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January 19, 2018

**Via Electronic Filing**

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street – Filing Room (2 North)  
P.O. Box 3265  
Harrisburg, PA 17105-3265

**RE: Office of Small Business Advocate v Verizon Pennsylvania LLC**  
**Docket Nos. C-2017-2633476 and R-2017-2632523**

Dear Secretary Chiavetta:

Enclosed please find the Verizon's Prehearing Memorandum, being filed on behalf of Verizon Pennsylvania LLC in above-referenced matter.

Please do not hesitate to contact me if you have any questions.

Very truly yours,

A handwritten signature in blue ink that reads "Suzan D. Paiva/sau".

Suzan D. Paiva

SDP/sau  
Enclosures

**Via E-Mail and First Class Mail**

cc: Hon. Joel J. Cheskis  
Hon. Andrew Calvelli  
Attached Certificate of Service

**CERTIFICATE OF SERVICE**

I, Suzan D. Paiva, hereby certify that I have this day served a true copy of Verizon Pennsylvania LLC's Prehearing Memorandum, upon the parties listed below, in accordance with the requirements of 52 Pa. Code Section 1.54 (related to service by a participant) and 1.55 (related to service upon attorneys).

Dated at Philadelphia, Pennsylvania, this 19<sup>th</sup> day of January, 2018.

**VIA E-MAIL AND FIRST CLASS U.S. MAIL**

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Office of Small Business Advocate  
Commerce Building  
300 North Second Street, Suite 202  
Harrisburg, PA 17101  
[sgray@pa.gov](mailto:sgray@pa.gov)

Barrett C. Sheridan, Esquire  
Office of Consumer Advocate  
555 Walnut Street, 5<sup>th</sup> Floor  
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Suzan D. Paiva  
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Attorney for Verizon

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Office of Small Business Advocate	:	
	:	
v.	:	C-2017-2633476
	:	R-2017-2632523
Verizon Pennsylvania LLC	:	

**PREHEARING MEMORANDUM OF  
VERIZON PENNSYLVANIA LLC**

Verizon Pennsylvania LLC (“Verizon PA”) submits this prehearing memorandum for purposes of the prehearing conference scheduled for January 26, 2018.

**I. HISTORY OF PROCEEDING**

On November 1, 2017, Verizon PA made its annual Price Change Opportunity (“PCO”)<sup>1</sup> filing pursuant to its Alternative Regulation Plan, as approved by the Commission under Chapter 30 of the Public Utility Code, 66 Pa. C.S. § 3011, et seq. Verizon PA notified the Commission that the price cap mechanism in the company’s Chapter 30 plan allowed it to increase revenue from noncompetitive services by \$1,257,000. To implement the allowed revenue increases, Verizon PA allocated \$495,100 to residence dial tone line rates (the maximum allowed under Chapter 30),<sup>2</sup> \$27,700 to the business late payment charge (for which the OSBA wrote a letter of support that is attached to Verizon PA’s Answer as Exhibit1); and \$322,300 to its bank (credited against the 2003 PCO balance). The remaining \$411,900 was allocated to

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<sup>1</sup> The formula is referred to in the statute as a price stability mechanism (“PSM”). PCO is the terminology used to describe the PSM formula in Verizon PA’s Alternative Regulation Plan.

<sup>2</sup> The statutory provision at 66 Pa. C.S. § 3015(a)(3) limits the maximum increase to residential rates to \$0.20 per month for this PCO. No similar limit exists for business rates.

business dial tone line increases. The table below shows a summary of the current and proposed rates.

	<u>Old Rate</u> (monthly)	<u>New Rate</u> (monthly)	<u>Increase</u> (monthly)
<b><u>RESIDENTIAL</u></b>			
<u>Dial Tone Line</u>			
All Cells	\$9.00	\$9.20	\$0.20
<b><u>BUSINESS</u></b>			
<u>Dial Tone Line</u>			
Cell 1	\$15.45	\$18.00	\$2.55
Cell 2	\$17.55	\$20.00	\$2.45
Cell 3	\$21.45	\$22.25	\$0.80
	<u>Old Rate</u>	<u>New Rate</u>	
<u>Late Payment Charge</u>	1.5%	Greater of 1.5% or \$5	

The rates at issue in the PCO filing are rates for “noncompetitive” services. Under alternative regulation, services designated as “competitive” have complete pricing flexibility and are not part of the PCO process. The Commission also no longer sets rates in the traditional manner for services designated as “noncompetitive;” any increases to noncompetitive rates are limited by the PCO formula in the companies’ Alternative Regulation Plans that allows overall noncompetitive revenue to increase or decrease each year based on the rate of inflation.

On November 13, 2017, the Office of Small Business Advocate (“OSBA”) filed a complaint against Verizon PA’s 2018 PCO filing. The OSBA did not oppose the increase to the business late payment charge (which had been agreed to in a previous settlement) but it contended that the proposed increase and resulting rates for the business dial tone line service are unjust and unreasonable. OSBA’s main issue appears to be that, due to 66 Pa. C.S. § 3015(a)(3) limiting Verizon PA’s ability to increase residential rates,

the increases to the business dial tone line rates are greater on a per-line basis than the increase to residential dial tone rates. OSBA also complains that business dial tone line rates are generally higher than residential dial tone line rates.

