

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE
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PUBLIC SERVICE COMMISSION

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July 28, 2003

TO ALL PROSPECTIVE BIDDERS:

The New York State Department of Public Service is seeking a consultant to perform a review of Verizon New York's Retail Service Quality. The attached Request for Proposal (RFP) outlines the scope of this project. A conference call for bidders interested in our RFP will be held on **August 8, 2003**. Consultants interested in bidding on this project and participating in the conference call are requested to notify John R. Coleman, Service Quality Audit Project Manager no later than **August 6, 2003**.

Consultants interested in responding to this RFP must submit 10 copies of their proposal by **August 25, 2003**. The full schedule of key events is as follows:

<u>Target Date</u>	<u>Task</u>
July 28, 2003	Issue RFP
August 8, 2003	Bidder's Conference Call
August 25, 2003	Consultant Proposals Due
Sept. 8-10, 2003	Finalist Interviews
October 2003	Consultant Selected
June 2004	Initial Draft Report
September 2004	Final Report to NYSDPS

Any specific questions should be directed to John R. Coleman, Service Quality Audit Project Manager, (john_coleman@dps.state.ny.us) Office of Communications, 3 Empire State Plaza, Albany, New York 12223-1350 (518) 486-2947.

Sincerely,

John R. Coleman
Service Quality Audit Project Manager
Office of Communications

Enclosures

Request for Proposal to Review the Adequacy of Verizon's Retail Service Quality Processes and Programs

I. OVERVIEW

The New York Public Service Commission is seeking an independent consultant to review Verizon New York Inc. programs, processes and resource allocations associated with its retail service quality performance. The Commission has established Service Standards,¹ monitors Verizon's service quality on a monthly basis, and notes that recent retail service quality performance has declined. In addition, Verizon New York (the Company, or Verizon) is currently operating under an incentive regulation plan known as the Verizon Incentive Plan (VIP).² The VIP contains a three-year Retail Service Quality Plan that links service quality performance to consumer credits. Verizon plans to improve retail service quality primarily by improving worker productivity. In view of recent declines in service performance, significant reductions in budgeted capital expenditures related to service improvement plans, and actions to reduce workforce, the Commission believes an independent audit is required addressing the long-term implications of these actions on Verizon's service quality performance and identifying opportunities for greater efficiency. An initial draft report of findings and recommendations from the selected consultant is expected by June 2004, and a final report by September 2004.

II. PURPOSE/OBJECTIVE

The Commission issued an Order³ initiating a proceeding to investigate a broad range of retail service quality practices, management and labor productivity and their respective impacts on Verizon's retail service quality efforts toward achievement of the requirements of the Commission's Service Standards, the Commission's Special Service Guidelines (Guidelines)⁴ and the Retail Service Quality Plan of the VIP. The Order contains two separate, but interrelated efforts on the part of the Commission to address recent declines in Verizon retail service quality. One provision of the Order focuses on near-term corrective action plans to be filed with the Commission in July 2003 by the Company. Another provision is to retain an independent auditor to review the adequacy of the Company's overall efforts to provide retail service quality that consistently meets the requirements of the Service Standards and the Guidelines. Pursuant to Section 96(6) of the Public Service Law, the cost of the audit will be paid by Verizon, but the consultant will be selected by the Commission and will report to and be under direction of the New York State Department of Public Service Staff (Staff).

¹ Title 16, NYCRR 603, Service Standards Applicable to Telephone Corporations (the Service Standards).

² A copy of the Verizon Incentive Plan (VIP) can be found on the Commission's website at <http://www.dps.state.ny.us/fileroom/doc11226.pdf>.

³ Case 03-C-0971, Proceeding on Motion of the Commission to Consider the Adequacy of Verizon New York Inc.'s Retail Service Quality Processes and Programs, (Issued July 11, 2003- (see Appendix A).

⁴ Opinion No. 01-1 (issued June 15, 2001).

Scope of Proposed Audit

The Commission is concerned about the effectiveness of the Company's service quality programs, processes and resource allocations (collectively, service quality efforts) based on the following:

- The Company's performance with respect to the Service Standards and Guidelines generally,⁵
- The Company's performance to-date in Plan Year 2 of the VIP specifically,⁶
- Company work force reductions in 2002 and further reductions planned for 2003, and
- A significant reduction in past and planned investments in the network, particularly with regard to service improvement investments.

A preliminary review of Verizon's current service improvement plans indicates they focus largely on increased worker productivity. Yet, other means of achieving improvements – increasing investments and staffing – are not considered.⁷ Company data show some areas of New York to be well below the productivity (as measured by the number of trouble reports and installations completed per employee per day) of other areas in the Verizon footprint. Among other things, this may evidence the need for improved managerial practices.

Performance as assessed under the Service Standards indicates a problem with providing timely repairs and pockets of bad performance. Also, complaints to the Commission against Verizon are being driven primarily by delays with repairing services as well as delays with installing services, and the Commission has received expressions of concern of poor service, deteriorating plant, and slow repairs and installations from a variety of stakeholders, including businesses, state and local officials, competitors, and unions.

Service quality is also not up to the five objectives specified in the VIP Retail Service Quality Plan. The Company is experiencing the most difficulty with two, Out-of-Service and Outliers. Performance with these two objectives thus far into the VIP has been directly related to the timeliness of both repairs and service installations – functions associated with the volume of activity and the size and productivity of the work force. Aside from these problem areas, the planned budgetary reductions of investment in the network could lead to a less reliable network which would likely be evident in the Company's future Customer Trouble Report Rate performance.

The broad parameters of the scope of this audit were identified in the Commission's June 11, 2003 Order:

⁵ A Staff report to the Commission: "Verizon New York Inc. First Quarter 2003 Service Quality Report," May 5, 2003 (See <http://www.dps.state.ny.us/fileroom/doc13223.pdf>).

⁶ A Staff report to the Commission: "Verizon New York Inc. Loss of Pricing Flexibility," June 11, 2003 (See <http://www.dps.state.ny.us/fileroom/doc13388.pdf>).

⁷ Verizon's actions to layoff workers were recently overturned after arbitration.

Given the overall decline in service performance, the existence of pockets of persistent poor service, the company's significant reductions in budgeted expenditures related to service improvement and its reliance on productivity reflected in its improvement plans, we will initiate a comprehensive service quality proceeding to review Verizon's retail service quality, including Special Services. That investigation will aid us in evaluating Verizon's long-term approach to service quality, and in our continuous efforts to assure that Verizon meets its long-term service quality obligations. The new service quality proceeding will include an independent audit conducted pursuant to Section 96 of the Public Service Law, paid for by Verizon and performed by an acceptable outside auditor under the direction of and managed by the staff of the Department. The audit should include, but not be limited to, areas of the company's management and operations such as the amount of network investment and resources dedicated to improving service quality and the mix of these resources, the adequacy of company records to locate and correct deficient equipment in a quick and efficient manner, available workforce, expected workload, and worker productivity.⁸

Given these concerns, the independent auditor will be required to review Verizon's retail service quality efforts from four perspectives:

Performance – This aspect of the review should focus on the adequacy and effectiveness of the workforce including its overall size with respect to current and projected demand, training, efficiency and adherence to established procedures and processes, the availability of adequate tools for craft and first and second line management, management practices related to the workforce, management/craft cooperation, workload allocation, and the harmony of the foregoing with respect to Company policies, and Commission service quality standards, guidelines and VIP objectives. This element of the review should also identify any issues/circumstances that act as barriers to provision of high quality service or increased productivity. The consultant will be responsible for reviewing workforce issues and productivity results in other Verizon operating companies (outside of Verizon New York Inc.) and "best practices" of the industry to identify any significant differences in repair and installation processes and productivity that exist and the underlying reasons for such variances.

