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December 23, 2002

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Daisy Crockron, Chief of Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215

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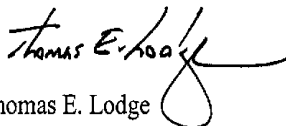
Re: In the Matter of the Commission Ordered Investigation of the Existing Local Exchange Competition Guidelines, PUCO Case No. 99-998-TP-COI In the Matter of the Commission Review of The Regulatory Framework for Competitive Telecommunication Services under Chapter 4927, Revised Code, Case No. 99-563-TP-COI

Dear Ms. Crockron:

Enclosed for filing are an original and fifteen (15) copies of an Application for Rehearing and Clarification of Verizon North Inc. and Verizon Select Services, Inc., to be filed in connection with the above-referenced matter.

Thank you for your assistance. If you have any questions, please call.

Respectfully submitted,



Thomas E. Lodge

cc: Mary Ellen Stallings, Telecommunications Division
Jeffrey R. Jones, Attorney Examiner
All Parties of Record

Enclosures

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission Ordered)
Investigation of the Existing Local Exchange) Case No. 99-998-TP-COI
Competition Guidelines.)

In the Matter of the Commission Review of)
The Regulatory Framework for Competitive) Case No. 99-563-TP-COI
Telecommunication Services under Chapter)
4927, Revised Code.)

**APPLICATION FOR REHEARING AND CLARIFICATION
OF
VERIZON NORTH INC. AND VERIZON SELECT SERVICES INC.**

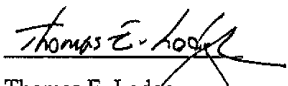
Verizon North Inc. and Verizon Select Services Inc. (collectively "Verizon") hereby seek rehearing and clarification of the Commission's Entry On Rehearing of November 21, 2002 in this proceeding (the "Order") because the Order should be clarified or, alternatively, reheard, on the following issues:

1. Rule 4901:1-6-08, dealing with the definition of "affiliates" and requirements governing "financial arrangements," is overbroad because it goes beyond the purpose of the section and will have unintended harmful consequences that are not in the public interest.
2. Rule 4901:1-6-21(B)(5) fails to exclude a "fixed" common cost allocator from the pricing of Tier II services.

A Memorandum in Support of this Application is attached.

Respectfully submitted,

VERIZON NORTH INC.

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Its Attorneys

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission Ordered)
Investigation of the Existing Local Exchange) Case No. 99-998-TP-COI
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In the Matter of the Commission Review of)
The Regulatory Framework for Competitive) Case No. 99-563-TP-COI
Telecommunication Services under Chapter)
4927, Revised Code.)

**MEMORANDUM IN SUPPORT OF
THE APPLICATION FOR REHEARING AND CLARIFICATION
OF
VERIZON NORTH INC. AND VERIZON SELECT SERVICES INC.**

VERIZON NORTH INC. and VERIZON SELECT SERVICES INC. (collectively
“Verizon”) request rehearing and clarification pursuant to Ohio Revised Code §4903.10 in
response to the Commission’s November 21, 2002 Entry On Rehearing (the “Order”) and
attached “Competitive Retail Service Rules – Appendix A (the “Rules”). Verizon requests
rehearing of some issues and requests clarification of certain other issues.

Argument

1. Rule 4901:1-6-08 (C) Competitive Operations of All Incumbent LECs – Affiliate
Transactions.

(A) *Definition of Affiliates:* Rule 4901:1-6-08(C)(1)(a) defines “affiliates” as
“...companies that are related to each other due to common ownership or control.” This
definition is overly broad and would incorporate within it companies that are not affiliates under
federal rules. This definition should be consistent with or identical to the definition for affiliates
in Section 33 of the Communications Act (47 U.S.C. Section 153), which was amended by the
Telecommunications Act of 1996. Requiring that companies that are not affiliates under federal

law be subject to the Commission's affiliate rules would provide no meaningful protection and yet subject the ILEC and the "affiliate" to numerous requirements contained in the rules. There is no justification for such a broad definition in the record. In fact, Verizon is unaware of any abuse or alleged abuse of the relation between an ILEC and a non-regulated company in which the ILEC or its parent have less than or equal to a 10% equity interest (i.e. the federal threshold) in the non-regulated company.

