

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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November 8, 2018

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Verizon Pennsylvania LLC's 2019 PCO Filing
Docket No. R-2018-3005792

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Formal Complaint and Public Statement in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

A handwritten signature in black ink that reads "Barrett C. Sheridan".

Barrett C. Sheridan
Assistant Consumer Advocate
PA Attorney I.D. # 61138
E-Mail: BSheridan@paoca.org

Enclosures:

cc: Office of Special Assistants (email only: ra-OSA@pa.gov)
Office of Administrative Law Judge
Bureau of Technical Utility Services (email only)
Certificate of Service
*262190

CERTIFICATE OF SERVICE

Re: Verizon Pennsylvania LLC's 2019 : Docket No. R-2018-3005792
PCO Filing :

I hereby certify that I have this day served a true copy of the foregoing, the Office of Consumer Advocate's Formal Complaint and Public Statement, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 8th day of November 2018.

SERVICE BY E-MAIL and INTEROFFICE MAIL

Richard A. Kanaskie, Esquire
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

SERVICE BY E-MAIL and FIRST CLASS MAIL, POSTAGE PREPAID

Philip J. Wood, Jr.
Stephanie A. Ulrich
Verizon
417 Walnut Street, 1st Floor
Harrisburg, PA 17101

John R. Evans, Esquire
Office of Small Business Advocate
300 North Second Street
Suite 202
Harrisburg, PA 17101

/s/ Barrett C. Sheridan
Barrett C. Sheridan
Assistant Consumer Advocate
PA Attorney I.D. # 61138
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Phone: (717) 783-5048
Fax: (717) 783-7152
Dated: November 8, 2018
*262191

FORMAL COMPLAINT
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

1. COMPLAINANT

Tanya J. McCloskey, Acting Consumer Advocate

555 Walnut Street, 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Dauphin County

Phone – (717) 783-5048

Fax – (717) 783-7152

2. UTILITY NAME

Verizon Pennsylvania LLC

3. TYPE OF UTILITY

Telephone

4. COMPLAINT

A. On November 1, 2018, Verizon Pennsylvania LLC (Company or Verizon PA) filed its 2019 Price Change Opportunity (PCO) filing, pursuant to the Price Stability Mechanism (PSM) set forth in Part I.A of the “Alternative Plan of Regulation of Verizon Pennsylvania LLC as of December 2011.” (Chapter 30 Plan).

B. The Company’s PCO filing includes a calculation of the one-year change in Gross Domestic Product Price Index (GDI-PI) and applies that difference to total intrastate revenues from non-competitive service as part of the Company’s determination of the allowed revenue increase pursuant to the Company’s PSM. The Company has calculated a Line Count true-

up adjustment, pursuant to the Company's PSM. Verizon PA calculates a total allowed 2019 PCO revenue increase of \$1,303,000.

- C. The Company proposes to increase Residential Dial Tone Line rates by \$0.20 per month and Business Dial Tone Line rates by \$2.50 in Density Cell 1 and \$0.50 in Density Cells 2, 3, and 4, effective January 1, 2019. The Company calculates the rate increases will provide \$944,700 in additional annual revenues from non-competitive services.
- D. Verizon PA's 2003 PCO filing calculated a decrease in annual revenues. Verizon PA did not implement a decrease in rates at that time but banked the 2003 negative PCO value. Verizon PA's 2019 PCO filing proposes to offset the remaining balance of the 2019 PCO allowed revenue increase of \$358,000 (\$1,303,000 minus \$944,700) against the 2003 negative PCO value.
- E. Verizon PA has made a 2018 payment to the Pennsylvania Universal Service Fund (Pa USF). Verizon PA proposes to use a portion of the Company's banked 2003 negative PCO to support this payment.
- F. Verizon PA's 2019 PCO filing proposes to use Verizon North LLC's cumulative banked PCO amount of \$321,900 to further reduce the remaining value of Verizon PA's 2003 negative PCO.
- G. The Consumer Advocate is empowered to represent the interests of consumers before the Pennsylvania Public Utility Commission, pursuant to Act 1976-161 of the General Assembly, as amended. 71 Pa.Stat. Ann. §§ 309-1 et seq. (Purdon's Supp. 1990).

