



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

February 19, 2008

P-00001854 F1000
C-20078514

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Verizon North Inc.
2008 Price Change Opportunity Filing

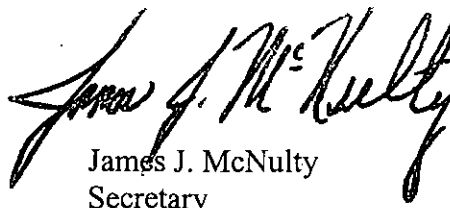
Office of Small Business Advocate
v.
Verizon North Inc.

To Whom It May Concern:

This is to advise you that the Commission in Public Meeting on February 14, 2008 adopted an Order in the above entitled proceeding.

An Order has been enclosed for your records.

Very truly yours,



James J. McNulty
Secretary

Encls
Cert. Mail
MH

See attached list for additional parties of record.

**DOCUMENT
FOLDER**

**PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265**

Public Meeting held February 14, 2008

Commissioners Present:

Wendell F. Holland, Chairman
James H. Cawley, Vice Chairman
Tyrone J. Christy
Kim Pizzingrilli

Verizon North Inc.
2008 Price Change Opportunity Filing

Docket Numbers:
P-00001854F1000

Office of Small Business Advocate v.
Verizon North Inc.

C-20078514

ORDER

BY THE COMMISSION:

Background

Before us for disposition is the Verizon North Inc. (“Verizon North” or “Company”) annual 2008 Price Change Opportunity (“PCO”) filing. Verizon North’s annual 2008 PCO filing was made under the provisions of the new Chapter 30 law, Act 183 of 2004, P.L. 1398 (66 Pa. C.S. §§ 3011-3019) (“Act 183”) and pursuant to the

Company's Alternative Regulation and Network Modernization Plan ("Chapter 30 Plan") that this Commission approved at Docket No. P-00001854F1000.¹

As a result of the passage of Act 183, companies with Chapter 30 Plans are entitled to significantly lower inflation offset values within their respective price cap formulas in exchange for a commitment to accelerated broadband deployment. Inflation offsets previously ranging from 2% to 2.93% were reduced to either 0% or 0.5%, depending on each company's Chapter 30 Plan. In Verizon North's case, the inflation offset was reduced from 2.93% to 0.5%. Accordingly, annual PCO filings have the potential for substantial revenue and rate impacts on end-user consumers.

Under the Company's Price Stability Plan (PSP), the Price Stability Mechanism (PSM) calculates the allowable change (increase or decrease) in rates for *noncompetitive services based on the annual change in the Gross Domestic Product Price Index (GDP-PI)*. The actual total price changes for noncompetitive services are then tracked using the Service Price Index (SPI). The PSP also addresses revenue neutral rate rebalancing/restructuring and the introduction of new services. The PSP set forth in Verizon North's Chapter 30 Plan is a complete substitution of the rate base/rate of return regulation. Noncompetitive services are defined as regulated services or business activities that have not been determined or declared to be competitive.

Company Filing

On November 1, 2007, Verizon North filed its annual PCO filing using the change in 2006 and 2007 first quarter GDP-PI (Gross Domestic Product – Price Index) of 2.69% after the inflation offset that produced an annual revenue increase allowable for noncompetitive revenues of \$2,793,000 based on total noncompetitive revenues of

¹ *Petition for Amended Alternative Regulation and Network Modernization Plan of Verizon North Inc.*, Docket No. P-00001854F1000 (Order entered May 20, 2005).

\$103,821,000. However, the 2008 PCO is being reduced to \$1,698,000 due to adjustments for the 2006 and 2007 PCOs, and the implementation effective date is being delayed until after November 2008. Thus, there are no rate changes associated with this filing at this time.