Analysis – This aspect of the review should focus on key practices employed by the Company to identify service quality problems and the development and implementation of corresponding improvement strategies. The audit should identify the specific data and information systems utilized for service quality monitoring, service analysis, and service improvement (e.g., work force deployment, productivity, identification of problem facilities, and identification of

⁸ Case 03-C-0971, Proceeding on Motion of the Commission to Consider the Adequacy of Verizon New York Inc.'s Retail Service Quality Processes and Programs, effective July 11, 2003, page 10-11.

the location of outside plant cables). It should also identify the variables considered by management in the development of its overall service quality strategy and how those factors are weighed. As part of this element of the review, the consultant will also sample and analyze Service Inquiry Reports (SIR)⁹ to determine the validity of these reports and why improvement efforts have/have not matched expectations as stated in those reports. Additionally, as a component of this part of the review, the consultant will assess the general accuracy of the underlying data to the reports/systems/processes used by company management to produce a service improvement program. This effort should be conducted via a sampling of records and the consultant's proposal should clearly identify the methodology to be employed to conduct this aspect of the review including, but not limited to, the sampling methodology to be employed. Should the Commission determine that additional service quality data integrity efforts need be conducted as a result of this sampling, the consultant selected as a result of this review will not necessarily be selected for this additional work. Finally, this aspect of the review should identify the Company's methods/processes for evaluating the condition of its plant and prioritizing investment and maintenance efforts to attain identified goals and maintain service quality consistent with the adopted standards, guidelines and VIP objectives.

Capital Expenditures and Maintenance This section will address the adequacy of the overall funding of service quality improvement from a perspective of capital investment and ongoing maintenance as contained in current Verizon capital and maintenance budgets with respect to: (1) all overall company/corporate objectives (top-down view), (2) identified need from a summation of specific analyses of plant (bottom-up view), and (3) Commission retail service quality performance requirements. It will also identify how well managers can assess the impact on service performance of proposed changes (increases or reductions) in capital and expense budgets relating to service quality. It will also include an assessment of planned efforts to use new technology that may improve service results.

Best Practices – This aspect of the review will require that the consultant indicate how industry “best practices” are employed within each of the three aspects listed above, and if not employed, which areas might be suitable for the adoption of specific best practices identified and detailed by the consultant. The consultant should also comment on any best practices associated with “team” approaches to work or “team” awards used specifically in the telecommunications industry. Findings relative to best practices may be presented either as a separate section of the report, or subsumed in the three aspects.

⁹ Service Inquiry Reports (SIR) are defined by the Service Standards. In general, an SIR identifies the reasons for poor performance, the steps necessary to improve performance, and when service will return to the expected level of performance for that metric (e.g., CTRR) and measurement entity (e.g., central office) as defined in the Service Standards. It must be filed whenever performance is outside of the acceptable range for three out of five months (including the current month) for most metrics.

Each of the above items will be the foundation of the report prepared by the consultant. **These four elements have been identified by Staff. Your proposal should identify any additional elements that you believe necessary to provide an adequate evaluation.** A final report will be prepared and all findings and recommendations should be thoroughly documented by the consultant.

III. SPECIFIC DELIVERABLES

The consultant will be expected to provide the following key documents:

- 1) The chosen consultant will be expected to confer with Staff, Verizon and its workforce in conjunction with the creation of its initial workplan. Subsequent to these initial orientation meetings the consultant will be responsible for submission of an initial and final draft workplan to Staff. These drafts should outline in additional detail the scope and methods to be employed by the consultant during the course of the engagement as well as a detailed schedule (including milestones) for the remainder of the review. Parties to Case 03-C-0971 will be given an opportunity to comment on the initial draft workplan. The consultant may modify the initial draft after giving due consideration to parties' comments, and must then submit a final draft workplan to Staff for approval. Approval of the workplan by Staff will authorize the consultant to execute the tasks as stated therein.¹⁰
- 2) The schedule for the initial draft report is June 2004 as set forth in the schedule below. This initial draft report must provide the results of the consultant's review and recommendations should be in sufficient detail to support specific findings.
- 3) Thereafter, the consultant will present a revised draft report to the parties to Case 03-C-0971. At the discretion of the Department of Public Service, a hearing on the report may be convened. If such a hearing is convened, the consultant may be required to present its revised draft report including findings and recommendations within the context of this formal hearing. To that end, the consultant should be prepared to defend the report and respond to examination by parties if such a hearing were established.¹² In the final report, the consultant may make modifications to address specific parties' comments as it deems necessary after consultation with Staff.

¹⁰ Payments to consultants are discussed in detail in the Guide, however, bidder's should be aware that 10% of professional fees will be retained throughout the project. In addition, the Department will retain an additional 5% of professional fees pending the approval of the detailed workplan. Once the Department approves the workplan, the 5% retained will be released. Further discussion of payments and retentions are discussed in the Guide.

¹² At the Department's option, the consultant(s) will be required to testify or respond to questions within the context of the proceeding, should such a hearing be established. The consultant(s) will be paid at the rate(s) agreed to in the contract.

- 4) A final report by September 2004 to Staff will document the consultant's evaluation of each aspect of Verizon's retail service improvement programs and processes as outlined in this RFP. All consultant workpapers must be available for Staff's review.

IV. SCHEDULE

The schedule for this project is set forth below. Consultant proposals may provide their own proposed schedules if the consultant feels for any reason that the schedule provided herein is not achievable. If a consultant includes a schedule that differs from the schedule herein, the consultant should provide a rationale for any such differences.

<u>Target Date</u>	<u>Task</u>
July 28, 2003	Issue RFP
August 8, 2003	Bidder's Conference Call
August 25, 2003	Consultant Proposals Due
Sept. 8-10, 2003	Finalist Interviews
September 2003	Consultant Selected
September 2003	Orientation Meeting(s)
November 2003	Initial Draft Workplan Submitted
December 2003	Presentation of Draft Workplan to parties
January 2004	Workplan Approved by DPS
June 2004	Initial Draft Report Submitted to Staff
July 2004	Initial Draft Report to Verizon for Factual Accuracy
August 2004	Revised Draft Report to Parties
September 2004	Final Report to NYSDPS

Should there be a company-wide work stoppage later this year making Company management personnel unavailable to the consultant, the consultant will instead concentrate on those elements of the review that do not detract: (1) from the Company's ability to meet the more immediate service quality needs brought on by the work stoppage, or (2) the consultant's need to meet the specified schedule of deliverables.

