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21319

Filed August 23, 2004
At 1:30 o'clock P.M.

Karen Higzel.
Chief Clerk of the Commission

2004 AUG 24 A 8:02

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Dignel

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
VERIZON HAWAII INC.)
For Approval of Changes to Its)
Tariff to Introduce Local Package)
Plus and to Allow Local Package)
Plus Customers to be Eligible for)
The Verizon Variations Internet)
Access and Wireless Service)
Discounts.)
_____)

Docket No. 02-0415

Order No. **21319**

ORDER

I.

Background

On May 27, 2003, the commission issued Decision and Order No. 20195 approving VERIZON HAWAII INC.'S ("Verizon Hawaii") Local Package Plus ("LPP") (now known as Verizon Regional Package Extra ("VRPE"))¹ offering, on a one-year promotional basis.² Verizon Hawaii began providing LPP on August 29, 2003; thus, the one-year promotional period for the offering ends on August 28, 2004.³

¹See, Verizon Hawaii's letter dated and filed on July 27, 2004, requesting commission approval to make LPP a permanent offering ("Verizon Hawaii's Letter"), at 1.

²For the monthly charge of \$49.95, LPP customers receive the following telecommunications services: (1) residential line; (2) touch call; (3) unlimited directory assistance ("DA"); (4) up to fourteen (14) custom calling features (such as, but not limited to, busy redial, caller identification, and call forwarding); (5) optional residential home voice mail; and (6) unlimited inter-island toll.

³See, Verizon Hawaii's Letter at 1.

In Decision and Order No. 20195, the commission, among other things, required Verizon Hawaii to closely monitor inter-island toll usage by LPP customers. The commission ordered Verizon Hawaii to file reports on monthly inter-island toll minutes of use ("MOU") and DA calls, on an annual basis, within thirty (30) days before the end of the promotional period.⁴ In that decision and order, the commission also required Verizon Hawaii to make a filing: (a) requesting commission approval to provide LPP on a permanent basis, with all necessary support for its position; or (b) modifying its LPP offering to ensure that it complies with all commission pricing rules, no later than thirty (30) days before the expiration of the one-year promotional period or earlier, if necessary. The commission stated that it would consider approving LPP on a permanent basis if the actual, inter-island toll MOU is consistent with Verizon Hawaii's cost study projections.

On July 27, 2004, Verizon Hawaii filed a request for commission approval to revise P.U.C. Tariff No. 3, Section 24 to make its LPP offering a permanent service and filed cost information in support of its request ("Verizon Hawaii's Request") in compliance with Decision and Order No. 20195.⁵ It

⁴On October 29, 2003, the commission in Order No. 20607 amended Decision and Order No. 20195 by requiring Verizon Hawaii to file inter-island toll MOU reports on a monthly basis, as described in Section II of that order, in addition to the requirements set forth in Decision and Order No. 20195.

⁵Verizon Hawaii requests that we approve its request to make LPP a permanent offering by August 23, 2004, to ensure that its customers continue to have the service without interruption.

further requests that the order requiring it to file inter-island toll reports be terminated and that this docket be closed.

The DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate") filed a letter on August 5, 2004, advising the commission that it does not object to Verizon Hawaii's Request ("Consumer Advocate's Letter"). However, the Consumer Advocate recommends that we require Verizon Hawaii to continue submitting annual reports on monthly inter-island MOU and DA calls.

On August 13, 2004, Verizon Hawaii responded to the Consumer Advocate's Letter ("Verizon Hawaii's Response").

II.

Parties' Positions

In support of its requests, Verizon Hawaii contends that actual inter-island toll and DA usage data reveal that LPP revenues exceed the cost of the offering by a margin larger than forecasted in its original cost studies. It further states that the reports demonstrate that LPP revenues exceed the underlying cost of providing the service.

The Consumer Advocate concurs with Verizon Hawaii's claims. It states that the \$49.95 price for LPP appears to be "sufficient to recover the estimated average cost of the services provided under the package."⁶ The Consumer Advocate further contends that the initial cost and cross-subsidization concerns regarding the LPP bundled services can be put to rest at this

⁶See, Consumer Advocate's Letter at 3.

time. It indicates that there is significant demand for the offering and that our approval of Verizon Hawaii's Request will allow Verizon Hawaii to continue to provide this service to subscribers.

Nonetheless, the Consumer Advocate recommends that Verizon Hawaii continue to collect and report monthly inter-island toll MOU and DA calls on an annual basis to allow the commission and the Consumer Advocate the opportunity to monitor the level of use for these services of the package offering ("Reporting Requirement"). The Consumer Advocate bases its recommendation on data collected during the first six (6) months of 2004. While the average inter-island toll MOU for this period was within the projected levels, the MOU for one (1) of the months exceeded the level. The Consumer Advocate contends that "the bundled package might eventually be provided under cost for a competitive service" if the inter-island toll MOU continues to exceed projected levels.⁷

Verizon Hawaii objects to the Consumer Advocate's Reporting Recommendation. The reasons for Verizon Hawaii's objections include, but are not limited to:⁸

- Verizon Hawaii has fulfilled its Decision and Order No. 20195 obligation to demonstrate that LPP recovers its underlying cost of service.
- The Consumer Advocate's sole basis for its Reporting Recommendation is that the actual toll MOU exceeded projected levels in one (1) month, January 2004. The critical fact is that the average toll MOU has been less than projected levels. Thus, it is

⁷See, Consumer Advocate's Letter at 4.

