

**THE STATE OF NEW HAMPSHIRE**  
**PUBLIC UTILITIES COMMISSION**

**DT 02-165**

**ORDER OF NOTICE**

On April 2, 2001, Verizon New England, Inc. d/b/a Verizon New Hampshire (Verizon-NH or VNH) filed with the New Hampshire Public Utilities Commission (Commission) its annual report for the 12 months ended December 31, 2000. Commission Staff (Staff) performed a preliminary analysis of the annual report and recommended that a formal audit of Verizon-NH be conducted. As a result, the Commission sought proposals from qualified bidders for the completion of an audit of Verizon-NH. On October 5, 2001, the Commission selected Liberty Consulting Group (Liberty) to conduct a financial audit of Verizon-NH, pursuant to authority under RSA 365:5 and 378:7. The Commission sought a comprehensive financial analysis of Verizon-NH, including an audit of its books, records and annual reports.

On July 1, 2002, consistent with audit practice, Staff provided the draft audit report (Draft Report) to Verizon-NH for comment, and requested responses be submitted to the Commission by July 12, 2002. On July 9, 2002, Verizon-NH requested additional time to prepare its response to the Draft Report. Staff concurred with Verizon-NH's request to provide, by July 19, 2002, comments on

Section II, Review of Asset Accounting Practices; and, by July 26, 2002, comments on Section III, Financial Audit of Verizon-NH's 2000 Operating Revenues and Section IV, Financial Audit of Operating Expenses, Financing, and Taxes. Verizon-NH timely filed its comments.

On September 6, 2002, Liberty submitted its Report on the Financial Audit of Verizon-NH to the Commission (Report). Among other things, Liberty makes the following findings.

With respect to the accuracy and reliability of VNH's financial reporting, Liberty concludes:

VNH reports accurately, in that its accounting systems report entries made into them correctly

Without substantial analysis and adjustment the reports cannot be used as a basis for drawing reliable conclusions about company profitability that can be used for making regulatory determinations.

With respect to rates, Liberty notes that the audit report supports the following conclusions:

Its analysis of revenues and expenses on an adjusted 2000 test year demonstrates a gap that justifies continuing Commission efforts to determine whether the company's adjusted revenues continue to outstrip its adjusted expenses by a significant enough amount to warrant a consideration of reducing rates.

While there is no surety that the Commission would finally determine that a rate reduction will prove appropriate if it decides to take all the available evidence (some of which will come into existence in the future) before it, the gap that existed in 2000 was significant enough to make future reductions more likely than not.

Whether 2000 will prove more or less reliable than 2001 or some other year at the time the Commission may examine rates is an open question.

The Report identified several issues and recommendations that require further investigation, including but not limited to: the review and validity of fixed-asset accounting practices; the resolution of all open CPR variances; and, weaknesses in the ability to verify the accuracy of CABS and CRIS billing elements which potentially affect reported revenues. Verizon-NH's response indicated confidence that these issues could be resolved through further investigation and explanation. We will direct Staff to work with Verizon-NH to address these concerns, which at this time appear to be more business process issues, and to recommend whether a formal proceeding is necessary.

In addition, the Report identified two issues that may have a significant impact on a determination of whether Verizon-NH's rates continue to fall within a just and reasonable range. They are cost of capital and Yellow Pages revenue. The Commission has already opened a proceeding to establish an appropriate cost of capital in Docket No. DT 02-110.

Liberty's audit report concludes: that Verizon, Inc., Verizon-NH's parent company, removed Yellow Pages revenues from Verizon-NH without receiving express permission from the Commission;

that the Commission did not approve the current contract with respect to Yellow Pages whereby Verizon-NH has no direct rights or interest in any revenues received in connection with the sales or marketing of Yellow Pages; and that the Yellow Pages line of business would likely have substantial value if it were to be sold in an arms' length transaction.

In its July 26, 2002 response, Verizon-NH disagrees with Liberty's conclusions. Verizon-NH argues that, on March 8, 2000, it filed with the Commission a new fee-for-service Yellow Pages agreement, that the Commission did not commence a docket regarding this filing, and that Verizon-NH was not required to obtain Commission approval of this contract. The new agreement, Verizon claims, was developed to comply with applicable FCC rules, and that Verizon-NH is compensated for use of its listings information pursuant to standards adopted by the FCC.