V. BIDDER'S CONFERENCE CALL

A bidder's meeting concerning this RFP will be held via conference call at 10 AM EDT on **Friday August 8, 2003**. Firms interested in participating in the bidder's conference call and expecting to respond to the Request for Proposal should contact John Coleman, SQ Project Manager (518) 486-2947 for the conference call number. Firms are requested to contact us by close of business on **August 6, 2003**.

The consultant proposals are due by 5:00 PM, **Monday, August 25 2003**. Any specific questions should be directed to Mr. John Coleman, SQ Audit Project Manager – Office of Communications, 3 Empire State Plaza, Albany, New York 12223-1350. Mr. Coleman can also be reached at (518) 486-2947 or via e-mail (john_coleman@dps.state.ny.us).

VI. PROPOSAL FORM & CONTENT

This RFP is bid in whole. While consultants are free to subcontract portions of this review, there will be only one consulting firm retained. All subcontractors must be approved by Staff. The consultant's proposal must provide a clear demonstration of its understanding of the objectives and deliverables. It should also illustrate the consultant's approach to meeting the objectives in a timely and comprehensive fashion. Proposals should comply with the attached "Guide" (Attachment B to this RFP).

VII. PROPOSAL SUBMISSION

Consultants interested in responding to this RFP must submit an original and 9 copies of their proposal. **The Department of Public Service must receive all proposals no later than 5:00 PM on Monday, August 25, 2003.** All materials should be enclosed in a sealed inner envelope and be identified on the outside as "Response to RFP Regarding Verizon's Retail Service Quality Improvement Processes and Programs." Although consultants are encouraged to also submit an electronic version of their proposal along with the hardcopy, the Department will not accept e-mail submissions or facsimile copies of proposals as a substitute for the hardcopies of the proposal. Further, submission of electronic version or facsimile copy of the proposal will not be considered as sufficient with respect to the bid receipt deadline of 5:00 PM on Monday, August 25, 2003.

All proposals must be received in our office at the address below. Proposals should be addressed to:

Jaclyn A. Brillling
Acting Secretary
New York State Department of Public Service
3 Empire State Plaza
Albany, New York 12223-1350

All proposals should include a cover letter, signed by a responsible official certifying:

- the accuracy of all information in the proposal;
- the bidder's commitment and ability to perform all the work contained in its proposal; and
- compliance with all Request for Proposal requirements.

The cover letter should include the bidder's address, name of a contact person, telephone number, e-mail, address and fax number. In addition, the cover letter should contain a statement that the proposal is a firm offer for a 180-day (or more) period. Staff will acknowledge receipt of each bid by e-mail. Additionally, bidders may submit a self-addressed stamped envelope requesting that Staff verify that their bid was received.

VIII. PROPOSAL EVALUATION

Overview

All proposals are subject to an evaluation by Staff. The Commission desires to select the bidder who will provide the "best value", taking into consideration the most beneficial combination of qualifications, services and cost, and the consistency of the bid with the requirements of this RFP. Only proposals deemed to be responsive to the submission requirements will be evaluated by an Evaluation Team comprised of members of Staff. The criteria against which each proposal will be evaluated are described below.

Evaluation Criteria

The selection process entails two steps. First, initial review of the proposals based on the criteria identified below will be conducted by Staff. Second, based upon this initial evaluation, one or more of the consulting firms will be selected and interviews with the finalists will be scheduled. Similar to the cost of proposal preparation, consultant costs associated with preparation and participation of finalist interviews is the responsibility of the consulting firm, should not be incorporated in the proposal, and are not reimbursable.

The initial evaluations of the proposals will be based on Staff's assessment of the

likelihood that the work will be done well and in a timely manner as determined in large part by using the following criteria:

Criteria 1: Content of Proposal - The proposals will be reviewed by Staff for conformity with the RFP and the *Guide*, and reviewed for substantive content. The ability of the consulting firm to prepare a proposal that is clearly written, concise, yet complete and well organized will be considered a strong indication of the firm's ability to produce a final report of similar quality. The criteria will also look at the firm's proposed project management processes. Any proposed reservations or constraints concerning Staff's involvement must appear in the proposal and will be a factor in its evaluation.

Criteria 2: Firm and Individual Consultant Expertise and Experience - In evaluating the proposals, equal weight will be given to the experience, ability and expertise of the consulting firm and the experience of the individuals assigned to the project. The proposal should demonstrate the firm's ability to manage the project and present its proposed approach and methods to be used to conduct the evaluation and meet the objectives as outlined in the project scope. The expertise and experience of individuals to their proposed work assignments associated with this audit should be clearly outlined as it will be an important factor in this aspect of the evaluation.

Criteria 3: Cost - The cost of the consultant's evaluation will be analyzed from the prospective of the number of days required, the billing rates of the proposed staff, and administrative overhead.

Proposal Price

The consultant shall provide a not-to-exceed cost in which the cost of professional services and out-of-pocket expenses are separately stated. The proposal must include the current professional fee rates for each individual. The consultant should detail any assumptions going into the price bid. The not-to-exceed cost shall be inclusive of all expenses associated with the creation of the deliverables, including travel and incidentals. Payments under the contract will be made according to a negotiated schedule of deliverables, however, 15% of professional fees will be retained until Staff approves the detailed workplan. With the approval of the workplan the incremental 5% of professional fees which were withheld pending approval of the workplan will be released and subsequently 10% of professional fees will be retained until Staff determines that all deliverables have been provided to Staff. Furthermore, until such time as the consultant has completed its draft report and delivered it to the Department for its review, no more than 75% of the budgeted professional fees, will be paid to the consultant. Proposals should identify key milestones for payment. A more detailed discussion of the submission of invoices and consultant payments is included in the *Guide*.

Attachment A –

**ORDER INITIATING VERIZON NEW YORK
SERVICE QUALITY PROCEEDING**

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
New York on June 18, 2003

COMMISSIONERS PRESENT:

William M. Flynn, Chairman
Thomas J. Dunleavy
James D. Bennett
Leonard A. Weiss
Neal N. Galvin

CASE 03-C-0971 - Proceeding on Motion of the Commission to
Consider the Adequacy of Verizon New York
Inc.'s Retail Service Quality Processes and
Programs.

CASE 00-C-1945 - Proceeding on Motion of the Commission to
Consider Cost Recovery by Verizon New York
Inc. (fka New York Telephone Company) and
Modification of Performance Regulatory Plan
under Merger Standards and to Investigate the
Future Regulatory Framework.

