

PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17105

Verizon North LLC
2015 Price Change Opportunity Filing

PUBLIC MEETING: February 12, 2015
2449774-TUS
Docket Nos. R-2014-2449777

Verizon Pennsylvania LLC
Revenue Neutral Residential Rate Rebalancing

R-2014-2449774

Verizon North LLC Amended Alternative
Regulation and Network Modernization Plan

P-00001854F1000

DISSENTING STATEMENT OF COMMISSIONER JAMES H. CAWLEY

Before us for disposition is the annual 2015 price change opportunity (PCO) filing of Verizon North LLC (Verizon North or Company), as well as its concurrently submitted basic residential dial tone line rate rebalancing tariff changes that purport to be revenue neutral.

The Company can propose revenue neutral adjustments to the rates of its noncompetitive services consistent with the applicable provisions of its Chapter 30 Alternative Regulation and Network Modernization Plan (NMP).¹ Such rate restructuring and rebalancing must fulfill certain conditions so that the relevant results for the Company's noncompetitive service rates are acceptable under the terms of the NMP. Furthermore, in accordance with the statutory directives at 66 Pa. C.S. §§ 1301 and 3019(h), the resulting rates must be just and reasonable.² The Company premises its proposed revenue neutral rebalancing of its residential dial tone line rates on the following:

Verizon is attempting to simplify its rate structure in Pennsylvania to allow customers to order dial tone line service seamlessly by eliminating the lengthy process of determining the operating company and density cell for each customer. Consumers wishing to purchase single line telephone service in Pennsylvania from Verizon would be offered one base rate for dial tone service regardless of where they are presently living or relocating to.

*Using the proposed residence dial tone rates from Verizon North's PCO filing [Docket No. R-2014-2449777] as a starting point, the company plans to increase the residence dial tone line rate in suburban cell 3 from \$8.62 to \$8.88 and decrease the residence dial tone rate in rural cell 4 from \$9.02 to \$8.88. The proposal is effectively revenue neutral to the company, resulting in a slight overall loss of revenue.*³

In its concurrent 2015 PCO filing at Docket No. R-2014-2449777 the Company states the following:

¹ Verizon North, *Final Alternative Regulation Plan of Verizon North LLC. As of December 2011*, Docket Nos. P-00981449, P-00001854F1000, R-00051227, filed December 14, 2011, Part 3.B, at 17-18.

² The Company's Chapter 30 NMP does not supersede the requirement that rates have to be just and reasonable under 66 Pa. C.S. § 1301. 66 Pa. C.S. § 3019(h).

³ Verizon North, *Residence Dial Tone Line Rate Rebalancing*, Docket No. R-2014-2449774, filed October 22, 2014, Executive Summary (public information, emphasis added).

To implement the 2015 PCO, Verizon North would like to apply a \$0.01 increase to its monthly rates for Residence Dial Tone Line. The \$0.01 increase makes Verizon North's weighted average Residence Dial Tone Line rate the same level as Verizon Pennsylvania LLC's (Verizon PA) weighted average rate for this service after Verizon PA's 2015 PCO increase of \$0.17 [Docket No. R-2014-2449301]. In order to simplify its rate structure, Verizon would like to set a uniform Residence Dial Tone Line rate for all cells of Verizon PA and Verizon North. *Concurrent with this PCO filing, Verizon North is filing tariff changes to achieve that uniform rate through a revenue neutral rate rebalancing* [Docket No. R-2014-2449774]. *It is necessary for Verizon North to first increase its rates through the PCO in order to make its average rate match Verizon PA's so that the same uniform rate can be established for both companies.* However, to avoid customer confusion and unnecessary IT [information technology] costs, the PCO rates would never become effective. Instead, the revenue neutral rate rebalancing is scheduled to take effect beginning January 1, 2015 across Verizon PA's territory [Docket No. R-2014-2449295] and February 15, 2015 across VZ [Verizon] North's territory [Docket No. R-2014-2449774]. Attached is a copy of the bill message that will be sent to Verizon North's retail customers. *The notice assumes that the rebalancing filings take effect as scheduled.*⁴

According to the Company's 2015 PCO submission, the requested total annual revenue increase under the NMP price stability mechanism that will be implemented in actual cash generating rates amounts to \$477,200. Of this amount, \$463,500 or 97.13% is allocated to various business local exchange service rates and rate elements.⁵

The combined and concurrent Verizon North 2015 PCO and residential dial tone rate rebalancing tariff filings generate a number of problematic issues. I believe that the resulting rates and rate elements for a number of business basic local exchange services and their end-user consumers are not consistent with the terms of the Company's NMP and do not meet the applicable statutory standard of being just and reasonable. *See generally* 66 Pa. C.S. §§ 1301 and 3019(h). An analysis of these two filings establishes the following:

1. The Verizon North 2015 PCO and residential dial tone rate rebalancing tariff filings were made concurrently and operate in an interdependent and synergistic fashion. I am not convinced by the Company's explanations and argument that these two filings are somehow "separate" and distinct and that they operate independently from each other.⁶ Rather, they constitute an *integrated* filing and they operate in concert with each other as well as with the Verizon PA 2015 PCO and Verizon PA residential dial tone line rate rebalancing.⁷

⁴ Verizon North, 2015 PCO Filing, Docket No. R-2014-244977, filed October 22, 2014, Executive Summary, at 1 (public information, emphasis added).

