THE VERIZON TELEPHONE COMPANIES

TARIFF F.C.C. Nos. 1, 11, 14 and 16

Payphone Exogenous Cost Filing

DESCRIPTION AND JUSTIFICATION

Transmittal No. 787

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DESCRIPTION AND JUSTIFICATION

1.0 INTRODUCTION

The Verizon Telephone Companies[1] hereby submit tariff pages and support data for compliance with the FCC's Payphone exogenous cost order[2] . This filing is in compliance with and includes the necessary support material required by Sections 61.41 through 61.49 of the Commission's Rules. The exogenous cost changes of $11.18 million annually reflect the End User Common Line (EUCL) settlement payments to independent payphone service providers (IPSPs) as allowed by the Commission's Payphone Order.

1.1 COMPLIANCE WITH INDICES

In this filing, the Commission requires Verizon to compute the appropriate adjustments to the CMT (Common Line, Marketing and TIC revenue) Per Line for the Common Line basket to treat End User Common Line settlement payments to independent payphone service providers as exogenous costs. The CMT Per Line calculations are set forth in the Tariff Review Plan, form CAP-1. See Figure 5.

[1] The Verizon Telephone Companies include Verizon Delaware LLC.; 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 in the states of CA, FL, ID, IL, IN, MI, NC, NV, OH, OR, PA, SC, TX, VA, WA, and WI, will be referred to as Verizon-West (formerly GTE Telephone Operating Telephone Companies (GTOC) and GTE System Telephone Companies (GSTC).

[2] Memorandum, Opinion and Order, In the Matter of Petition for Waiver of Section 61.45(d), or in the Alternative, a Declaratory Ruling, WC Docket No. 05-175, Adopted November 29, 2006, Released December 1, 2006. "Payphone Order"

1.1.1 COMPUTATION OF INDICES and CMT

Verizon applied the formula prescribed in Section 61.45 of the Commission's Rules to compute the PCIs for Traffic Sensitive, Trunking, Special Access and Interexchange baskets and CMT per Line for the Common Line basket. The PCIs used in the Trunking, Traffic Sensitive, Interexchange and Special Access baskets are based on rates and indices brought forward from the last filing in each of those baskets. Since this filing is specific to the Common Line Basket, the indices for Traffic Sensitive, Trunking, Special Access and Interexchange Baskets are not changing.

1.2 EXOGENOUS COST CHANGES

In this filing, Verizon proposes changing the Common Line Revenues by the amount of exogenous cost allowed to be recovered by the Payphone Order. This exogenous amount was calculated and adjusted so that Verizon could collect the annual amount over a three-month period. Verizon will reverse the exogenous cost from rates at the end of the three-month recovery period. The total impact on rates is approximately $11.18M annually, or $44.74 M in the next 3 months, which results in increases in certain SLC, PICC and CCL rates. See Figures 1, 2, 3 and 4.

1.2.1 CALCULATION OF PAYPHONE EXOGENOUS COSTS

During 2004 and 2005, Verizon settled 405 claims for reimbursement of End User Common Line payments received from ISPSs. During settlement negotiations, Verizon calculated individual valid claim amounts by first determining the amount of improperly assessed EUCL charges for the two-year period prior to the filing of each complaint extending through April 15, 1997. Interest on the valid claim amount was then calculated using the appropriate IRS Corporate Overpayment Rates. The IRS Large Corporate Overpayment Rate was used for the portion of a claim that exceeded $10,000. The IRS interest rates are listed in Exogenous Cost Workpaper 1. Interest was calculated from the date EUCL payments were originally made to Verizon through the date of payment of the settlement amount. Actual settlement payments may have varied depending on terms of the negotiated settlement agreements.

The calculation of Payphone Exogenous Costs is shown in Exogenous Cost Workpaper 2. Based on the FCC's Payphone Order, Verizon reviewed the original settlement calculations from 2004 and 2005 to ensure the valid EUCL claim amount included only payments beginning two years prior to the complaint date. In addition, Verizon verified that the appropriate IRS interest rates were used in the calculations. Finally, interest was calculated by applying the appropriate IRS interest rate up to the actual payment date or, if not known, the actual settlement date. The valid claim amount and the interest amount based on the appropriate IRS interest rate were then added to determine the new total claim payable. The payphone exogenous cost for each IPSP was calculated by taking the lesser of the total claim payable and the actual settlement payment.