ORDER INITIATING VERIZON NEW YORK
SERVICE QUALITY PROCEEDING

(Issued and Effective July 11, 2003)

BY THE COMMISSION:

INTRODUCTION

The terms of the Verizon Incentive Plan were adopted in
large measure based on Verizon New York, Inc.'s (Verizon or the
company) commitment to maintain retail service quality at
specified levels.¹ Unfortunately, service quality has been below

¹ Cases 00-C-1945 and 98-C-1357, Order Instituting Verizon Incentive Plan (issued
February 27, 2002), p. 1.

such levels. Although we continue to believe that the Verizon Incentive Plan will keep the company focused on maintaining quality service, its service improvement plans raise concerns regarding, among other things, the adequacy of the company's long term-service improvement plans and pockets of chronic, poor performance. Accordingly, we conclude that additional Commission action is necessary. We therefore initiate a Service Quality Proceeding, including an independent audit, to evaluate the adequacy of the company's long-term, state-wide service quality efforts. In addition, we will require that the Verizon Service Inquiry Reports be filed with the Commission Secretary rather than submitted solely to Department of Public Service staff (staff), and that copies be provided to all parties requesting them. Finally, we will direct the company to file, within 20 days of this order, a corrective action plan designed to achieve all five incentive plan objectives for Plan Year 2.

BACKGROUND

The Commission sets standards for the quality of telephone services for all carriers. These service standards were last revised in 2000 to increase the focus on the quality of basic telephone services.² Verizon was also directed to improve its performance for Special Services - services used predominantly by businesses which must be separately designed and engineered - relative to Commission guidelines in 2001.³ Telephone companies,

² The primary criteria for measuring telephone service quality are the Telephone Service Standards, which were adopted by the Commission in 1973 (Opinion No. 73-40, Case 26158) and revised in 1989, 1991, and 2000. The Service Standards appear as Part 603 of 16 NYCRR and require measurement of service quality in four separate categories: 1) Maintenance Service, 2) Installation Service, 3) Network Performance, and 4) Answer Time Performance. Staff receives monthly reports of service measurements in these categories that are analyzed to evaluate the level of service quality delivered to consumers.

³ Opinion No. 01-1 (issued June 15, 2001).

including Verizon, are enjoined to provide services which meet or exceed those standards and guidelines.

Verizon is also operating under an incentive regulatory plan agreed to and accepted by the company - known as the Verizon Incentive Plan (VIP, or the Plan) - that began March 1, 2002 and expires in part on February 29, 2004.⁴ It contains a three-year Retail Service Quality Plan that expires on February 28, 2005.

The VIP establishes a specific penalty structure of customer credits that is tied to five objectives as well as to pricing flexibility. Missing objectives, regardless of the degree of miss, requires the following credits be given to customers or that other action be taken:

- Miss 1 annual objective - \$15 million
- Miss 2 annual objectives - \$40 million
- Miss 3 or more annual objectives - \$100 million, plus \$35 million for each objective missed above 3
- Miss 2 objectives based on a quarterly review of the previous 12 months - Prospective Pricing Flexibility is suspended (and was suspended as of May 31, 2003)

For the twelve months ended May 31, 2003, Verizon failed to meet the Out-of-Service and Outlier targets of the VIP. Thus, under the express terms of the VIP, Verizon's pricing flexibility is suspended.⁵

On April 22, 2003, Chairman Flynn wrote to the Chief Executive Officer of Verizon Communications, expressing concern

⁴ Cases 00-C-1945 and 98-C-1357, Order Instituting Verizon Incentive Plan (issued February 27, 2002).

⁵ Cases 00-C-1945 and 98-C-1357, Order Instituting Verizon Incentive Plan (issued February 27, 2002); Appendix A, Joint Proposal Concerning Verizon Incentive Plan, "If Verizon fails two Performance Objectives at the end of any Review Period, the following applies: Prospective pricing flexibility as provided in the Plan is suspended," (p. 8).

over the company's service performance, noting workforce reductions and construction budget expenditure reductions, and requesting action by the company. On May 7, 2003, the company presented its expectations for improving Plan Year 2 performance under the VIP.

The company expects to meet the four VIP objectives for Troubles, Installation, Complaints, and Outliers. It expects that meeting the Out-of-Service objective of 20% or less will remain a challenge, and projects performance in the "low 20%" range. In other words, its expectations are to perform in a range similar to Plan Year 1 wherein it missed one of the five objectives, Out-of-Service, and paid a rebate of \$15 million to affected customers.

Verizon's current plans include expenditures on jobs specifically identified to improve service, expenditures to reduce workload through proactive cable maintenance and rehabilitation, additional training, increased management focus on productivity and the use of global positioning equipment to better utilize its outside plant workforce. Verizon also assigned additional people to deal with complaints to the Public Service Commission (PSC) and expects to reduce the number of consumers contacting the PSC by timely resolving customer problems.

Staff's 2003 first calendar quarter service quality report to the Commission for Verizon expressed serious concern that the company's efforts may be insufficient to achieve all five of the VIP service quality objectives. Those concerns have been confirmed by the company's stated expectation that it will not achieve all five VIP objectives in Plan Year 2 and are exacerbated by the significant planned reduction in construction expenditures and a further reduction in workforce planned for this year. It appears that productivity improvements are to be

the primary focus of the company's overall efforts because other typical means of achieving improvements are being reduced (e.g., construction expenditures). Increased productivity is a necessary and laudable goal that management and the workforce should continually strive for, especially in view of increasing market pressures. However, it is questionable whether productivity improvements alone will be sufficient to bring the company's service quality performance to the level expected generally, and that required by the VIP specifically. Recently, other parties have expressed concern about the company's performance, including the Communications Workers of America and the Assembly Standing Committee on Corporations, Authorities and Commissions (the Standing Committee).⁶ When the Commission approved the VIP in February 2002, we stated:

With respect to retail service quality, the significant improvement since 1995 (when the current PRP went into effect), together with the positive impact of competitive pressures on service quality, warrant a new approach, directed less to bringing service up to predetermined targets and more to maintaining quality at the new, higher levels. The Service Quality Plan permits Verizon to freely compete and invest while protecting consumers from serious erosion in telephone service quality. With rebates that may be paid to customers if service quality falls, and performance objectives crafted to discourage pockets of poor performance, backed by Verizon's risk that pricing flexibility will be suspended if service

⁶ The Standing Committee recently issued a report on Verizon performance entitled Interim Report - Verizon Service Quality in New York State (May 7, 2003). In its interim report, the standing committee raises a number of issues, but the primary ones in our view call into question: (1) the use of annual statewide average performance objectives that allow for monthly variations throughout the year, (2) whether or not there are adequate protections against pockets of poor performance, and (3) whether or not the penalty structure should be modified to increase penalties overall and apply them on a graduated basis (i.e., the greater the extent an objective is missed, the greater the penalty).

quality declines significantly and a process for monitoring performance, service quality protections afforded by the Plan are effective.⁷

We believe our overall findings on service quality as stated above are still valid today. Of the five service objectives in the VIP, four - Troubles, Out-of-Service, Installation, and Complaints -- are statewide averages, while the fifth - Outliers -- is not. Outliers is a count of the number of poor performing areas within specific geographic areas of the state in a given plan year.

Annual averages are used instead of monthly or quarterly averages because there are normal variations by season in service quality results. Monthly targets would not necessarily allow for unusual weather events such as ice storms, peak demand periods, and the like. Monthly or quarterly objectives would also produce requests for allowances or waivers for unusual events; or in the alternative, the objectives would have to be set in such a way as to recognize such potential events. The annual objectives of the VIP do not envision waivers for most such events. Thus, Verizon must meet the VIP objective or pay rebates to its affected customers. Statewide service quality targets also dovetail with the VIP's statewide pricing flexibility provisions. By linking service quality to pricing flexibility the VIP provides added assurance that the dominant carrier, Verizon, would maintain its service quality statewide.