- H. On December 22, 2017, the federal Tax Cuts and Jobs Act: Tax Reform Bill (TCJA) was signed into law. The TCJA makes sweeping changes to the federal tax laws, including reductions to federal income tax rates and other impacts. Additionally, a reduction in federal tax liability may have a corresponding reduction in state income tax liability.
- I. Verizon PA's 2019 PCO filing does not include any adjustment to account for savings in tax expense resulting from this extraordinary, one-time change in federal law which is beyond the control of the Company and impacts the Company's revenues and/or costs.
- J. The omission of an adjustment for this significant exogenous event may result in the Company's calculation of its allowed annual revenue increase to be overstated. As a result of the omission of an adjustment to account for this significant exogenous event, the Company's rates for non-competitive services may be unjust and unreasonable.
- K. The omission of an adjustment for this significant exogenous event may result in the Company's rates for non-competitive services providing revenues or expenses – including expense savings – which subsidize the Company's competitive services.
- L. Verizon PA's proposal to reduce the 2003 negative PCO by \$321,900 so that Verizon North may reduce to zero Verizon North's cumulative positive bank (increases allowed but not implemented by Verizon North) is contrary to Verizon PA's Chapter 30 Plan. In a year when Verizon's PCO calculation is negative, Verizon PA "must file" tariff rate changes to

reduce its revenues by an amount equal to that year's PCO or bank the revenue decrease for application in the future. Chapter 30 Plan, Part I. A.2, 3.d; E.1. Protected service revenues "must be reduced through tariff rate changes by a pro-rata share" of the revenue reductions resulting from a negative PCO. *Id.*, Part I, Overview, p. 4. Verizon PA's proposed \$321,900 reduction to the 2003 negative PCO would deny Verizon PA's non-competitive service customers the benefit of that amount of Verizon PA's banked 2003 negative PCO. Verizon PA's proposed increases to residential and business dial tone line rates are unjust and unreasonable and contrary to Verizon PA's Chapter 30 Plan and the Public Utility Code.

M. Verizon PA's proposed \$321,900 deduction to the 2003 negative PCO would benefit its affiliate Verizon North and/or Verizon North's non-competitive service customers. Verizon PA's proposal would be to the detriment of Verizon PA's non-competitive service customers. This Verizon PA proposal does or may constitute unreasonable discrimination in rates, contrary to Section 102's broad definition of "rates" and Section 1304. Section 3019(e) preserves the Commission's authority to ensure that Verizon PA does not unreasonably discriminate against non-competitive service customers, including protected service customers.

N. When a PCO filing calculates a negative PCO, the Company's Chapter 30 Plan requires either that rates be decreased or that the decrease be banked for application in future years. Verizon PA Chapter 30 Plan, Part I., A., 2, Sec. E. "Such banking of decreases shall be with interest at a rate set forth

in 66 Pa.C.S. § 1308.” Id., Sec. E. Verizon PA’s accounting for the year to year change in the amount of the 2003 negative PCO requires review to assure that the banked balance is correct and inclusive of interest calculated at the proper rate of interest.

- O. As part of the Company’s calculation of the proposed Pa USF offset to the 2003 negative PCO value, Verizon PA calculates a gap amount, inclusive of interest. Verizon PA has not used the rate set forth at Section 1308. Verizon PA’s interest calculation is inconsistent with the Chapter 30 Plan banking provisions. Verizon PA’s interest calculation is inconsistent with the Commission’s directive that Verizon PA “bank the difference each year between its available 2003 PCO monies and its required contribution to the Pennsylvania Universal Service Fund and account for this in the annual PCO filings including interest on the banked amounts at a rate set forth in 66 Pa. C.S. §1308(d).” Verizon Pennsylvania Inc. 2005 Price Change Opportunity Filing, Docket No. P-00930715, Opinion and Order at 9, Ordering ¶ 3 (Oct. 11, 2005) (2005 PCO Order).
- P. Verizon’s calculation of interest on the banked amounts of the 2003 negative PCO has or may result in the understatement of the remaining annual value of the 2003 negative PCO. An understatement of the value of the 2003 negative PCO has or will result in unjust and unreasonable rates for non-competitive service customers, when applied to reduce non-competitive service rates.

