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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: Petition of Frontier Communications Commonwealth Telephone
Company Re Offsetting STAS Through the Service Price Index,
Docket No. P-2105-

Dear Secretary Chiavetta:

Enclosed for filing is the Petition of Frontier Communications Commonwealth Telephone Company ("Company") re Offsetting STAS Through the Service Price Index. Concurrently with the filing of this Petition, the Company is submitting its 2015 PSI/SPI Report at Docket Nos. P-00961024 and R-2015-2464008.

Copies of the Petition are being served in accordance with the attached Certificate of Service. Should you have questions or require additional information, please do not hesitate to contact me.

Very truly yours,

THOMAS, NIESEN & THOMAS, LLC

By

Charles E. Thomas, III

Enclosures

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

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Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Frontier Communications	:	Docket No. P-2015-_____
Commonwealth Telephone Company	:	
Re Offsetting STAS Through the	:	
Service Price Index	:	
Frontier Communications	:	Docket No. R-2015-2464008
Commonwealth Telephone Company	:	
PSI/SPI Filing for Year 2015	:	
Frontier Communications	:	Docket No. P-00961024F1000
Commonwealth Telephone Company	:	
Amended Alternative Regulation and	:	
Network Modernization	:	

**PETITION OF
FRONTIER COMMUNICATIONS COMMONWEALTH TELEPHONE COMPANY
RE OFFSETTING STAS THROUGH THE SERVICE PRICE INDEX**

Pursuant to 52 Pa. Code § 5.41, Frontier Communications Commonwealth Telephone Company (“Frontier Commonwealth” or “Company”), by and through its counsel, petitions the Pennsylvania Public Utility Commission (“Commission”) to seek confirmation that the Company may use the Service Price Index (“SPI”) component of the price cap formula set forth in its Chapter 30 Plan to offset changes in the tax rates as tracked by the State Tax Adjustment Surcharge (“STAS”). In support of its Petition, the Company submits as follows:

1. On even date herewith, Frontier Commonwealth is filing its 2015 PSI/SPI Report pursuant to its Commission-approved Chapter 30 Plan at Docket Nos. R-2015-2464008 and P-00961024F1000. The Company proposes to roll a negative STAS into basic rates on a revenue neutral basis with an offsetting change in the SPI. This proposed treatment is different than in

previous years. An extensive narrative explaining the Company's proposal is attached to its 2015 PSI/SPI Report and is incorporated herein by reference.

2. The purpose of this Petition is to seek Commission confirmation that Frontier Commonwealth may use the SPI component of its Chapter 30 Plan to offset changes in the tax rates as tracked in the STAS. The Company believes that the use of the SPI as an alternative source of revenue offset is fully permitted under its Chapter 30 Plan. The Commission has considered and approved within the last year substantially similar petitions filed by Citizens Telephone Company of Kecksburg ("Citizens of Kecksburg"), Hickory Telephone Company ("Hickory"), Ironton Telephone Company ("Ironton"), Lackawaxen Telephone Company ("Lackawaxen"), and The North-Eastern Pennsylvania Telephone Company ("North-Eastern").¹ This Petition is being filed consistent with the Commission's disposition of those matters and to enable the Commission to consider this matter outside of the thirty day approval time frame required for the PSI/SPI Report.

3. Frontier Commonwealth is local exchange carrier operating in all of Wyoming County and in portions of Berks, Bradford, Bucks, Carbon, Chester, Columbia, Dauphin, Lackawanna, Lancaster, Lehigh, Luzerne, Lycoming, Monroe, Northampton, Schuylkill, Sullivan, Susquehanna, Tioga, and York Counties and serving principally rural territory and a rural customer base. Frontier Commonwealth filed and received approval of its Chapter 30 Plan