Moreover, the VIP recognizes that statewide averages might obscure poor performance on a more localized basis. Hence, it contains the Outlier objective. This objective is designed to identify all such poor performance, and establishes a statewide limit on their number. Outliers are directly tied

⁷ Cases 00-C-1945 and 98-C-1357, Order Instituting Verizon Incentive Plan (issued

to the number of Service Inquiry Reports (SIRs)⁸ that must be filed with staff pursuant to the Commission's Service Standards, Part 603 of NYCRR Title 16. All 10 metrics of the Service Standards are embodied in the Outlier objective, and these metrics are measured at a very localized level. For example, Customer Trouble Report Rate (CTRR) is measured in 543 individual central offices across the state, and Percent Out-of-Service Troubles Lasting Over 24 Hours is measured in 35 repair service bureaus. Thus, the Outlier measure protects against pockets of inadequate service performance.

The service performance objectives of the VIP have significant overlap or interrelationships. The Complaint objective is broad-based and subsumes all other objectives. The Outlier objective is also broad-based, but focuses on very localized service entities. Thus, if Verizon felt it was unable to achieve the Out-of-Service objective, the Complaint and Outlier objectives continue to provide incentives for the company to focus on its out-of-service performance.

Considering the interrelationship among the service objectives and the penalty structure of up to \$170 million in customer rebates, we believe the VIP provides powerful incentives for the company to provide good service quality. The company's service performance early in the Performance Regulatory Plan (PRP) deteriorated, but after paying penalties of approximately \$70 million it began a long improvement trend. Thus, experience indicates that penalty avoidance can produce good service results, and potential rebates under the VIP are larger than under the PRP. Moreover, competitive pressures from

February 27, 2002), p. 34.

⁸ In general, an SIR identifies the reasons for poor performance, the steps necessary to improve performance, and when service will return to the expected level of performance for that metric (e.g., CTRR) and measurement entity (e.g., central office) as defined in the Service Standards. It must be filed whenever performance is outside of the acceptable range for three out of five months (including the current month) for

wireless, cable and the Internet are greater today than during the PRP.

DISCUSSION

For the reasons discussed above, we are convinced that the VIP remains effective and provides appropriate incentives. The specific thresholds it established, based on our Service Standards using both annual and monthly measures, subject to verification by independent auditors, and comprising both statewide average performance, local community performance and customer complaints, are well conceived.

Verizon's current plans include service improvement projects, proactive cable maintenance and rehabilitation, improved productivity through more training, increased management focus on productivity, and use of global positioning equipment to better utilize its outside plant workforce. It has also assigned additional people to resolve PSC complaints. Nevertheless, we remain concerned about the effectiveness of the company's service quality programs, processes, and resource allocations based on our review of the company's performance with respect to the service standards generally, the company's performance to date in Plan Year 2 of the VIP specifically, workforce reductions in 2002 and further reductions planned for 2003, and a significant reduction in planned investments in the network, particularly with regard to service improvement investments.

Verizon expects that meeting the Out-of-Service objective of 20% or less will remain a challenge, and projects performance in the "low 20%" range for VIP Plan Year 2. Stated another way, Verizon plans to meet only four of the five service objectives, and to pay an additional \$15 million in consumer credits in

most metrics.

2004. The company's goal is inconsistent with our expectation for performance under the VIP, which was that the company was starting from a point of improved service and would maintain those levels. Accordingly, the company will be directed to file within 20 days of the date of this order, a corrective action plan which envisions achievement of all five VIP service goals in Plan Year 2 of the VIP Retail Service Quality Plan.

We are also troubled that Verizon is not doing enough to correct problems in areas that are experiencing chronically poor service. Our Service Standards require Verizon to file an SIR each time it fails a service standard on a local or regional basis for three of the last five months. A number of entities have experienced multiple or repeated SIRs. These reports, normally filed with staff, will now be filed by Verizon directly with the Commission in the new service quality proceeding that we are initiating, and sent to any party who requests them. This heightened scrutiny will help us to determine whether Verizon's corrective action plans will prevent chronic, poor service performance on a localized level.

Given the overall decline in service performance, the existence of pockets of persistent poor service, the company's significant reductions in budgeted expenditures related to service improvement and its reliance on productivity reflected in its improvement plans, we will initiate a comprehensive service quality proceeding to review Verizon's retail service quality, including Special Services. That investigation will aid us in evaluating Verizon's long-term approach to service quality, and in our continuous efforts to assure that Verizon meets its long-term service quality obligations. The new service quality proceeding will include an independent audit conducted pursuant to Section 96 of the Public Service Law, paid for by Verizon and performed by an acceptable outside auditor

under the direction of and managed by the staff of the Department. The audit should include, but not be limited to, areas of the company's management and operations such as the amount of network investment and resources dedicated to improving service quality and the mix of these resources, the adequacy of company records to locate and correct deficient equipment in a quick and efficient manner, available workforce, expected workload, and worker productivity.

It is critical for the long term, that we be satisfied that Verizon is doing all that is necessary in terms of investment, management practices and workforce to ensure acceptable service quality is maintained. That includes understanding how Verizon New York's productivity compares to other telephone companies across the nation and identifying management practices that could improve the environment for labor productivity. Our analysis of service results shows that Verizon's performance failures under the VIP involve productivity-related measurements associated with the timeliness of responding to consumer concerns about repairs and installations. Company data indicates that productivity in some areas of New York is below the productivity of other states in the Verizon footprint as measured by the number of trouble reports or service installations completed per employee per day. We also note that productivity improvements appear to be the primary focus of the company's overall efforts as other means of achieving improvements, such as increasing expenditures and staffing, are being reduced. The audit will examine the adequacy and effectiveness of the workforce and the management of it.

The service quality proceeding we are initiating, including the related service quality audit, will help ensure that Verizon's long-term performance better meets the needs of New Yorkers throughout the State.

The Commission orders:

1. Verizon New York Inc. is directed to file revised tariff leaves by July 25, 2003, effective on 30 days notice, reflecting the suspension of upward pricing flexibility for all products and services as of May 31, 2003, until restored pursuant to the terms of the February 27, 2002 Order Instituting Verizon Incentive Plan.

2. Publication requirements of Section 92(2) of the Public Service Law are waived.

3. Within 20 days from the date of this Order, the company is directed to file with the Secretary to the Commission, five copies of a corrective action plan designed to achieve all five service goals in Plan Year 2 of the Verizon Incentive Plan Retail Service Quality Plan. The Plan shall also be served on all parties to these proceedings.

4. The company is directed to file three copies of all Service Inquiry Reports directly with the Secretary to the Commission and to serve them on all parties to these proceedings who request them. Parties wishing copies should notify the Secretary to the Commission, by July 28, 2003. Thereafter a list will be compiled and posted on the Commission's website for the company's use.

