STATE OF MAINE
PUBLIC UTILITIES COMMISSION
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AUGUSTA, MAINE
04333-0018

THOMAS L. WELCH
CHAIRMAN

WILLIAM M. NUGENT
STEPHEN L. DIAMOND
COMMISSIONERS

August 30, 2002

Honorable Norman K. Ferguson, Senate Chair
Honorable William R. Savage, House Chair
Joint Standing Committee on Utilities and Energy
115 State House Station
Augusta, ME 04333

Re: Annual Report on Alternative Form of Regulation for Telephone Utilities

Dear Senator Ferguson and Representative Savage:

35-A M.R.S.A. Chapter 91 authorizes the Public Utilities Commission to adopt an alternative form of regulation (AFOR) for any telephone utility in the State. Subsection 9105 directs the Commission to provide the Utilities and Energy Committee with an annual report describing the Commission's activities under Chapter 91 and the effectiveness of the AFOR in achieving the objectives of Chapter 91. The report must be submitted by September 1. Enclosed please find the Commission's annual report.

We look forward to working with the Committee on this subject when necessary. If you have any questions regarding the report, please contact us.

Sincerely,

Thomas L. Welch

Maine Public Utilities Commission
Thomas L. Welch, Chairman
William M. Nugent, Commissioner
Stephen L. Diamond, Commissioner

cc: Utilities and Energy Committee Members
Jon Clark, Legislative Analyst

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2002 Report of the Alternative Form of Regulation for Telephone Utilities

Report to the Utilities and Energy Committee on Actions Taken by the Maine Public Utilities Commission Pursuant to 35-A Chapter 91

Subsection 9105 of 35-A M.R.S.A. requires the Maine Public Utilities Commission (Commission) to provide the Utilities and Energy Committee with an annual report describing the Commission's activities under Chapter 91 and the effectiveness of any adopted alternative form of regulation (AFOR) in achieving the objectives of Chapter 91. This report constitutes the Commission's compliance with the annual reporting requirement of Chapter 91.

In 1994, the Maine Legislature enacted Chapter 91 of Title 35-A, which authorized the Commission to adopt an AFOR for any telephone utility in the State. By Order dated May 15, 1995, the Commission adopted an AFOR for Verizon. Through Orders issued by the Commission on May 9, 2001, June 25, 2001, and October 12, 2001, the Commission extended the Verizon AFOR for an additional five years and also ordered several significant changes to be made to the pricing rules and service quality index (SQI) mechanism.

At the start of the extended AFOR period, the Commission allowed Verizon to increase its basic exchange rates by $1.78 per month for all customers except those under the Lifeline rates available to low-income customers. The Commission also gave Verizon flexibility to change all other rates except operator services and directory assistance, at its discretion, by filing revised tariffs and providing proper notice to customers. In its Order extending the AFOR, the Commission indicated that it would open a proceeding to determine if certain optional calling features have the characteristics of basic phone service and, therefore, should be subject to some type of pricing regulation. Due in part to the presence of other, more pressing, proceedings, and the fact that no customers have complained about the pricing of those services, the Commission has not yet commenced its examination of the characteristics of optional services. It will do so within a reasonable period.

In the AFOR extension Order, the Commission adopted 15 service quality index (SQI) measures that establish standards that Verizon must meet. If Verizon fails to meet these SQI measures on an annual basis, it will be required to rebate to customers up to $1.135 million per measure, with an annual cap of $12.5 million. The measures are:

Customer Service

1. Premise Installations: Percent Appointments Not Met for Company Reasons
2. Mechanized Installations: Percent Appointments Not Met for Company Reasons
3. Premise Repairs: Percent Appointments Not Met for Company Reasons
4. Mechanized Repairs: Percent Appointments Not Met for Company Reasons
5. Held Orders: Average Delay Days
6. Business Office Calls: Percent Answered Over 20 Seconds
7. Repair Service Calls: Percent Answered Over 20 Seconds

Service Reliability

8. Customer Trouble Reports: Rate per 100 Lines
9. Repeat Trouble Reports: Rate per 100 Lines
10. Percent Troubles Not Cleared Within 24 Hours – Residential Customers
11. Percent Troubles Not Cleared Within 24 Hours – Business Customers
12 Dial Tone Speed: Percent Over 3 Seconds

Miscellaneous

13. Percent Blocked Calls
14. Service Outages

Customer Satisfaction

15. MPUC Complaint Ratio

The SQI mechanism provides Verizon with a strong incentive to continue to provide high quality service to all of its customers, and the metrics included in the current AFOR establish appropriate performance standards in the service provision areas that are most important to customers. The Commission will continue to monitor Verizon's service quality performance closely, both in areas covered by the AFOR SQI mechanism and in any other area that needs attention.

Verizon has recently filed its annual SQI Report for the period July 1, 2001, through June 30, 2002. The Commission granted Verizon a waiver of the SQI measures for the month of September 2001, to allow Verizon to respond to the events of September 11. The Company also has requested a waiver of the SQI measures for January 2002, because of an ice and snow storm that affected parts of the State. Verizon asserts that the storm constituted the kind of major service-affecting event contemplated by the Commission when it included the waiver provision in the original AFOR Order. A Commission decision on this request is expected shortly.

Based on the 2001/2002 SQI report filed by Verizon, the Company will owe a rebate to customers for its failure to meet two of the SQI measures. The two missed measures are the Percentage of Residential Trouble Reports Not Cleared Within 24 Hours and the MPUC Complaint Ratio. If the Commission grants the waiver request and January data are excluded, the penalty amount will be $312,933. If the Commission denies the requested waiver and January results are included in the SQI calculation, Verizon will owe customers a penalty of $449,235.

The Commission believes that the current AFOR meets the objectives specified in the enabling statute by allowing Verizon considerable pricing flexibility, except for services where Verizon is still the dominant provider and could exercise monopolistic pricing power without Commission control. The Commission also believes that the available evidence suggests that customers have access to the telecommunications services they desire at reasonable prices.

According to data collected by the Federal Communications Commission (FCC), the percentage of Maine households with basic telephone service rose from 95% in 1995 (at the beginning of the AFOR) to 98% in 2001. For Maine households in the lowest income category measured in the FCC study, telephone service penetration grew from 88.4% to 97.6%.

On November 9, 2001, the Office of the Public Advocate (OPA) filed with the Maine Law Court a Notice of Appeal from the Commission's AFOR Order. The OPA challenged several aspects of the Commission decision. Briefs were filed, and oral argument took place before the Law Court during April 2002. It is not known when the Law Court will render its decision.