Per the Commission's Order entered April 25, 2007, regarding Verizon North's 2006 PCO filing, at Docket Nos. R-00051227 and R-00051228, and the Commission's Order entered October 12, 2007, regarding Verizon North's 2007 PCO filing (Joint Settlement Petition), at Docket Nos. R-00061914 and R-00061915, Verizon North is rolling in all revisions and true-ups necessary to account for the Commission's holdings on attribution revenue and historical line counts for the 2006 and 2007 PCOs into this 2008 PCO filing.²

Verizon North will account for both the recurring and one-time adjustments from the 2006 and 2007 PCOs in the 2008 filing. The recurring value of Verizon North's 2008 PCO will be permanently reduced to reflect the removal of attribution and inter-company settlement revenue and the use of historical line counts in the 2006 and 2007 PCO filings on a going-forward basis. This will result in an adjusted 2008 PCO of \$1,698,000. In addition, Verizon North will make adjustments to make customers whole for over-collection relating to the attribution, inter-company settlement and line count issues for the 2006 and 2007 PCOs for the period from April 15, 2006 through February 14, 2008. These one-time adjustments total \$1,312,900 through February 14, 2008. Verizon North will account for these one-time impacts by delaying the implementation of the 2008 PCO rate increases until after November 2008, which will have the effect of

² The adjustments are being made in compliance with the Commission's Orders of April 25, 2007 and October 12, 2007. However, Verizon North appealed the Commission's March 22, 2007 and April 25, 2007 Orders, at Docket Nos. R-00051227 and R-00051228, and this appeal is pending in Commonwealth Court at Docket No. 988 CD 2007. The March 22 and April 25, 2007 Orders precluded Verizon North from including attribution revenues in the noncompetitive revenues figure. The Orders also directed Verizon North to use the actual business and residential line counts data as of June 30, 2005.

giving a one-time credit in the amount of \$1,312,900. In an effort to avoid customer confusion about rate changes and conserve programming costs, Verizon North proposes to implement the 2008 increases with its 2009 PCO, which is due to be filed on or about November 1, 2008. The Company would bank the relatively small increases for the few months between November 2008 and implementation of the 2009 PCO.

Verizon North included a spreadsheet showing the impact of the revised 2006 and 2007 PCO filings on its payments to the Pennsylvania E-Fund and Broadband Outreach and Aggregation Fund (BOAF). Verizon North's assessment for the BOAF is linked to its PCO revenue increases. Because those PCO increases are being adjusted downward, Verizon North has overpaid to the BOAF for the fiscal years 2006-2007 and 2007-2008. Verizon North proposes to be made whole for the overpayments by making no prospective contribution to the BOAF based on its 2008 PCO filing and part of its 2009 PCO filing.

On November 13, 2007, the Office of Small Business Advocate ("OSBA") filed a Formal Complaint at Docket No. C-20078514. The OSBA contends that the Company's proposed rates, rules, and conditions of service may be unjust, unreasonable, unduly discriminatory, and otherwise contrary to law, particularly as they pertain to small business customers. In addition, the OSBA avers that the following matters need to be investigated: (1) the adjustments required by the Commission's order in the 2006 PCO filing are insufficiently documented in Verizon North's 2008 PCO filing and (2) the adjustments required by the Commission's order in the 2007 PCO filing are insufficiently documented in Verizon North's 2008 PCO filing. The complaint is docketed at C-20078514 and has been assigned to the Office of Administrative Law Judge.

On November 26, 2007, the Office of Consumer Advocate ("OCA") filed a Notice of Intervention and Public Statement.

Discussion

1. Introduction

In accordance with Verizon North's amended Chapter 30 Plan and the provisions of the statute,³ the Commission is required to review the Company's 2008 PCO filing within 105 days. Although Verizon North's 2008 PCO filing does not increase any rates at this time, the Commission will approve this filing subject to investigation and potential refund pursuant to final adjudication of the issues raised by the Offices of Small Business Advocate and Consumer Advocate at Docket No. C-20078514.

2. PCO Calculations and Adjustments

Under Chapter 30 law, the annual Verizon North PCO submissions must conform to its Commission-approved Amended Chapter 30 Plan. Our review of the calculations submitted by Verizon North indicates that they appear to be consistent with the terms of the Company's Price Stability Mechanism/Price Change Opportunity formula approved in its Chapter 30 Plan at Docket No. P-00001854F1000. However, we note some discrepancies in the calculation of the adjustment for the impact of historical lines.