5. A Service Quality Proceeding as described in this Order is instituted to evaluate the company's programs, processes and resource allocations associated with its retail service quality performance.

6. Pursuant to Section 96(6) of the Public Service Law, an independent audit of Verizon New York Inc. shall be conducted in accordance with the discussion in this Order.

7. These proceedings are continued.

By the Commission,

(SIGNED)

JANET HAND DEIXLER
Secretary

**State of New York
Department of Public Service**

The Guide

**A Guide For Consultants Submitting Proposals Concerning the
Review of the Adequacy of Verizon's Retail Service Quality
Processes and Programs.**

Case 03-C-0971

July 2003

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I. Introduction

The Public Service Law allows management and operations audits of major gas, electric, telephone, and water utilities in New York State. The law authorizes the Public Service Commission (the Commission) to select independent consultants to conduct these studies and further authorizes the Commission to order the respective utilities to implement the recommendations resulting from these audits. Generally, these audits are conducted by consultants selected by the Commission, and this “*Guide*” for an audit of the adequacy of the retail service quality processes and programs of Verizon New York Inc. (the Company, or Verizon) is intended to describe the manner in which this audit will be administered.

It is the Commission’s practice to send its request for proposals (RFP) to any firm or individual requesting its receipt. Since the Commission does not use an established list of qualified firms or individuals, each firm or individual submitting a proposal is required to demonstrate to the satisfaction of the Commission its qualifications and abilities to undertake the assignment.

The Commission expects this review to produce a clearly written and documented report on the adequacy of Verizon's retail service quality programs, processes, and resource allocations.

II. The Audit Program

This review will be conducted by a consultant selected by the Commission. The audit process begins with the preparation of a RFP, followed by receipt of proposals (Section III), selection of a consulting firm (Section IV), and the review (Section V).

A. Conflicts of Interest and Ethical Conduct

The Commission will not engage a firm with a conflict of interest, and may not engage any firm with the appearance of a conflict of interest.

The consultant’s proposal should identify each existing contract or other agreement that the consultant or its subcontractor(s) have with Verizon New York Inc. and/or its affiliates and should describe any work that it or its affiliates are doing or have done for any Verizon New York Inc. and/or its affiliates in the past two years. Similar disclosures should be made for any existing contract the consultant or its subcontractor(s) have with organizations representing Verizon’s workforce. Based on the consultant’s submission, Staff will determine if there is either an appearance of or an actual substantive conflict of interest.

The consulting firm selected, and its staff and subcontractors are expected to conduct themselves in accordance with the highest business, professional and ethical standards. Neither the consulting firm, its staff, nor any subcontractor is to offer any gift, favor, or gratuity of any value, or to make any offer of employment to any officer or employee of the Company or to any Commissioner or member of the Department of Public Service Staff (Staff) either during the audit or within two years following completion of the review. Violation of this restriction may result in immediate termination of services of the offending individual or firm, and may ban the individual or firm from future consideration by the Commission or Staff.

Finally, the consulting firm selected and any subcontractor engaged by it on the project, will be required to enter into a three-party contract (consultant, the Company and the Commission) establishing the terms of the engagement. A copy of that contract will be available on the web site of the Department of Public Service as well as upon request. The consulting firm and any subcontractors must agree that neither it nor any of its affiliates or any of its principals or employees will perform any work for the Company or its affiliates during the course of the audit and for two year after completion of the audit without written authorization by the Commission.

B. The Request for Proposals

This RFP contains the scope and objectives of the review and is based on the requirements identified in the Commission Order in Case 03-C-0971¹.

Neither the Commission nor Staff maintains a list of qualified firms. Rather, the RFP is sent to any individual or firm that has requested to be on the mailing list.

The RFP will provide for an informational meeting for those individuals or firms interested in submitting a proposal, at which Staff will provide additional information on the project scope and schedule.

C. Responsibilities of the Commission Staff

The Commission is the client and through Staff, the Commission will exercise the monitoring and control necessary to achieve its objectives. Monitoring of the study will include adherence to the scope, the contractual agreement, defined procedures, schedules, and budgets. Staff's responsibilities encompass all aspects of the engagement.

The Commission will rely on Staff for periodic reports on project status, the emerging issues, and the content of the final report. Therefore, it will be necessary for Staff to monitor the work of the consultants. This could include accompanying the consultant on site visits and attendance at interviews as required.

¹ Case 03-C-0971– Proceeding on Motion of the Commission to Consider the Adequacy of Verizon New York Inc.'s Retail Service Quality Processes and Programs, Issued and Effective July 11, 2003 (“Commission Order”).

D. Office Space and Equipment

It is the responsibility of Verizon to provide suitable office space with file cabinets, telephones, access to copying facilities, and fax machines for use of the consultant and Staff during the course of the review.

III. Proposals

The proposal submitted by the individual consultant or firm is the document that Staff will use to make its initial judgment regarding the consultant's qualifications, understanding of the Commission's scope and objectives, and the ability to undertake the project. The proposal is also an indication of the consultant's ability to present its thoughts clearly, concisely, and cogently, and will be an indication of the consultant's ability to produce a final report.

The original and 9 copies of the proposal are to be filed with:

Jaclyn A. Brillling
Acting Secretary
New York State Department of Public Service
3 Empire State Plaza
Albany, New York 12223-1350

Those submitting proposals do so entirely at their own expense. There is no expressed or implied obligation by the Commission to reimburse any firm or individual. Whether selected to perform work or not, any costs incurred in preparing or submitting the proposal or responding to any additional information requested by Staff, or for participating in the selection interviews described in Section IV, will not be reimbursed.

Submission of any proposal indicates acceptance of the conditions contained in the RFP and this *Guide* unless clearly and specifically noted otherwise in the proposal. The Public Service Commission reserves the right to reject any and all proposals submitted in response to its request.

A. Design and Content

The proposal, which is to be bound as a single document,² must contain a description of relevant projects that the consulting firm has completed. A single copy of one or more of the firm's most recent publications, presentations or other documents should be submitted along with the proposal. Preferably, such documents should be of a final nature concerning the same subject area as this proposal, and be of similar complexity.

² As discussed in Section III (B), any material claimed to be confidential should be clearly identified and include an explanation of the specific reasons why confidentiality is claimed.

The proposal must contain the following sections, which will be discussed in more detail below:

1. Introduction
2. Scope and Objectives
3. Approach, Methods, Procedures, and Project Management
4. Areas and Issues for Review
5. Consulting Staff Organization
6. Schedules and Budgets
7. Qualifications of the Firm
8. Exhibits

1. Introduction

The introduction should include a short section describing the purpose of the proposal. A demonstration of the consultant's understanding of the specific issues relevant to the audit is required.

2. Scope and Objectives

The Commission's scope and objectives are described in the RFP. The procedures that will govern the review are described in this Guide. In this section of the proposal the consultant is to confirm in its words its understanding of the scope and objectives. The consultant should demonstrate the process the consultant intends to use to evaluate Verizon's retail service quality programs, processes and resource allocations (collectively, service quality efforts). Proposals should identify specific tasks and activities that the consultant would perform. At a minimum, the proposal should address the methods and procedures to be employed and the criteria to be used in reviewing Verizon's retail service quality efforts. The consultant's proposal should describe the underlying approach to be utilized in performing this evaluation to allow Staff to understand fully how the consultant would perform the evaluation.