¹ See *Petition of Citizens Telephone Company of Kecksburg Re Offsetting STAS Through the Service Price Index*, Docket No. P-2014-2407041 (Order entered April 23, 2014); *Petition of Hickory Telephone Company Re Offsetting STAS Through the Service Price Index*, Docket No. P-2014-2420088 (Order entered June 23, 2014); *Petition of Ironton Telephone Company Re Offsetting STAS Through the Service Price Index*, Docket No. P-2014-2407033 (Order entered April 23, 2014); *Petition of Lackawaxen Telephone Company Re Offsetting STAS Through the Service Price Index*, Docket No. P-2014-2420135 (Order entered June 23, 2014); *Petition of The North-Eastern Telephone Company Re Offsetting STAS Through the Service Price Index*, Docket No. P-2014-2420108 (Order entered June 23, 2014). Additionally, contemporaneously with this Petition, Frontier Communications of Breezewood, LLC, Frontier Communications of Canton, LLC, Frontier Communications of Lakewood, LLC, Frontier Communications of Oswayo River, and Frontier Communications of Pennsylvania, LLC, collectively, are filing an analogous STAS offset petition with the Commission.

in 1997, which was then amended in 2006 pursuant to Act 183 of 2004. The Company achieved one hundred percent (100%) broadband deployment in 2008.

4. Frontier Commonwealth is regulated as a price cap company under its Chapter 30 Plan, the principle components of which are: a) An index (Price Stability Index or “PSI”), which tracks inflation as measured by GDP-PI representing the level of allowable increases in regulated (“noncompetitive”) service rates; and (b) A second index (the SPI), which tracks the cumulative price changes from current and prior years for noncompetitive services.² Under Plan rules, the cumulative change in rates (*i.e.*, the SPI) may not exceed the allowed increases (*i.e.*, the PSI).³ When the Company’s Plan was commenced, the PSI and SPI factors were set at 100.00 and every year since then reports have been filed and approved by the Commission that tracks and updates these indices.

5. The SPI represents an opportunity to raise rates and, if not taken, then the revenue for that year is otherwise lost.⁴ To reduce this pressure to take an annual increase in each year, the Commission adopted a concept known as “banking” which is also set forth in the Plan rules.⁵ Banking permits a company to defer decreases and increases for a period not to exceed four years.⁶ After four years, the bank for that year is extinguished.

² Frontier Commonwealth Amended Chapter 30 Plan at 16 (“The [Price Stability Plan (“PSP”)] calculates the allowable change (increase or decrease) in rates for noncompetitive services based upon the annual change in the Gross Domestic Product Price Index (“GDP-PI”), as calculated by the United States Department of Commerce, and adjusted for any exogenous event(s). Changes based upon this formula are then cumulatively tracked” using the SPI.)

³ Frontier Commonwealth Amended Chapter 30 Plan at 18 (“No Company proposed SPI may exceed, on a total intrastate basis, the PSI accumulated after December 31, 1998, except for banking under the provisions of this PSP.”).

⁴ The price change can be taken in subsequent years, but not retroactively.

⁵ See, e.g., *Joint Petition of the Frontier Companies*, P-00951005 (Opinion and Order entered December 6, 1996) at 51-52; *Petition of Commonwealth Telephone*, P-00961024 (Opinion and Order entered January 17, 1997) at 51-52.

⁶ See generally Frontier Commonwealth Amended Chapter 30 Plan at 19-25.

6. One additional aspect of ratemaking that affects the telephone companies in Pennsylvania is the STAS, which is essentially a tracker of the change in state taxes required under Commission Regulations.⁷ In the last several years, the various taxes underlying the STAS calculation have been falling thereby creating a “negative STAS” factor.⁸ The Commission has historically (starting in about 2006) permitted the price cap telephone companies to offset the rate decrease associated with a negative STAS with monies from the bank.⁹ The Commission recognized that this method was in compliance with the requirement in the STAS regulations to “zero-out” the STAS periodically and the terms of the banking rules of the Chapter 30 Plans.¹⁰ This method, as approved in the context of North Pittsburgh Telephone Company’s STAS filing, has been followed consistently by the industry and the Commission since that time.

