

**PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17120**

**Lackawaxen Telecommunications
Services, Inc. 2017 Annual Price
Stability Index/Service Price Index
Report and Supplement No. 137 to
Lackawaxen Telecommunications
Services, Inc. Tariff Pa. P.U.C. No. 2**

**Public Meeting June 14, 2017
2598885-TUS
Docket Nos. R-2017-2598885
P-00981432F1000**

**Lackawaxen Telecommunications
Services, Inc. Amended Alternative
Regulation and Network
Modernization Plan**

STATEMENT OF COMMISSIONER JOHN F. COLEMAN, JR.

Lackawaxen Telecommunications Services, Inc. (Lackawaxen or Company) filed its 2017 Annual Price Stability Index (PSI)/Service Price Index (SPI) Report and associated tariff supplement proposing a rate increase for certain noncompetitive services. Specifically, the Company proposes to increase rates for residential and business one-party lines by \$2.00 per month, which would amount to a total rate increase of \$38,208. For residential customers, the Company's one-party line rate would increase to \$19.00 per month.

This filing was made pursuant to Chapter 30 of the Public Utility Code and the Company's Commission-approved Chapter 30 Plan.¹ Under the Company's Price Stability Mechanism (PSM) in its Plan, the PSI calculates Lackawaxen's annual allowable change in rates for noncompetitive services based, in part, on the Gross Domestic Product Price Index. Any actual changes in rates are tracked by the SPI. If Lackawaxen elects not to increase its rates by the full amount authorized by the PSI, Part 3.A.7 of the Plan allows the Company to defer or bank the allowable increase "for use in future years." However, Part 3.A.7 of the Plan also places a limit on banking; use of the bank to increase rates is limited "for a period not to exceed four (4) years."

With the current filing, the PSI yields Lackawaxen an allowable noncompetitive revenue increase of \$10,377 for the 2017 PSI/SPI year. According to the proposed order, this allowable increase plus \$10,115 in cumulative banked revenues from 2014-2016 means that Lackawaxen has \$20,492 available under its PSM to increase rates for noncompetitive services. Because Lackawaxen's proposed increase exceeds the \$20,492 amount, the proposed order concludes that the proposed increase is inconsistent with the Company's Chapter 30 Plan. As a result, the proposed order directs the Company to submit a revised 2017 Annual PSI/SPI Report and tariff supplement that complies with the terms of the Company's Plan.

¹ The Company's Alternative Regulation and Network Modernization Plan was approved by the Commission. *Petition for Amended Alternative Regulation and Network Modernization Plan of Lackawaxen Telecommunications Services, Inc.*, Docket No. P-00981432F1000 (Orders entered June 3, 2005 and June 23, 2014).

This filing raises several legitimate issues surrounding Lackawaxen's PSM. Lackawaxen's justification for the \$38,208 increase appears to be as follows: the increase is allowed, based upon the headroom between the PSI (the *authorized* rate increases) and the SPI (the *actual* rate increases),² regardless of what is available in the bank. In my view, this is a new and novel approach to how the Company's PSM should work. Historically, the practice has been to limit proposed rate increases under the PSM to not only the PSI, but also, to a company's cumulative banked revenues that have not expired.³

Another issue that has arisen with this and other PSI/SPI filings is what constitutes a 4-year bank. Under the current practice as applied to a 2017 PSI/SPI proposed rate increase for example, any banked revenues from 2013 are retired and are not used to cover the proposed increase. Rather, the proposed increase is withdrawn from the bank, beginning with the 2014 bank. For the most part, the Commission has followed this practice with Lackawaxen and other Pennsylvania rural Incumbent Local Exchange Carriers (ILECs) in recent years, and neither Lackawaxen nor any other Pennsylvania rural ILEC has formally objected. However, an issue has arisen internally as to whether this practice has been applied consistently over the years and whether it should be continued.

I acknowledge that Pennsylvania's rural ILECs face considerable challenges these days, even with the state universal service support that these carriers receive. These challenges include competition from cable providers and wireless providers. These challenges also include declining revenues resulting from universal service and intercarrier compensation reform enacted at the federal level. Meanwhile, Pennsylvania's rural ILECs have a carrier of last resort obligation that their competitors do not have. Therefore, I am sympathetic to what appears to be a reasonable rate increase proposal. However, our inquiry does not end there; Lackawaxen's proposed rate increase also must comply with its Commission-approved Chapter 30 Plan.

Upon review, I do not believe Lackawaxen's current Chapter 30 Plan is clear that the Company is permitted to increase rates based on the headroom between the PSI and the SPI, regardless of what is in the bank. I also do not believe the Plan is clear on what constitutes a 4-year bank. I note that to date, Lackawaxen has not petitioned the Commission, including a petition to amend its Chapter 30 Plan, to provide clarity on these complex issues. Therefore, I do not support addressing these banking-related issues at this time as part of this proceeding. Rather, I believe these issues are best addressed through the Chapter 30 plan amendment process where they can be vetted thoroughly and transparently.⁴ Through such a process, interested

² According to Attachment 1 of the of the Company's filing, the new PSI is 125.6064. According to Attachment 2 of the Company's filing, the proposed increase results in a proposed revenue weight (i.e., SPI) of 114.94.

³ The Commission has treated a company's cumulative bank as including its allowable revenue increase in the current PSI/SPI filing year. For example, for 2017 PSI/SPI filing year, a company's cumulative bank would include cumulative banked revenues from 2014-2016 plus the allowable revenue increase for 2017.

⁴ A petition and Chapter 30 Plan amendment process previously was used by Lackawaxen to amend its Chapter 30 Plan to clarify that the Company may offset the rate decrease associated with a negative STAS with monies from the bank. *Petition of Lackawaxen Telephone Company Re Offsetting STAS Through the Service Price Index*, Docket Nos. P-2014-2420135, et al. (Order entered June 23, 2014).

parties can receive adequate notice of these issues and have a meaningful opportunity to be heard on them.

For these reasons, I agree with the staff recommendation and do not believe this is the right time or place to address these banking-related issues. However, I am open to revisiting these issues if Lackawaxen or any other rural ILEC seeks to address them via a Chapter 30 plan amendment.

Date: June 14, 2017



**JOHN F. COLEMAN, JR.
COMMISSIONER**