⁸See, Verizon Hawaii's Response at 1-2.

inconsequential that one (1) month's MOU exceeded the forecasted amount during the holiday season by nine (9) MOU.

- Continuing to require monitoring reports after Verizon Hawaii has demonstrated that its package recovers its costs runs contrary to the policy of streamlining regulation. Compiling the data and generating these reports are costly and expend resources that could be used for other purposes.
- It is unaware that the commission has ordered perpetual usage monitoring reports for any package or service offered by any other carrier.
- This proceeding needs closure. Continuing to require Verizon Hawaii to file monitoring reports with no end in sight will keep this docket open.
- Verizon Hawaii believes that the commission's intent was to terminate the monitoring reports once the package became permanent.

III.

Findings and Conclusions

Upon review, we find that LPP revenues exceed the underlying costs for the service offering. Filed reports and cost support data indicate that the costs of LPP's competitive services are not being subsidized by its non-competitive services, at this time, as originally advanced in Verizon Hawaii's initial cost studies. The reports also indicate that there is large demand for this offering. Thus, based on the above, the commission finds that approving LPP on a permanent basis is reasonable, in the public interest, and consistent with Hawaii Administrative Rules ("HAR") § 6-80-35(e).⁹

⁹HAR § 6-80-35(e) conditions commission approval of a telecommunications carrier offering non-competitive telecommunications services jointly with a fully or partially competitive service on "a satisfactory showing by the

On the issue of the Reporting Requirement, we find the Consumer Advocate's reasons for proposing its recommendation to be sound and reasonable. While the six (6) month average inter-island toll MOU for 2004 is within the projected level, there was one (1) month that exceeded it. Additionally, inter-island toll MOU levels for the first half of 2004 are noticeably higher than those for the latter months of 2003. Thus, the commission shares the same pricing concerns articulated by the Consumer Advocate.

Nonetheless, the Reporting Requirement should not continue indefinitely. Thus, we find it reasonable to discontinue requiring Verizon Hawaii to file inter-island toll MOU reports on a monthly basis, as the commission first ordered in Order No. 20607 by amending Decision and Order No. 20195. Instead, we will require monthly inter-island toll and DA usage reports to be filed on September 15, 2005, for the period from August 2004 through July 2005.

Based on the above, we conclude that LPP should be made a permanent offering. The commission also concludes that Verizon Hawaii should be required to file inter-island toll and DA usage reports, as described above and under the parameters described in Decision and Order No. 20195.

telecommunications carrier seeking to offer such joint services that the costs of the fully or partially competitive service or the costs of the interstate, international, or other non-jurisdictional services are not subsidized by the noncompetitive service."

IV.

THE COMMISSION ORDERS:

1. Verizon Hawaii's request to make LPP (now known as VRPE) a permanent offering is approved.

2. Within twenty (20) days of the date of this order, Verizon Hawaii shall file tariff sheets with appropriate issued and effective dates, reflecting the commission's decision in this order.

3. Verizon Hawaii shall submit monthly inter-island toll and DA usage reports on September 15, 2005, as described in Section III of this order and under the parameters of Decision and Order No. 20195. The requirement that Verizon Hawaii file inter-island toll MOU reports on a monthly basis as ordered in Order No. 20607 through an amendment of Decision and Order No. 20195 is vacated.

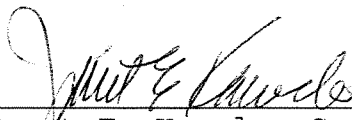
4. Verizon Hawaii shall conform to all of the commission's orders, as set forth above. Failure to adhere to our orders constitutes cause for the commission to void this order, and may result in further regulatory actions as authorized by law.

DONE at Honolulu, Hawaii AUG 23 2004.


PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Carlito P. Caliboso, Chairman

By 
Wayne H. Kimura, Commissioner

By 
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:

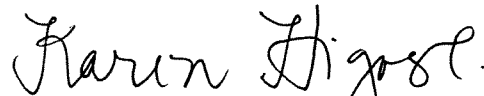

Ji Sook Kim
Commission Counsel
02-0415.ac

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Order No. 21319 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
P. O. Box 541
Honolulu, HI 96809

JOEL K. MATSUNAGA
VICE PRESIDENT-EXTERNAL AFFAIRS
VERIZON HAWAII INC.
1177 Bishop Street, A-17
P. O. Box 2200
Honolulu, HI 96841



Karen Higashi

DATED: AUG 23 2004