⁵ *Id.* at 1-2 (public information).

⁶ Verizon North, Docket Nos. R-2014-2449777 & R-2014-2449774, Response to Pa. PUC Staff Data Request No. 1, February 6, 2015, Item No. 1(a), at 1-2 (the "two filings made by Verizon North ('VZN') on October 22, 2014 are separate and should be reviewed separately under the standards applicable to each type of filing" – public information).

⁷ Verizon North, Docket Nos. R-2014-2449777 & R-2014-2449774, Response to Pa. PUC Staff Data Request No. 1, February 6, 2015, Item No. 1(a), at 2 (it "was important to VZN to achieve a uniform statewide residential Dial Tone Line rate together with its sister company, Verizon Pennsylvania LLC ('VZPA') – public information). *See also Verizon Pennsylvania LLC 2015 Price Change Opportunity Filing; Verizon Pennsylvania LLC Revenue Neutral Residential Rate Rebalancing, et al.*, Docket Nos. R-2014-2449301, R-2014-2449295, *et al.*, Order entered December 18, 2014 (Verizon PA 2015 PCO Order).

2. But for the intended and targeted alignment of the Verizon North residential dial tone line rates with the corresponding rates of Verizon PA, the allocation of the Verizon North 2015 PCO annual revenue increase would not have taken place in the manner that has been put forward by the Company.
3. Historically, the Verizon North annual PCO revenue increases have not been allocated among the various categories of noncompetitive local exchange services in the manner that has been proposed in the Company's instant 2015 PCO tariff filing.⁸ Thus, the presently proposed and rather distorted revenue increase allocation (97.13% to business local exchange services) is the direct result of the Company's desired residential dial tone line rebalancing of rates and their corresponding alignment with those of Verizon PA.
4. Consequently, the integration of these two concurrent tariff filings in both intended purpose and result cannot escape the rate restructuring and rebalancing conditions for the Company's non-competitive services that are included in its Chapter 30 NMP. Thus, under Part 3.B.2(d) of the NMP the relevant examination cannot be limited on whether *only* the residential dial tone line rate rebalancing changes remain under a mandated annual increase cap of \$3.50 per month. Instead, this examination should encompass *all* of the Company's noncompetitive residential and business local exchange services that are concurrently and synergistically affected by both the rate rebalancing and the 2015 PCO annual revenue increase.
5. The application of Part 3.B.2(d) of the Company's Chapter 30 NMP restricts the annual rate element increases that are proposed for various business local usage services. Verizon North proposes to increase these rate elements by amounts ranging from \$5.00 per month (Basic Calling Plan) to \$7.50 per month (Business Local Usage, Local Area Unlimited, Rate Group D). These proposed rate element increases range from 32.59% to 100%. The application of Part 3.B.2(d) of the Company's NMP would have restricted these annual rate increases to a maximum level of \$3.50 per month (still representing substantial percentage increases in the range of 15.63% to 70%). Just because the Company's noncompetitive services are governed by a Chapter 30 NMP price stability mechanism and a price cap formula it does not mean that proposed increases in particular service rates and rate elements are beyond the regulatory review authority of this Commission.⁹
6. Even if the Verizon 2015 PCO and residential dial tone line rate rebalancing tariff filings were to be somehow considered as "separate and distinct" and with allegedly "independent" operation and effects, the proposed allocation of the 2015 PCO annual revenue increase is so skewed (97.13% of the increase is directed to business local exchange services), that the results cannot meet the established standard of just and reasonable rates. Not only the resulting business local usage rate elements at issue here do not meet any generally accepted rate gradualism parameters, but they also diverge from comparable rates that are charged within Pennsylvania by Verizon PA, the Company's affiliate:

Business Local Usage – Basic Calling Plan (Monthly Rates)

⁸ Verizon North, Docket Nos. R-2014-2449777 & R-2014-2449774, Response to Pa. PUC Staff Data Request No. 1, February 6, 2015, Item No. 5(d), at 9.

⁹ See generally *Commonwealth Telephone Co. PSI/SPI Filing for Year 2005; Supplement No. 94 to Tariff Telephone Pa. PUC; Supplement No. 87 to Tariff Telephone PA PUC No. 23, et al.*, Docket Nos. R-00050551, P-00961024F1000, *et al.*, Order entered August 31, 2005, 35 Pa.B. 5207 (Sept. 17, 2005); Secretarial Letter entered August 29, 2005; Secretarial Letter entered October 14, 2005.