3. Approach, Methods, Procedures, and Audit Management

An explanation of the process the consultant intends to use to demonstrate its compliance with the required scope of work must be provided. It should contain how the review will be planned, implemented, supervised and managed by the consultant's staff, as well as the philosophy and approach to these steps. The methods and procedures to be employed and the criteria to be used in its evaluations should also be addressed to allow Staff to fully understand how the consultant will perform the review.

The scheduling and project management systems to manage and control the project are to be described in this portion of the proposal.

4. Areas and Issues for Review

The proposal must include a description of how the scope and issues identified in the Commission Order will be examined during the audit, and show how the consultant's staff will be assigned to complete the scope and meet expected deadlines.

5. Consultant Staff Organization

The proposal must include the organizational structure for the engagement and the resources that will be involved in the review. The organizational structure should identify personnel who will work on each aspect of the evaluation, their expected time commitment, and relevant credentials. The consultant should note which resources in this organizational structure will be dedicated to which aspects of the project and which resources will be shared. Each of the consulting staff members who will be assigned to the specific task areas must be designated in the proposal and what percentage of that consultant's time would be allocated to the project must be specified. A resume which focuses on experience directly related to his or her areas must be included for each individual. Descriptions of an individual's experience should include his or her responsibilities in previous assignments which are relevant to the scope and objectives of the review, whether that experience was gained during the period of employment with the proposing consulting firm, and whether the proposed team has worked together on previous assignments. For those individuals proposed who are not employees of the firm, the nature of their commercial relationship with the firm is to be described, including the number of previous assignments undertaken on behalf of the firm. Each consultant should be prepared to discuss his or her experience in telephone service quality management and measurement. No other personnel can be assigned to the review without prior written approval of Staff. If the consulting firm is selected as a finalist, personnel should be available for finalist interviews

6. Schedules and Budgets

The proposal is to include a schedule/timeline showing dates for all important milestones such as project start, time on-site, involvement of interested parties, and draft and final reports for the project. The proposal must also contain a not-to-exceed cost in which the costs of professional services and out-of-pocket expenses are separately stated, and the criteria for each defined for billing purposes. The current professional fee (billing) rates for each individual must also be stated. An example of the invoice detail that is to be reported and billed is shown following page in Exhibit 3-1. Staff will audit all invoices and no payment will be made until authorized by Staff as being compliant with the contract. For purposes of establishing an expense budget and determination of expenses chargeable to the project, we suggest your proposal set forth a per diem rate for expenses. These per diem rates would be for all expenses (excluding hotel and inter-city transportation).

The cost for all draft reports is to be included in the not-to-exceed cost. However, the cost of printing the final report is not to be included in the not-to-exceed cost. If Staff determines that the consultant should provide printed copies of the final report, the consultant will be reimbursed for its costs of printing the final report.

7. Qualifications

Proposals should include a discussion of the following: A) qualifications of the individual consultants to be assigned; and, B) qualifications of the firm.

A) Qualifications of Individual Consultants - Provide a detailed description of the experience and qualifications for all consultants who will be assigned to the project. The proposal should identify the lead consultant and the name and credentials of each consultant team member who will be involved and the specific area(s) to which they will be assigned and responsible. At the finalist interviews, each consultant should be prepared to discuss his/her experience in telecommunications service quality and his/her specific area of expertise, as applicable.

B) Qualifications of the Consulting Firm - The proposal should discuss the firm's specific experience in telecommunications service quality programs. Previous engagements of a similar nature should be identified and client references for those engagements should be included in the proposal. The firm must clearly demonstrate its prior experience in protecting confidential/sensitive information, including, but not limited to the methods, processes and procedures which will be employed. The principal participants of the engagement must be in the employ of the firm(s) submitting the proposal.

Exhibit 3-1

Sample Invoice

Ocean Breeze Associates
 172 Leisure Lane
 Hilton Head, South Carolina

February 10, 2004

John R. Coleman
 SQ Audit Project Manager
 Office of Communications
 Department of Public Service
 3 Empire State Plaza
 Albany, New York 12223-1350

Dear Mr. Coleman:

This constitutes our invoice for professional fees and expenses incurred during January 2003 on the Verizon Retail Service Quality Audit.

<u>Staff</u>	<u>Days</u>	<u>Rate</u>	<u>Fees</u>	<u>Expenses</u>	<u>Total</u>
Hector Lopez	7	\$xxx	\$x,xxx	\$ xxx.xx	\$ x,xxx.xx
Susan Jones Smith	3	xxx	xxx	xx.xx	x,xxx.xx
Robert Fields	2.5	xxx	x,xxx	xx.xx	x,xxx.xx
Liam O'Leary	5	xxx	x,xxx	xxx.xx	x,xxx.xx
Helen Roberts	8	xxx	x,xxx	xxx.xx	x,xxx.xx
Alan Cohen	<u>11</u>	xxx	<u>x,xxx</u>	<u>xxx.xx</u>	<u>x,xxx.xx</u>
Subtotal	36.5		xx,xxx	x,xxx.xx	xx,xxx.xx

Firm Expenses

Supplies	\$ xxx.xx
Telephone	xx.xx
Secretarial/Office Support	<u>xx.xx</u>
Subtotal	\$ xxx.xx

Invoice Total \$xx,xxx.xx

I certify that the above charges are correct and just and have not been previously billed, except as indicated, and that payment therefore has not been previously received by Ocean Breeze Associates.

Very truly yours,

Herbert Fowler
 Vice President

B. Freedom of Information

With certain specified exceptions, New York State's Freedom of Information Law (FOIL), Public Officers Law §§ 84-90, requires the Commission to provide the public with copies of an agency's records upon request. While it has not been Staff's practice to routinely release copies of proposals submitted, those submitting proposals should be aware that upon receipt the proposals become an agency record. Accordingly, in response to a request under FOIL, the Commission could be required to make copies of any proposal available to the public. **If a bidder desires any part of its proposal to be kept confidential, it must clearly identify the specific sections and/or proposal information that is claimed to be proprietary at the time of submission.** A request for protection should be made to the Secretary of the Public Service Commission setting forth the reasons. Any request for confidentiality will be subject to the requirements of the State Freedom of Information Law (FOIL). Failure to request protection at the time the proposal is submitted may result in public disclosure of the information submitted.

Any data, reports or other information, which the Company presents to the consultant on a proprietary basis, shall be identified as proprietary in the consultant's draft and final reports provided to Staff. Parties to Case 03-C-0971 (other than Staff and the Company) who wish to review the proprietary reports must sign a protective agreement. Redacted versions of the draft and final reports will be made available to those parties who wish a copy, but have not signed a protective agreement.

IV. The Selection Process

The selection process will consist of an evaluation of the proposals in two steps: an initial review of proposals and an interview of consultant staff of those firms selected from the initial review.

