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February 2, 2015

Via Hand Delivery

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

Re: Frontier Communications Commonwealth Telephone Company
PSI/SPI Filing for Year 2015
Docket Nos. P-00961024 and R-2015-2464008

Dear Secretary Chiavetta:

Pursuant to the Alternative Form of Regulation and Network Modernization Plan of Frontier Communications Commonwealth Telephone Company ("Company"), as amended, at Docket No. P-00961024, enclosed for filing at the above-referenced dockets are copies of the following:

- **Proprietary and Public Versions** of the Company's 2015 PSI/SPI Report including accompanying Appendices and Responses to 52 Pa. Code § 53.52.

The **Proprietary Version** is provided under separate seal and pursuant to the Protective Order granted with the Company's 2008 filing, which remains in effect. All parties have been served pursuant to the attached Certificate of Service.

Should you have any questions, please do not hesitate to contact me.

Very truly yours,

THOMAS, NIESEN & THOMAS, LLC

By

Charles E. Thomas, III

PA PUC
SECRETARY'S BUREAU

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Enclosures

cc: Certificate of Service (w/encl.)
Jani Tuzinski, Manager (TUS) (w/encl.)
Carl Yastremski (Froniter) (w/encl.)
Gary Zingaretti (ICORE) (w/encl.)

Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Frontier Communications Commonwealth : Docket Nos. P- P-00961024
Telephone Company : R-2015-2364008
PSI/SPI Filing for Year 2015 :

**FRONTIER COMMUNICATIONS COMMONWEALTH TELEPHONE COMPANY
PRICE STABILITY INDEX/SERVICE PRICE INDEX
FILING**

February 2, 2015

PUBLIC VERSION

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**Frontier Communications Commonwealth Telephone Company
Price Index Rate Changes and State Tax Adjustment Surcharge
Prepared for February 2, 2015 Chapter 30 PSI/SPI Filing**

In the February 2, 2015 Chapter 30 PSI/SPI Filing, Frontier Communications Commonwealth Telephone Company ("Frontier Commonwealth") proposes to roll in its negative State Tax Adjustment Surcharge ("STAS") into basic rates on a revenue neutral basis. This change will not result in a change in billing for any customers. The following is provided as background on this issue, an explanation of the filing, and a summary of how this filing complies with Frontier Commonwealth's Amended Final Streamlined Regulation Plans at Docket No. P-00961024.¹

Why do companies file the State Tax Adjustment Surcharge? Because regulated basic rates included a certain level of state taxes, any adjustments to those tax rates must be passed through to the customer. This can be in the form of an increase or a decrease in tax rates. The vast majority of the current STAS adjustment is due to the decline in the Capital Stock / Franchise Fee Tax Rate. There are also adjustments made to reflect reductions in the Public Utility Realty Tax Assessment ("PURTA").

How have the companies used banking to account for STAS adjustments? Each year, intrastate Price Cap companies calculate an allowable rate increase based on inflation, measured by the percentage change in GDP-PI. This is the "PSI" or Price Stability Index². The net change in the PSI is then multiplied by the intrastate revenue to determine the amount of allowable increase each year. This information is filed annually by Frontier Commonwealth. Any allowable rate changes which are not implemented are set aside, or "banked" for future use. Beginning with the September 2012 STAS filing, Frontier Commonwealth used banked funds to offset the annual amount of the required STAS reduction. This set the STAS rate at 0.00% for Frontier Commonwealth.

In preparing this filing, it was noted that the STAS filings previously submitted reflected only the incremental tax impact rather than cumulative impact. The STAS reduction in 2012 was removed entirely from the bank, but the 2013 STAS did not include the 2012 filing's impact on the STAS. For example, the Frontier Commonwealth STAS reduction in 2012 was correctly removed from the 2013 bank at an amount for \$915,071. The 2013 STAS calculation was done incrementally, using 2012 as a base year. This resulted in a reduction of banked revenues of \$90,499. However, the cumulative impact of the tax change for 2013's filing should have been \$1,005,570 (\$915,071 + \$90,499). From a banking standpoint, this only impacted the 2/1/2014 SPI filing. The September 2014 STAS calculation was also done on an incremental basis. That has no impact on

¹ Alternative Regulation Plan of Commonwealth Telephone Company (now Frontier - Commonwealth).

² See Frontier-Commonwealth Amended Chapter 30 Plan at Part 3(A).

the bank because this filing will offset the STAS adjustment through the SPI, not from the bank.

The Updated Banking Report filed by Frontier Commonwealth on January 30, 2015 corrects this banking calculation. ***It should be noted that this banking adjustment had no impact on customer billing*** as the STAS rate was, and would have remained 0.00%. The only impact is that the bank was temporarily overstated, an issue that was corrected with the January 30, 2015 update.

Increasing the SPI to offset the cumulative impact of the STAS adjustments will permanently roll the STAS adjustment into basic rates. Including 2012, 2013, and 2014 STAS reductions yields the following amount which must be rolled into the SPI rates.

What does the present filing contemplate? Frontier Commonwealth proposes to roll the cumulative STAS adjustments into its basic rates. This will keep customer rates the same but permanently roll in the tax rates included in the September 2014 STAS filing.