Verizon PA answered OSBA's complaint on November 27, 2017. Verizon PA explained that its proposed business rates fully comply with the requirements of Chapter 30 and 66 Pa. C.S. § 1301 and 3015(g) and are thus necessarily "just and reasonable." There is no basis to assert that the modest business rates increases proposed are unjust or unreasonable. Verizon PA's increases to rates for the business dial tone line are in line with the percentage increases from previous PCOs. The majority of Verizon PA's customers for noncompetitive business dial tone line service are in Density Cells 3 and 4. Verizon made no increase to the business dial tone line rate in Density Cell 4 (which remains \$22.25) and only a modest increase of \$0.80 in Density Cell 3, to bring it equal to the \$22.25 in Density Cell 4. While the increases were larger in Density Cells 1 and 2, the number of customers in those cells is small and those rates are still substantially lower than the rates for the same service in Density Cells 3 and 4. Notably, Verizon PA did not increase any retail rates with its 2017 PCO, so these customers have not experienced a rate increase in two years. Moreover, the disparity between residential and business rates for basic service is nothing new. An examination of the historical tariffed rates shows that this relationship has existed since the days of rate-of-return regulation when the Commission set these rates. The fact that the Commission has approved these rates over the years despite this disparity indicates that the Commission does not view a disparity between basic residential and business rates in and of itself to be unjust or unreasonable. Likewise, the fact that the Legislature in Chapter 30 chose to cap basic residential

increases but not basic business increases indicates that the Legislature did not view it as unjust and unreasonable for this disparity to continue.

By order entered December 21, 2017, the Commission found that Verizon PA's 2018 PCO filing is "deemed in compliance with its Commission-approved Amended Chapter 30 Plan" and permitted the rate changes "to go into effect as filed and remain in effect during the pendency of the Office of Small Business Advocate Formal Complaint adjudication and be subject to refund pending the findings of the Office of Administrative Law Judge and further Orders of the Commission as necessary." The case was scheduled for a prehearing conference on January 26, 2018.

## **II. ISSUES**

Whether Verizon's PCO filing and rate increases for business dial tone line service comply with Chapter 30 and any other applicable provisions of the Public Utility Code.

## **III. SERVICE LIST**

Pursuant to 52 Pa. Code § 1.55, Verizon's representative for the service list in this proceeding is as follows:

Suzan D. Paiva  
Assistant General Counsel  
Verizon  
900 Race St., 6<sup>th</sup> Floor  
Philadelphia, PA 19107  
Phone: 267-768-6184  
[Suzan.d.paiva@verizon.com](mailto:Suzan.d.paiva@verizon.com)

#### **IV. PROCEDURAL SCHEDULE**

Subject to approval of the presiding officers, the parties have agreed to the following schedule:

OSBA and OCA Direct Testimony	March 23, 2018
All Parties' Rebuttal Testimony	May 9, 2018
All Parties' Surrebuttal Testimony	June 7, 2018
Hearing	Week of July 16, 2018

#### **V. WITNESSES**

Verizon anticipates that its witnesses may include one or both of the following, but reserves the right to amend or alter its witness list based on the issues that are ultimately identified:

Philip J. Wood, Jr.  
Regional State Government Relations  
417 Walnut St., 1<sup>st</sup> Floor  
Harrisburg, PA 17101

Kathleen A. Bonette  
Regional State Government Relations  
900 Race St., 6<sup>th</sup> Floor  
Philadelphia, PA 19107

#### **VI. DISCOVERY**

Verizon proposes no modifications to the Commission's standard discovery rules. Verizon believes that this matter may call for the disclosure and potential filing of proprietary and confidential information. However, Verizon believes that the protective order entered at Dockets P-2011-2275803 and P-2011-2275730 on December 15, 2011 is sufficient to cover proprietary information that is currently anticipated to be filed or produced in this case. That order states that "all Verizon Pennsylvania Inc.'s ... future

annual Price Change Opportunity (PCO) filings, respectively, will be covered by this Order and new petitions for protective orders will not be necessary so long as the future PCO filings are in compliance with the terms of this Order.” Under that protective order, “confidential and highly confidential information shall be made available to the consultants or staff of the Office of Small Business Advocate, Office of Consumer Advocate, Bureau of Investigation and Enforcement and any other interested (non-competitor) party for purposes of administrative or judicial proceedings upon the execution of an appropriate non-disclosure agreement.” If an additional protective order is determined to be necessary, Verizon will work with OSBA and OCA to propose mutually agreeable terms for that order.

## VII. SETTLEMENT

Verizon is open to discussing a reasonable settlement of this matter.

January 19, 2018

Respectfully submitted,



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Attorney for Verizon Pennsylvania LLC