Our review of the calculations for the impact of historical lines reveals that some of the inputs for average dial tone line rate increases were rounded while others were carried out to several decimal places during the calculation. When using the rounded figures, as depicted on Attachment C of Verizon North's filing, the result is an additional adjustment for historical lines of approximately \$1,000. This will affect both the recurring and one-time adjustments for the Company's 2006 and 2007 PCOs and further reduces the 2008 PCO. Although this amount appears to be de minimus, the issue is the same as was noted in the Verizon Pennsylvania Inc. 2008 PCO Order entered

³ 66 Pa. C.S. §§ 3011-3019

December 28, 2007, at Docket Nos. P-00930715F1000 and C-20078513. Therefore, in light of the potential for additional changes to the calculations during adjudication of the complaint, we refer this issue to the complaint proceeding at Docket No. C-20078514 to be addressed by the parties in that proceeding.

3. Banked Revenues

Per our Order entered April 6, 2006, at Docket Nos. R-00051227 and P-00001854F1000, the Commission approved the adoption of the following banking methodology and timing that we previously approved for The United Telephone Company of Pennsylvania d/b/a Embarq Pennsylvania (“United”):⁴

1. After 2001, annual price decreases calculated under the PSI filed on September 1 of each year may be banked for application in future years, not to exceed four (4) consecutive years.⁵ Such banking of decreases will be with interest at a rate set forth in 66 Pa. C.S. §1308.
2. The banked price changes must be implemented no more than four (4) years after the annual price change is applied.
3. If a decrease is greater than \$500,000, the Company will implement the decrease immediately.

Pursuant to Section 3013(b) of Act 183, we note the cumulative banked amount per Commission Order entered February 8, 2007, at Docket Nos. R-00061914 and P-00001854F1000, is an increase of \$164,500 that is available for future use by the

⁴ The reference to “PSI filed on September 1 of each year” in the United banking methodology should be modified to read “PCO filed on November 1 of each year” for Verizon North.

⁵ For annual price increases, the Company may apply them in future years, without limitation as to time.

Company. This cumulative banked amount is comprised of the \$148,900 recurring banked increase from the 2006 and 2007 PCOs and the \$15,600 one-time increase due to the Business Late Payment Charge delay from the 2007 PCO.

We make no determination at this time whether the recoveries of banked amounts are affected by a company's past or future competitive service declarations. However, we are mindful of Sections 3016(b) and (f) of the Code, 66 Pa. C.S. §§ 3016(b) and (f), and encourage the Company to recover any banked revenue increases from the appropriate group of its non-competitive customers, consistent with applicable provisions of Chapter 30 (66 Pa. C.S. §§ 3001, *et al.*). In addition, the recovery of the banked revenue increase due to the Business Late Payment Charge delay should be in a manner that is one-time without resulting in recurring revenues for the Company.

4. Impact on Broadband Fund Payments

The adjustments for the 2006 and 2007 PCOs presented in the Company's 2008 PCO filing also impact its 2006 and 2007 payments to the BOAF. Pursuant to §3015(c)(2) of Act 183, Verizon North's assessment for the BOAF is linked to its PCO revenue increases. Because Verizon North's 2006 and 2007 PCO increases are being adjusted downward, Verizon North claims to have overpaid to the BOAF for the fiscal years 2006-2007 and 2007-2008. Verizon North proposes to be made whole for the overpayments by making no prospective contributions to the BOAF based on its 2008 PCO filing and part of its 2009 PCO filing. We withhold final judgment on the issue pending the disposition of the OSBA complaint; **THEREFORE,**

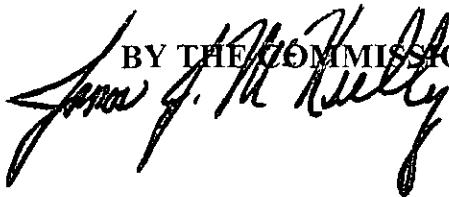
IT IS ORDERED:

1. That Verizon North Inc.'s PCO filing shall be permitted to become effective consistent with this Order subject to investigation and potential refund pursuant

to final adjudication of the issues raised by the Office of Small Business Advocate at Docket No. C-20078514.

2. That the issues of rounding inputs for average dial tone line rate increases and the impact on Broadband Fund payments are referred to the complaint proceeding at Docket No. C-20078514.

3. That a copy of this Order shall be served on the Office of Consumer Advocate, Office of Small Business Advocate, the Office of Trial Staff and the Office of Administrative Law Judge.

BY THE COMMISSION,


James J. McNulty
Secretary

(SEAL)

ORDER ADOPTED: February 14, 2008

ORDER ENTERED:
FEB 19 2008