A. Review of Proposals

The proposals will be reviewed and evaluated by Staff for conformity with the RFP, this Guide and for substantive content. The proposal must provide a clear demonstration of its understanding of the objectives and deliverables identified in the RFP. Staff may request additional information or clarification and may permit correction of errors or omissions under certain circumstances.

In evaluating the proposals, weight will be given to the experience and ability of the consulting firm's staff in conducting relevant audits, to the experience and ability of the individual(s) designated to manage the audit, and to the proposed approach and methods.

The cost of the audit will be analyzed from the perspective of the number of staff days proposed, and the billing rates of the proposed staff.

The ability of the consulting firm to prepare a proposal that is clearly written, concise yet complete, and well organized will be considered a strong indication of the firm's ability to produce a final report of similar quality.

The proposal submitted must clearly demonstrate an understanding of functions used in providing and maintaining retail telecommunication services relating to the subject of this audit.

Although the selection of those firms that will receive further consideration is dependent on the quality of the proposal, the Commission may not select a high cost proposal when a lower cost proposal is acceptable.

B. Interview of Consultant Staff

Those firms selected for further consideration may be required to arrange a location in Albany or New York City for interviews of the individuals to be assigned to the audit. The standard agenda should include a short presentation of the consultant's proposal, and a discussion of scope, approach, methods, procedures, and project management with the designated engagement manager. Staff may also interview each of the professional staff separately at that time to discuss his or her areas of expertise.

1. Evaluation Criteria

The areas to be evaluated during the interviews include the experience, ability, and expertise of personnel, the ability of the audit manager, and the ability of the proposed staff to function as a team. Of equal importance is the proposed team's understanding of the scope of the engagement and of the proposed methods and approaches. Serious deficiencies in any of these categories could be sufficient cause for a firm not being selected, regardless of its strengths in other areas.

2. Document Requirements

The firms under consideration will be requested to submit in advance of the interview copies of recent work products by each professional staff member in those areas in which the person is proposed to be assigned.

Each firm will be required to describe in writing how it proposes to document the findings and conclusions in its report. At a minimum, the work papers should identify sources of information, nature and extent of the work done and conclusions reached. The firm should be prepared for an audit by Staff of work papers in any scope area during or after the audit.

C. Recommendation to the Commission

Based on the process described above, Staff will present a recommendation to the Commission to select the firm, which in Staff's judgment, is best qualified to perform the review.

V. The Project

A. Contracting Procedures

The firm selected by the Commission will be required to sign a standard Commission-approved agreement that will govern the conduct of the review. This three-party agreement is also to be signed by representatives of the Company and the Staff, and sets forth the responsibilities of each of the parties. A copy of that contract will be posted to the web site of the Department of Public Service and also made available upon request.

B. Responsibilities of the Parties1. Commission Staff

Staff has overall responsibility for the day-to-day management of the project and will work closely with both the consultant and the Company to stay abreast of the review and facilitate coordination between the consultant and the Company. Staff has the responsibility to review the consultant's work and may participate in all the project activities, including, but not limited to, interviews and field visits.

2. Consultant

The consultant is responsible for performing the review, developing the findings and conclusions, and producing the draft and final audit reports. A senior member, the audit manager, of the consultant's organization will be designated to address issues.

3. Company

The Company is to designate a senior officer to coordinate the Company's effort. The senior officer will be kept abreast of the progress and issues of the review so that he or she will be able to ensure there is appropriate planning, direction, and corporate commitment to the project. The senior officer should be well informed in his/her designated areas and have sufficient authority to make and implement decisions.

The senior officer, or his/her designee shall make arrangements for the coordination of day-to-day matters, such as arranging interviews and site visits and coordinating the Company's response to information requests.

C. Managing the Review

The consultant's project manager is responsible for the efficient conduct of the review, its compliance with the prescribed scope, and its adherence to the established schedules and budgets.

1. Audit Trail and Work Papers

All work papers, interview notes, statistical analyses, and other supporting documents developed or obtained during the course of the audit are to be available to the Commission Staff. At the conclusion of the audit, a copy of the report indexed to the supporting documents is to be furnished to the Commission Staff. All supporting documents, with the exception of interview notes, and all documents obtained by the consultant during the audit are to be turned over to Commission Staff at the completion of the audit. Interview notes must be retained by the consultant for at least six years after the completion of the report and must be made available to Commission Staff. The consultant shall not copyright any material developed during the course of the project.

2. Documentation and Reporting

The consultant is required to report to Staff on its continuing progress. These reports are not limited to reporting against the schedule and budget, but are also to include reporting on developing issues, findings, and likely conclusions. A midpoint status meeting with Staff will be expected and should appear in the consultant's proposed schedule under Section III A (6).

Other written reports or documentation as detailed below will also be necessary during the course of the review. These reports must be prepared for distribution electronically:

- a) A report of interviews and site visits scheduled, if applicable, for the following week. As this report is updated, it will also serve as a report on interviews conducted,
- b) A monthly report of staff-days expended by activity in each task area, and
- c) A document request report (log) kept on-site at the utility showing data requested and date received.

3. Invoice Approval

Although the subject of the study and the party responsible for payment is the Company, the Commission is the client. Thus, it is Staff's responsibility to audit the consultant's invoices before authorizing payment by the Company. It is normal practice for consultants to submit invoices once a month. Firms which have a different practice should explain how often invoices would be submitted.

The auditor will verify the charges through an examination of appropriate supporting documents such as time sheets, expense reports, vouchers for transportation and lodging, invoices supporting fees for sub-contractors, and invoices supporting other out-of-pocket expenses. Copies of these records must be made available to Staff along with the invoice.

The consultant shall provide a not-to-exceed cost in which the cost of professional services and out-of-pocket expenses are separately stated. The proposal must include the current professional fee rates for each individual. The consultant should detail any assumptions going into the price bid. The not-to-exceed cost shall be inclusive of all expenses associated with the creation of the deliverables, including travel and incidentals. Payments under the contract will be made according to a negotiated schedule of deliverables, however, 15% of professional fees will be retained until Staff approves the detailed workplan. With the approval of the workplan the incremental 5% of professional fees which were withheld pending approval of the workplan will be released and subsequently, 10% of professional fees will be retained until Staff determines that all deliverables have been provided to Staff. Furthermore, until such time as the consultant has completed its draft report and delivered it to the Department for its review, no more than 75% of the budgeted professional fees, will be paid to the consultant. Proposals should identify key milestones for payment.

D. Developing Findings, Conclusions and Recommendations

It will be the responsibility of the consultant to fully develop the findings and conclusions, subject to a Staff review for completeness.

E. Initial Draft Report and Final Report

The final report is to be written at a level that assumes a fundamental understanding of common utility terminology and operations. It is intended for an audience consisting of interested parties, the Commissioners, Staff and Company management, and highly technical terms, jargon, and acronyms are not to be used.

In addition to the final reports identified above, consultants must also be prepared to submit an initial draft report for Staff review. The initial draft report will be reviewed for adherence to the scope identified in the RFP. With Staff's approval, the consultant will present a revised draft report to Verizon for factual accuracy, and, subsequently, to the parties in Case 03-0971 for their comment before the report is made final.