and headroom. In both cases, the revenues and headroom matched. *See* Workpaper Headroom.

The Price Cap API and SBI (service Category, sub-service category and zone) indices are being merged as explained below. The indices in the Traffic Sensitive, Trunking, and Special Access Baskets and Bands are being merged using an existing revenue-weighting method. First, maximum revenue is calculated separately for the

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<sup>3</sup> Bell Atlantic Transmittal No. 1093 filed November 19, 1998.

<sup>4</sup> The 2005 Annual Filing -- Transmittal Nos. 588, 589, 590, and 591 -- was used for the 6/30/2005 indices for both Verizon East and Verizon West. Transmittal No. 654, a DSL rate change filing, was used for the existing indices in Verizon East. Transmittal No. 621, the TRS filing, was used for the existing indices in Verizon West.



Verizon East and Verizon West index. For example, maximum revenue for a basket is calculated by multiplying the ratio of the PCI to the API times the actual revenue for that basket. Merged existing and maximum revenues for each index is then the simple sum of the East and West existing and maximum revenues for that index. A weighting factor is identified for both East and West for each index by dividing the existing revenue for that index by the merged existing revenue for that index. The final step in calculating the merged index is to apply the separate existing revenue weighting factors to the separate indices and sum the two products. Each sum is then the merged SBI or API index for the Traffic Sensitive, Trunking, Special Access, and Interexchange Service Categories and Baskets. The calculations are shown on Workpaper Unified IND-1 and a summary of such indices can be seen on Figure 1.

The Price Cap PCI and SBI Upper limits (service Category, sub-service category and zone) indices are being merged as explained below. The indices in the Traffic Sensitive, Trunking, and Special Access Baskets and Bands are being merged using a method that ensures that the merged headroom in each basket is no more or less than the sum of the separate headroom for each index. This is accomplished by multiplying the ratio of the merged actual revenue to the merged maximum revenue for each index times the merged index calculated in the paragraph above. For example, the merged actual revenue for the Traffic Sensitive Basket is divided by its merged maximum revenue, and the resulting ratio is multiplied by the merged Traffic Sensitive API. Because the relationship of the PCI to the API is determined by the relationship of revenue to maximum revenue that relationship cannot produce merged headroom that is different than the sum of the parts.



Workpaper Headroom shows that the headroom of the merged indices is equal to the sum of the parts.

#### **4.0 AVERAGE TRAFFIC SENSITIVE RATE**

In this filing, Verizon is combining all of the Verizon entities under a single ATS rate. Since all jurisdictions have previously reached the \$0.0055 ATS target rate, there is no impact due to consolidation. Details will still be available on a jurisdictional basis in the Workpaper Rates and Revenues.

#### **5.0 COMMON LINE**

In this filing, Verizon is putting the separate jurisdictions of Common Line under one entity, VZTC. There is no change to any of the existing structures or rates resulting from this action. The current TRP had to be expanded to allow for all of the Verizon entities under a single TRP. In addition, the TRP recognizes that some entities calculate PICC and CCL rates on a regional basis, while others calculate them on a jurisdictional basis.

#### **6.0 WORKPAPER INDEX**

##### **Figure 1**

Final Merged 6/30/05 and Existing  
Indices

##### **Workpaper Revenue**

Revenue Summary—Total

##### **Workpaper CL Rates and Revenues**

Rates and Revenues Common Line-  
All Jurisdictions<sup>5</sup>

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<sup>5</sup> BNTR, NXTR, GTCA, GNCA, GTFL, GTID, GAIL, GAIN, GAMI, GTNC, GTOH, GTOR, GTPA, GTST, GTTX, GTVA, GTWA, GTWI, COAZ, COCA, COIL, COIN, CONV, CONC, COPT, COTX, COVA, COWA



<b>Workpaper TS Rates and Revenues</b>	Rates and Revenues—Traffic Sensitive—All Jurisdictions
<b>Workpaper Trunking Rates and Revenues</b>	Rates and Revenues—Trunking—All Jurisdictions
<b>Workpaper SA Rates and Revenues</b>	Rates and Revenues—SA—All Jurisdictions
<b>Workpaper IX Rates and Revenues</b>	Rates and Revenues—IX—East only <sup>6</sup>

**Calculation of Combined Indices and Before and After Headroom:**

<b>Workpaper Unified-IND-1</b>	Calculations of Unified Indices and Headroom
<b>Workpaper Headroom</b>	Calculations of Headroom before and after Consolidation.

**Tariff Review Plan**

<b>TRP—VZTC ANALYZER</b>	TRP Analyzer
<b>VZTC IND-1</b>	Price Cap Indices Display
<b>VZTC TGT-1</b>	Targeting
<b>VZTC PCI-1</b>	Price Cap Index Calculations
<b>VZTC SUM-1</b>	Price Cap Revenue Summary
<b>VZTC EXG-1</b>	Exogenous Cost Summary
<b>VZTC EXG-2</b>	Net Exogenous Cost Shifts
<b>VZTC RTE-1</b>	Rate Detail Composite Rates
<b>VZTC CAP-1</b>	
<b>VZTC CAP-2</b>	
<b>VZTC CAP-3</b>	
<b>VZTC CAP-4</b>	
<b>VZTC CAP-5</b>	

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<sup>6</sup> BNTR and NXTR