On the basis of these disputed allegations, and the potentially significant impact resolution of this question has on the justness and reasonableness of the rates of Verizon-NH, the Commission is hereby initiating a proceeding for the purpose of determining the proper regulatory treatment of the revenues realized as a result of the publishing of the New Hampshire Yellow Pages directories, whether the accounting treatment of these revenues

currently in place is in accord with such determination, and whether any harm has resulted or remedy is necessary. The scope of this inquiry shall include, *inter alia*, whether Verizon-NH retains, or should have retained, any rights or interests in these revenues, whether Verizon-NH fully complied with the requirements of RSA Chapter 366, and, if so, whether, as Verizon-NH contends, without further Commission action the March 8, 2000 filing of the affiliate contract effectively changed the treatment of these revenues for rate-making purposes, and whether Verizon-NH has complied with all applicable NHPUC rules. If it is determined that Verizon-NH failed to comply, in part or otherwise, with the requirements of Chapter 366, we will inquire as to whether the Company should be assessed a penalty pursuant to our authority under RSA 365:41 and 365:42.

Finally, we note that, in November 2001, the Office of Consumer Advocate (OCA) formally requested that the Commission initiate a proceeding to, *inter alia*, fix Verizon-NH's rates. The petition was docketed by the Commission as DT 01-229. Consistent with the OCA's request, the Commission has determined to proceed with its inquiry into whether a Verizon-NH rate proceeding is appropriate. For administrative efficiency, and without prejudice to the OCA or any other interested party, we will close DT 01-229. Correspondingly, we defer for the time being a definitive

determination whether to proceed with a full rate investigation while we pursue this new investigation, DT 02-165, and, the cost of capital investigation, DT 02-110. In the event we determine to conduct a full rate case, we will consider the relevant issues contained in the OCA's request.

**Based upon the foregoing, it is hereby**

**ORDERED**, that, pursuant to RSA 365:5 and 378:7, the Commission commences this proceeding to investigate Verizon-NH's treatment of Yellow Pages Revenues; and it is

**FURTHER ORDERED**, that Docket No. DT 01-229 is hereby closed and the service list in that docket is to be provided a copy of this order by first-class mail; and it is

**FURTHER ORDERED**, that a Prehearing Conference, pursuant to N.H. Admin. Rules Puc 203.05, be held before the Commission located at 8 Old Suncook Road, Concord, New Hampshire on October 23, 2002 at 10:00 a.m., at which each party will provide a preliminary statement of its position and any other issues related to this matter or issues set forth in N.H. Admin Rule Puc 203.05(c) shall be considered; and it is

**FURTHER ORDERED**, that immediately following the Prehearing Conference, Verizon-NH, Staff and any Intervenors hold a Technical

Session to develop a proposed procedural schedule to govern the remainder of the docket; and it is

**FURTHER ORDERED**, that pursuant to N.H. Admin. Rules Puc 203.01, Verizon-NH shall notify all persons desiring to be heard at this hearing by publishing a copy of this Order of Notice no later than October 2, 2002, in a newspaper with statewide circulation, publication to be documented by affidavit filed with the Commission on or before October 23, 2002; and it is

**FURTHER ORDERED**, that pursuant to N.H. Admin. Rules Puc 203.02, any party seeking to intervene in the proceeding shall submit to the Commission an original and eight copies of a Petition to Intervene with copies sent to Verizon-NH and the Office of the Consumer Advocate on or before October 18, 2002, such Petition stating the facts demonstrating how its rights, duties, privileges, immunities or other substantial interests may be affected by the proceeding, as required by N.H. Admin. Rule Puc 203.02 and RSA 541-A:32, I(b); and it is

**FURTHER ORDERED**, that any party objecting to a Petition to Intervene make said Objection on or before October 23, 2002.

09/17/02  
DT 02-165

-8-

By order of the Public Utilities Commission of New  
Hampshire this seventeenth day of September, 2002.

---

Debra A. Howland  
Executive Director & Secretary

Any individuals needing assistance or auxiliary communication aids due to sensory impairment or other disability, should contact the American with Disabilities Act Coordinator, NHPUC, 8 Old Suncook Road, Concord, New Hampshire 03301-7319; 603-271-2431; TDD Access: Relay N.H. 1-800-735-2964. Preferably, notification of the need for assistance should be made one week before the scheduled event.