7. Nevertheless, as telephone companies lose revenue due to competition and federal intercarrier compensation changes, the banking method of dealing with the STAS surcharge is becoming less and less viable. The intercarrier compensation changes mandated in the FCC’s *ICC/USF Transformation Order*¹¹ have dramatically reduced intrastate terminating switched

⁷ 52 Pa. Code § 69.51 *et seq.* See also 52 Pa. Code § 69.52 (“Unless necessitated by a change in the Pennsylvania Capital Stock Tax, Corporate Net Income Tax, Gross Receipts Tax or Public Utility Realty Tax which would increase or decrease rates in a manner governed by the Commission’s State Tax Adjustment Procedure, 44 Pa. P.U.C. 545 (1970), a utility which has a State tax adjustment surcharge or gross receipts tax rider shall maintain its surcharge and rider rates at 0%.”)

⁸ STAS is stated as a percentage increase or reduction to the bill submitted to the customer.

⁹ See *North Pittsburgh Telephone Company has filed Supplement No. 200 to Tariff Telephone PA PUC No. 11, to become effective September 1, 2006, which proposes to adjust the State Tax Adjustment Surcharge*, Docket No. R-00061782 (Order entered October 19, 2006) at 2 (“In lieu of a pass through tax benefit to ratepayers through implementation of a negative STAS rate, NPTC proposes to set the STAS rate at zero and offset the STAS change by making an equivalent reduction to its banked PSI revenue, as established in the filing of their 2006 Price Stability Index and Service Price Index Reports filing at Docket No. P-00981437F1000, Order entered June 27, 2006. Revenues from the 2003 filing shall be offset by the STAS reduction.”).

¹⁰ *Id.* at 2-3.

¹¹ *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing a Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up,*

access rates. As tariffed intrastate access rates are reduced, the allowable revenue increase will grow at a much slower pace than in prior years. This means that smaller amounts of revenue will be added to the bank each year. However, the draw from the bank which is required to cover the STAS will likely grow as the corporate tax rates continue to decline. With “withdrawals” exceeding “deposits” to the bank, the banked funds available for STAS reductions will soon be “insufficient.”

8. An alternative, which is fully permitted under the existing terms of the Company’s Chapter 30 Plan, is to offset a negative STAS with an offsetting increase in the SPI.¹² This is a solution for which Frontier Commonwealth herein seeks Commission affirmation and approval.

9. Frontier Commonwealth proposes that it be allowed to also offset future STAS decreases through either the banked revenues or increases to the SPI. There are several reasons to adopt this approach:

- (a) The banks that have been traditionally used to offset STAS decreases may no longer be sufficient to fulfill that purpose.
- (b) Customer confusion is avoided where a price cap company offsets a decrease with an increase resulting in no rate change to the customer.

Universal Service Reform – Mobility Fund, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, 26 F.C.C.R. 17663 (2011) (“*USF/ICC Transformation Order*”).

¹² Decreases (or increases) in the STAS are not recorded as a STAS affecting event, as is noted in the Company’s Chapter 30 Plan. The Plan includes the annual STAS Report among the required filings and then notes that:

This includes the State Tax Adjustment Surcharge (STAS) tariff filings pursuant to Commission STAS Guidelines (52 Pa. Code 69.51, et seq), the State Tax Adjustment Surcharge Order and the Company’s STAS tariff. STAS-related changes shall be excluded from the SPI calculation.

Frontier Commonwealth Amended Chapter 30 Plan at 36 n.15. In other words, the STAS floats down (and up) independently of the price changes reflected in the PSI. This is because the STAS operates as an “exogenous event” (i.e., the “Z factor” component of the price cap formula set forth in the Plan). A “Z Factor” is a separate element which operates independently from the SPI, since it tracks a cost event, not a revenue event. This does not, however, preclude using the SPI to set the Z Factor to zero, which is a revenue event. In other words, setting the STAS to zero is an SPI-related change, not a STAS-related one.

- (c) The price cap formula, as approved in the Company's Chapter 30 Plan, fully anticipates that increases may be implemented where the SPI is less than the PSI, as is the case for the Company.
- (d) The STAS regulations require that the STAS be zeroed out.
- (e) It is preferable to recover a recurring expense like the tax reduction from a recurring revenue stream like the SPI, rather than from the use of nonrecurring banked revenues.
- (f) Both the banking and SPI approaches to offset STAS decreases are consistent with the approved Chapter 30 Plan and should be available to mitigate the impact to the Company.