- Q. Verizon PA's 2019 PCO filing does not recognize this gap amount in its report of the post-2019 PCO banked value of the 2003 negative PCO. Verizon PA's omission is inconsistent with the 2005 PCO Order and Verizon Pennsylvania LLC 2014 Price Change Opportunity Filing, Docket No. R-2013-2391528, Opinion and Order at 6-9 (Dec. 19, 2013). Verizon PA's failure to recognize this gap amount has or will result in unjust and unreasonable rates for Verizon PA's non-competitive service customers.
- R. After initial review of the Company's filing, the Acting Consumer Advocate files this Formal Complaint in order to ensure that the Company's calculation of its allowed annual revenue increase, changes to the Company's bank of PCO decreases, and proposal regarding rates for non-competitive services is consistent with the Company's Chapter 30 Plan PSM and in compliance with the Public Utility Code, Commission regulation or policy. The Public Utility Code provisions include Sections 1301, 1304, 1309, 1312, 3011, 3015(g), 3016(f), and 3019(b), (e), and (h). 66 Pa.C.S. §§ 1301, 1304 1309, 1312, 3011, 3015(g), 3016(f), and 3019(b), (e), (h).

5. RELIEF

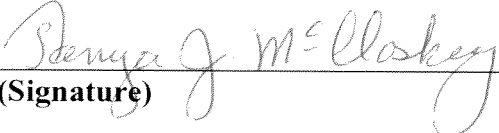
The Acting Consumer Advocate respectfully requests that the Public Utility Commission:

- A. Not approve the Company's 2019 Price Change Opportunity filing and proposed tariffs, pending resolution of this Formal Complaint;
- B. Hold hearings;
- C. Determine that the Company's valuation of the 2003 negative PCO, inclusive of interest, is subject to investigation and possible adjustment;
- D. Determine that the Company's existing rates for non-competitive services are subject to investigation and possible reduction and refund, pending review of the Company's 2019 PCO filing and resolution of this Formal Complaint;
- E. Grant any other relief deemed necessary.

6. VERIFICATION AND SIGNATURE

Verification:

I, Tanya J. McCloskey, hereby state that the facts above set forth are true and correct (or are true and correct to the best of my knowledge, information and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).


(Signature)

November 8, 2018
(Date)

7. LEGAL REPRESENTATION

Barrett C. Sheridan
Assistant Consumer Advocate
PA Attorney I.D. # 61138
E-Mail: BSheridan@paoca.org

Counsel for:

Tanya J. McCloskey
Acting Consumer Advocate

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**PUBLIC STATEMENT
OF THE OFFICE OF CONSUMER ADVOCATE
PURSUANT TO 71 P.S. SECTION 309-4(E)**

Act 161 of the Pennsylvania General Assembly, 71 P.S. Section 309-2, as enacted July 9, 1976, authorizes the Office of Consumer Advocate (OCA) to represent the interests of consumers before the Pennsylvania Public Utility Commission (PUC or Commission). In accordance with Act 161, and for the following reasons, the OCA determined to file a Formal Complaint and participate in proceedings before the Commission involving Verizon Pennsylvania LLC (Verizon PA or Company).

On November 1, 2018, Verizon PA filed its 2019 Price Change Opportunity (PCO) filing pursuant to Company's Chapter 30 Plan Price Stability Mechanism. The Company calculated an allowed increase in revenues based upon changes in the Gross Domestic Product Price Index (GDP-PI). The Company's 2019 PCO filing calculation does not reflect any adjustment for reductions in the Company's tax expense resulting from the federal Tax Cuts and Jobs Act: Tax Reform Bill (TCJA). Verizon PA has proposed to increase protected, residential dial tone line rates by \$0.20 per month and protected, business dial tone line rates by \$0.50 to \$2.50. The Company has proposed reductions to the balance of a 2003 PCO decrease which the Company banked for application in the future (the 2003 negative PCO).

The OCA has filed this Complaint with the Commission to ensure that the Company's calculation of its allowed annual increase in rates for non-competitive services is correct and that the Company's rates for non-competitive services are just and reasonable. The change in federal tax law effectuated by the TCJA is an event which is likely reducing the Company's tax expense. The OCA will seek to ensure that the Company's 2019 PCO filing and rates for non-competitive services are adjusted as necessary to provide the Company's ratepayers with the benefit of this

significant and unusual change in federal tax law and reduction in the Company's tax expense. Further, Verizon's proposed deductions to the 2003 negative PCO banked balance require scrutiny to assure that Verizon PA's non-competitive service customers are not denied the benefit of that banked decrease. The OCA will seek to ensure that the resulting rates are just and reasonable, consistent with the Public Utility Code and Verizon PA's Chapter 30 Plan.