STAS Reductions	2012 STAS 2013 Bank	2013 STAS 2014 Bank	2014 STAS 2015 SPI	Cumulative STAS
Commonwealth	\$ 915,071	\$ 90,499	\$ 15,680	\$ 1,021,250

Frontier Commonwealth's SPI index is lower than its corresponding PSI which satisfies the critical component of its alternative regulation plan. These figures are available on the current SPI filing.

What are the implications for the September 2015 STAS Filing? Frontier Commonwealth will continue to prepare its STAS filings in 2015, based on the difference between the 2014 tax rates and those in place at the time of the 2015 filing. The incremental approach will be appropriate then since the all prior tax rate changes will be rolled into base rates with this filing. Consistent with other plans approved by the Commission, it is anticipated that any required STAS reduction can be offset through banking or further adjustments to the SPI.

Are the steps undertaken in this process compliant with the Frontier Commonwealth Chapter 30 Plan? Yes. The easiest way to evaluate this is to view this filing as a series of smaller transactions. There are two steps to accomplish this filing:

1. Roll STAS rate into the basic service rates.
2. Increase the actual rate level - the SPI - to offset the negative STAS roll-in.

Frontier Commonwealth has always had the right to roll STAS adjustments into its basic rates. In this case, the roll-in results in a reduction of rates. The Price Cap regulation limits rate increases, but companies are able to reduce rates at any time. The bank

can be increased and decreased based on the amount of funds Frontier Commonwealth is using to implement rate changes. The addition and deletion of funds in the bank have been an integral part of each February PSI filing and September STAS filing.

It is Frontier Commonwealth's position that this filing complies in all ways with the Commission approved alternative regulation plans. It is important to note that the roll-in of the STAS rates is done in a manner in which there will be **no impact on customer bills**. Instead, this recurring tax benefit is addressed through the use of a recurring price index rather than non-recurring banked funds.

CHAPTER 30 FILING
FRONTIER COMMUNICATIONS COMMONWEALTH TELEPHONE COMPANY
PSI - SPI - DCI REPORT
(All figures rounded to four decimal places)

Date: February 2, 2015

Price Stability Index (PSI) -- Effective 4/1/2015 through 3/31/2016

1	Gross Domestic Product Price Index (GDP-PI) for the 3Q2014	108.6430
2	GDP-PI for 3Q2013	106.9430
3	GDP-PI percentage change	(line 1 - line 2) / line 2 0.0159
4	Exogenous changes	as % of annual revenue -
5	Change to PSI	line 3 - line 4 0.0159
6	Prior PSI	1.1722
7	PSI	line 6 * (1 + line 5) 1.1908

Service Price Index (SPI)

8	Prior SPI	1.1023
9	Rate changes	0.0190
10	SPI	line 8 + line 9 1.1213

Deferred Change Index (DCI)

11	PSI	line 7 1.1908
12	SPI	line 10 1.1213
13	DCI	line 11 - line 12 0.0695

FRONTIER COMMUNICATIONS COMMONWEALTH TELEPHONE COMPANY
 SPI INTRASTATE REVENUE FILING SUMMARY - 2015

Revenue Category	Present Revenue (1)	Proposed Revenue (2)	Proposed Revenue Change (3)	Percent Change (4) = (3)/(1)	Present SPI (5)	Proposed SPI Change (6) = (5)x(4)	Proposed SPI (7) = (5)+(6)
Local Service							
Intrastate Access							
IntraLATA Toll							
Vertical Services							
Miscellaneous							
Noncompetitive Revenue	\$ 59,276,277	\$ 60,297,527	1,021,250	1.72%	1.1023	0.0190	1.1213

FRONTIER COMMUNICATIONS COMMONWEALTH TELEPHONE COMPANY
BANKED PRINCIPLE CALCULATION & BANKING REPORT
 UPDATED REPORT Filed February 2, 2015

PSI PERIOD 2014 BANKING REPORT					
PSI Period	Principle	Interest	Principle + Interest	Retired Amount	Net Banked Amount
2014 (4/1/14 - 3/31/15)	\$ 1,018,374		\$ 1,018,374		\$ 1,018,374
2013 (4/1/13 - 3/31/14)	\$ 1,609,983		\$ 1,609,983		\$ 1,609,983
2012 (4/1/12 - 3/31/13)	\$ 595,533		\$ 595,533		\$ 595,533
2011 (4/1/11 - 3/31/12)	\$ -		\$ -		\$ -
2010 (4/1/10 - 3/31/11)	\$ -		\$ -		\$ -
2009 (4/1/09 - 3/31/10) *	\$ -		\$ -		\$ -
Total all PSI Periods	\$ 3,223,890		\$ 3,223,890	\$ -	\$ 3,223,890

* Note: Pursuant to the Citizens/Commonwealth Merger Agreement (A-310800F0010), no banking was permitted to occur for this period.

Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Frontier Communications Commonwealth : Docket Nos. P- P-00961024
Telephone Company : R-2015-2364008
PSI/SPI Filing for Year 2015 :

CERTIFICATE OF SERVICE


I hereby certify that I have this 2nd day of February, 2015, served a true and correct copy of the foregoing document on behalf of Frontier Communications Commonwealth Telephone Company upon the persons and in the manner listed below:

VIA FIRST CLASS MAIL

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