(B) *Financial Arrangements*: Section (3)(a) of Rule 4901:1-6-08(C), regulating financial arrangements, is also overbroad and will cause unintended consequences if not modified or clarified. Certain provisions in this section, such as providing that any indebtedness incurred by an affiliate must be without recourse to the ILEC or that an ILEC may not issue security for the purpose of financing the operation of the affiliate may inadvertently outlaw the use of "money pool" arrangements. Many utilities enter into affiliate money pool arrangements in order to minimize the cost of short-term borrowing and cash management services and to maximize short-term investment income. Verizon has such an arrangement for its regulated telephone operating companies via a Financial Services Agreement with Verizon Network Funding Corp. ("VNFC")¹, an affiliate interest. However, these financial arrangements are primarily with other ILEC affiliates and not intended for use by non-ILEC affiliates. Verizon North has participated in such affiliate money pool arrangements since 1996.

Short-term borrowing rates available from VNFC are estimated to be 1.5 to 2.5 basis points lower than those otherwise available to Verizon because the fund can take advantage of the combined larger aggregated borrowing requirements of Verizon's affiliate telephone operating companies ("VTOCs"). In addition, since certain cash management, accounting, and

¹ Verizon North is currently in the process of transitioning all short-term borrowing and cash management administration under a similar Financial Services Agreement with GTE Funding Incorporated.

banking activities are completed only once instead of several times for each VTOC, overall administrative costs associated with short-term financing activities are reduced. Also, short-term investment rates available to the VTOCs from the money pool are identical to short-term borrowing rates. Short-term investment rates are typically lower than short-term borrowing rates in the capital markets.

Such money pool arrangements benefit ratepayers, as well as the Company's investors. Therefore, such arrangements are in the public interest and should not be prohibited under the proposed rules outlined in Section 4901:1-6-08(C)(3). Since this section of the rules falls under 4901:1-6-08 "Competitive operations of all incumbent LECs," the Commission may not intend for it to prohibit these money pool arrangements. However, it is not clear. Thus, Verizon requests that the Commission grant rehearing on this issue or clarify that these rules do not prohibit the favorable current money pooling agreements Verizon has with its ILEC affiliates.

2. Rule 4901:1-6-21(B)(5) Tier 2 Regulatory Framework - Pricing.

Although the definition of long run service incremental costs ("LRSIC") has been revised, Verizon submits that necessary pricing flexibility is still impeded by these rules. The pricing rules for Tier 2 services should be modified to allow such services to be priced at market-based rates, subject to a LRSIC price floor. However, also requiring a "fixed" common cost allocator is inconsistent with market-based pricing. The competitive marketplace should dictate the price of these services and, therefore, will control the mark-up for them. Responding to market forces may require some carriers at times to set mark-ups for Tier 2 services that are less than the average or "fixed" common cost allocator. Furthermore, any predetermined or default common cost allocator is inconsistent with a market-based approach, which requires flexibility and responsiveness. Therefore, to maintain a consistent and flexible market-based approach for Tier 2 services, the price floor for these services should be set at the respective LRSICs for the

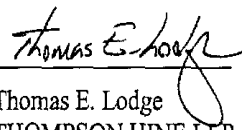
services. The rules should permit any contribution toward the common costs of the company as long as it is above LRSIC.

Conclusion

Verizon requests that the Commission rehear and clarify the issues contained in this request. In addition, Verizon concurs with the comments as filed by the Ohio Telecom Association ("OTA").

Respectfully submitted,

VERIZON NORTH INC.

By: 

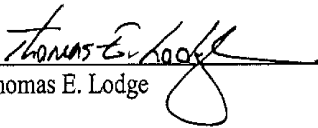
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Its Attorneys

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing has been served upon all parties listed on the attached list, by ordinary U.S. Mail, postage prepaid, this 23rd day of December, 2002.



Thomas E. Lodge

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