IPSPs originally claimed Verizon owed a refund of $22.50 million in EUCL payments. This amount decreased to a total valid claim of $7.26 million after careful scrutiny of the claims and the application of the two year limit. Application of the appropriate IRS interest rates increased the total claim payable to $11.25 million. Verizon made actual settlement payments of $12.52 million. Taking the lesser of the claim payable and the actual settlement payment for each claimant results in a Payphone Exogenous Cost of $11.18 million.

Since the $11.18 million will be recovered over 3 months, the exogenous cost must be grossed up prior to calculation of new Common Line rates. The resulting grossed-up exogenous cost is $44.74 million.

1.3 BASIS OF RATEMAKING

1.3.1 INTRODUCTION

In this filing, Verizon is implementing changes to rates only in the Common Line basket. Verizon's new rate levels produce indices that are in full compliance with the Commission's Rules. Overall, Verizon increases revenues by $11.18 million. In this filing, the SLC, PICC and CCL rates are adjusted to reflect the Payphone exogenous costs.

1.3.2 SLC RATES

For Verizon-East FCC Tariff Nos. 1 and 11, SLC rates are developed on a state-specific basis. In Verizon-West SLC rates are established on a jurisdiction basis for each jurisdiction in both FCC Tariff Nos. 14 and 16. Figure 2 provides a listing of the proposed SLC rates**.** Workpaper SLC Rate Delta provides the amount of change between Existing and Proposed Rates.

1.3.3 PICC Rates

The Multi-line Business PICC cap is $4.31. Since the Subscriber Line Charges do not recover the total CMT revenues, the overflow creates a MLB PICC rate. When the PICC reaches the Cap of $4.31, the overflow creates a CCL rate. The MLB PICC rate development is shown on TRP CAP-1. Figure 3 shows the proposed PICC rates by Jurisdiction.

1.3.4 Carrier Common Line Rates

The premium MOU (Common Line and Marketing) originating and terminating rates remain at zero for both Verizon-East Tariff FCC Nos. 1 and 11. The premium MOU (Common Line and Marketing) originating and terminating rates for both Verizon-West Tariff FCC Nos. 14 and 16 are shown on Figure 4. The rate development for CCL charges is shown on the TRP CAP-1.

1.4 WORKPAPERS AND TARIFF REVIEW PLANS

1.4.1 Introduction

The Verizon Telephone Companies have provided the necessary detail to support the calculations of indices and exogenous costs in various Workpapers. The following is the index of such Workpapers.

1.4.2 INDEX

<u>Verizon</u>

Figure 1	Payphone Exogenous Cost Summary by Basket
Figure 2	Proposed SLC Rates
Figure 3	Proposed PICC Rates
Figure 4	Proposed CCL Rates
Figure 5	Proposed CMT Per Line

<u>Price Cap Workpapers</u>

Workpaper Revenue	Revenue Summary
Workpaper CL Rate Detail	Rates and Revenues—Common Line basket
Workpaper SLC Rate Delta	Difference Between Current and Proposed Payphone Resulting SLC Rates
Workpaper USAC Receipts Allocation for PICC	Details of Reallocation of Receipts for PICC Purposes

<u>Exogenous Cost Workpapers</u>

Workpaper 1	IRS Interest rates
Workpaper 2	Calculation of Payphone Exogenous Cost

<u>Tariff Review Plan (VZTC)</u>

ANALYZER	TRP Analyzer
COSA IND-1	Price Cap Indices Display
COSA PCI-1	Price Cap Index Calculations
COSA TGT	Targeting: Inputs and Aggregate Target
COSA SUM-1	Price Out Summary

COSA EXG-1	Exogenous Cost Changes
COSA EXG-2	Net Exogenous Cost Shifts
COSA RTE-1	Rate Detail
CAP-1 (COSA)	Calculation of EUCL Limit, PICC and CCL Rates
CAP-2 (COSA)	Manual Input of EUCL rates
CAP-3 (COSA)	Calculation of Minimum and Maximum End User Rates
CAP-4 (COSA)	Allocation of Pool Revenues to MLB PICC and MLB EUCL
CAP- 5 (COSA)	Verification of Recovered CMT Revenue