	Before 2015 PCO Rate Increases		After 2015 PCO Rate Increases	
	Verizon PA	Verizon North	Verizon PA	Verizon North
Rate Group A	\$13.60	\$13.85	\$13.85	\$21.25
Rate Group D	\$17.85	\$18.15	\$18.00	\$25.65

The Company points out that it “is not aware of any requirement that it must price its services at or lower than the rate charged by” Verizon PA, and that when “each of these companies elected alternative regulation under Chapter 30, they started with the different rates and rate structures dating back from their existence as separate entities (Bell Atlantic and GTE), and Chapter 30 has limited their ability to change those rates.”¹⁰ The Company also offers a summary comparability analysis of its business local calling rates that include usage components with corresponding rates of West Side Telephone Company and Windstream Pennsylvania.¹¹ First, I observe that the merger of the “old” Bell Atlantic and GTE has been in existence for more than fourteen (14) years.¹² Second, the instant efforts of the Verizon North and Verizon PA affiliates to align their residential dial tone line rates speak for themselves, and the Company has not provided any explanations or arguments that its underlying network engineering and cost of service are significantly different than those of its affiliate Verizon PA. Instead, the Company’s rate comparability analysis focuses on two local telephone companies (one of a very small size that principally operates in West Virginia), with service areas in Pennsylvania that are typically characterized as rural and high-cost.

7. The Company’s residential dial tone line rate rebalancing and alignment with the corresponding rates of Verizon PA are completely secondary to a rational allocation of the 2015 PCO annual revenue increase and abiding by the relevant conditions of the NMP. Restricting the proposed increases of the business local usage rate elements to \$3.50 per month would have resulted in monthly increases within the permissible interval¹³ for the residential dial tone line rates, and would have avoided the skewed allocation of the overall 2015 PCO revenue increase that is absorbed almost exclusively by the business local exchange services. However, this is an option that Verizon North declined to adopt.¹⁴
8. The fact that a small number of business customers is affected by the increases in the business local usage rates “because the services are optional calling plans that have been grandfathered for over a decade,” and the “overwhelming majority of small business customers have moved to other products that more closely align with their needs,”¹⁵ does not provide a sufficient and proper rationale for the skewed allocation of the Company’s 2015 PCO annual revenue increase.

¹⁰ Verizon North, Docket Nos. R-2014-2449777 & R-2014-2449774, Response to Pa. PUC Staff Data Request No. 1, February 6, 2015, Item No. 3(b), at 6 (public information).

¹¹ Verizon North, Docket Nos. R-2014-2449777 & R-2014-2449774, Response to Pa. PUC Staff Data Request No. 1, February 6, 2015, Item No. 3(a), at 5-6 (public information).

¹² *Joint Application of Bell Atlantic Corporation and GTE Corporation for Approval of Agreement and Plan of Merger*, Docket Nos. A-310200F0002, A-310222F0002, A-310291F0003, A-311350F0002, Order adopted November 4, 1999; Order (Reconsideration) adopted December 16, 1999; *In re Application of GTE Corp. Transferor, and Bell Atlantic Corp., Transferee For Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Applications to Transfer Control of Submarine Cable Landing License*, CC Docket No. 98-184, (FCC, Rel. June 16, 2000), Memorandum Opinion and Order, FCC 00-221.

¹³ Verizon North, 2015 PCO Filing, Docket No. R-2014-244977, filed October 22, 2014, Proprietary Attachment A, at 2 (proprietary numerical value information).

¹⁴ Verizon North, Docket Nos. R-2014-2449777 & R-2014-2449774, Response to Pa. PUC Staff Data Request No. 1, February 6, 2015, Item No. 4, at 7-8 (public information).

¹⁵ Verizon North, Docket Nos. R-2014-2449777 & R-2014-2449774, Response to Pa. PUC Staff Data Request No. 1, February 6, 2015, Item No. 3(d), at 7 (public information).

9. Finally, rate movements of noncompetitive and protected services within the context of concurrent and synergistic rate rebalancing and PCO revenue increase proposals are not divorced from the issue of underlying costs, even if the regulated intrastate services of an incumbent local exchange telephone company with a Chapter 30 NMP are governed by a price cap mechanism. Admittedly, the cost issues for basic local exchange telephone service that the Company provides can be complex.¹⁶ However, Verizon North has not even made an attempt to address this cost – price relationship in its rate rebalancing and 2015 PCO revenue increase proposal. Consequently, I cannot conclude that the resulting rates for Verizon North’s tariff supplements at issue here meet the statutory just and reasonable standard.

For these reasons, I respectfully dissent from the decision reached by the majority.



Dated: February 12, 2015

James H. Cawley
Commissioner

¹⁶ See generally *Pennsylvania Public Utility Commission et al. v. Bell Atlantic-Pennsylvania, Inc.*, Docket Nos. R-00963550, R-00963556, R-00963550C0001, *et al.*, Order entered December 16, 1996; Recommended Decision issued October 8, 1996, 1996 Pa. PUC Lexis 184.