10. As previously noted, this is same exact relief which was sought by Citizens of Kecksburg, Hickory, Ironton, Lackawaxen, and North-Eastern and approved by the Commission in Orders entered in April and June 2014.¹³ In approving those STAS offset petitions, the Commission held:

We find that North-Eastern is permitted to alter the administration of its Chapter 30 Plan and change its treatment of STAS, in accordance with this Order. We find that the rate effect of the change, which is revenue-neutral, is consistent with the Plan requirement that nothing in its Plan shall be construed to limit the requirement under 66 Pa. C.S. § 1301 that rates shall be just and reasonable. We conclude that the resulting rates are permitted to go into effect and that the proposed amendment to the North-Eastern Chapter 30 Plan is in the public interest.

We note, however, that this approval is limited to North-Eastern. While this approval will serve as a template for other Chapter 30 companies, each company requesting such a change must approach the Commission for approval to amend its plan.¹⁴

Frontier Commonwealth files the instant Petition in accordance with the Commission's Orders in those cases.

¹³ See *Petition of Citizens Telephone Company of Kecksburg, supra*; *Petition of Hickory Telephone Company, supra*; *Petition of Ironton Telephone Company, supra*; *Petition of Lackawaxen Telephone Company, supra*; *Petition of The North-Eastern Telephone Company, supra*.

¹⁴ *Petition of The North-Eastern Telephone Company* at 9-10. See also *Petition of Citizens Telephone Company of Kecksburg* at 8-9; *Petition of Hickory Telephone Company* at 9; *Petition of Ironton Telephone Company* at 8; *Petition of Lackawaxen Telephone Company* at 9-10.

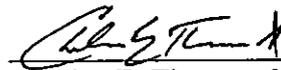
11. Upon approval of this Petition, Frontier Commonwealth intend to file a revised Amended Chapter 30 Plan which will include the following proposed language:

With respect to changes in the State Tax Adjustment Surcharge (STAS), the Company may offset the rate decrease associated with a negative STAS with monies from the bank as described in *North Pittsburgh Telephone Company*, Docket No. R-00061782 (Order entered October 19, 2006) or, alternatively, may offset a negative STAS with an offsetting increase in the SPI as described in *Petition of Frontier Communications Commonwealth Telephone Company Re Offsetting STAS Through the Service Price Index*, Docket No. P-2015-_____ (Order entered _____, 2015). These offsetting increases may be implemented either with the annual PSI filing or the annual STAS filing.

Substantially identical language was approved by the Commission in connection with the aforementioned STAS roll-in petitions filed by Citizens of Kecksburg, Hickory, Ironton, Lackawaxen, and North-Eastern in 2014. Adopting the same language for Frontier Commonwealth will ensure consistency with prior Commission proceedings and maintain uniformity across Chapter 30 Plans for telephone companies that have elected to offset STAS through the SPI.

WHEREFORE, Frontier Communications Commonwealth Telephone Company respectfully requests that the Pennsylvania Public Utility Commission confirm that the Company may use the Service Price Index component of the price cap formula set forth in its Chapter 30 Plan to offset changes in the tax rates as tracked by the State Tax Adjustment Surcharge, approve its PSI/SPI Reports as filed, and approve the proposed amendment to the Company's Chapter 30 Plan.

Respectfully submitted,



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*Counsel for Frontier Communications
Commonwealth Telephone Company*

DATED: February 2, 2015

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CERTIFICATE OF SERVICE

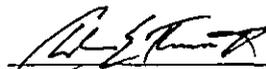
I hereby certify that I have this 2nd day of February, 2015, served a true and correct copy of the foregoing Petition of Frontier Communications Telephone Company Re Offsetting STAS Through the Service Price Index, upon the persons and in the manner listed below:

VIA FIRST CLASS MAIL

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