

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 North LLC's 2019 PCO Filing
Docket No. R-2018-3005793

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
*262187

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
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2. UTILITY NAME

Verizon North LLC

3. TYPE OF UTILITY

Telephone

4. COMPLAINT

- A. On November 1, 2018, Verizon North LLC (Company or Verizon North) filed its 2019 Price Change Opportunity (PCO) filing, pursuant to the Price Stability Mechanism (PSM) set forth in Part I.A of the “Final Alternative Plan of Regulation of Verizon North 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 North calculates a total allowed 2019 PCO revenue increase of \$246,000.

- C. Verizon North's 2019 PCO filing proposes to increase rates for non-competitive services effective March 1, 2019, to provide Verizon North with additional annual revenues. Verizon North proposes to increase Residential Dial Tone Line rates by \$0.20 per month. Verizon North proposes two alternatives for increases to Business Dial Tone Line rates. The First Alternative would be to increase all Business Dial Tone Line rates by \$0.50 per month. Verizon North would then bank the balance of the allowed 2019 revenue increase, resulting in a cumulative bank of \$321,900. Subject to Commission approval, Verizon North would transfer this positive \$321,900 bank of revenue increases allowed but not implemented to Verizon Pennsylvania LLC (Verizon PA). Verizon PA would then net this banked amount against Verizon PA's 2003 negative PCO balance (a decrease which Verizon PA banked for future implementation). Verizon North's Second Alternative would increase Business Dial Tone Line rates by \$2.75 per month, leaving Verizon North with a cumulative banked amount of \$43,500.
- D. 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).

- E. The Company's PSM formula allows for a "Z factor" adjustment to make special revenue adjustments to recognize significant exogenous events that are outside the Company's control. Exogenous events include, but are not limited to, legislative changes (state & federal) which affect revenues and/or costs, to the extent not captured in GDI-PI. Exogenous expense changes shall be flowed through, dollar-for-dollar, on the basis of review of that single expense item, using the most recent per book level of such expense. Chapter 30 Plan, Part 3.A.2., 9.
- F. 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.
- G. The Company's PSI Report does not include any "Z factor" 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.
- H. 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. The omission of an adjustment for this significant exogenous event may result in the Company's calculation of its banked annual increases 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.

- I. 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.
- J. Verizon North has proposed increases to protected local service rates under two alternatives, which would result in different levels of rate increases, different annual revenue increases, and different balances for Verizon North's cumulative bank of allowed revenue increases for future use. To the extent that Verizon North requires Commission approval of the proposed transfer of Verizon North's cumulative bank under Alternative 1 to Verizon PA as necessary condition, Verizon North's proposal is unreasonable and lacks affirmative support in its Chapter 30 Plan. Verizon North's Chapter 30 Plan allows the Company to bank PCO allowed revenue increases for application in the future, without limitation as to time. Chapter 30 Plan, Part 3.E., fn. 6.
- K. Verizon North's interest in carrying a zero or minimal cumulative bank balance does not justify the proposed detriment to Verizon PA non-competitive service customers, under Alternative 1, in the form of a reduced Verizon PA 2003 negative PCO balance. Verizon PA's 2003 negative PCO reflects a PCO decrease banked for future application for the benefit of Verizon PA's non-competitive service customers. See,

“Alternative Plan of Regulation of Verizon Pennsylvania LLC as of December 2011,” Part I, Overview at p. 4; Part I, A.2, 3.d; E.1 (Verizon PA Chapter 30 Plan).

- L. Verizon North’s proposed transfer of its cumulative bank to Verizon PA under Alternative 1 would benefit Verizon North and/or its non-competitive service ratepayers. Verizon North’s proposal would be to the detriment of Verizon PA’s non-competitive service customers. This Verizon North proposal does or may constitute an unreasonable preference 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 North does not make or impose unreasonable preferences for non-competitive service customers, including protected service customers.
- M. 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 allowed revenue increases, 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

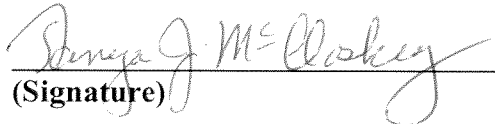
The Acting Consumer Advocate respectfully requests that the Public Utility Commission:

- 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 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;
- D. 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: BSherridan@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 North LLC (Verizon North or Company).

On November 1, 2018, Verizon North 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 North has proposed to increase protected, residential dial tone line rates by \$0.20 per month. Verizon North has proposed two, alternative levels of increase to business dial tone line rates. Verizon North's first, preferred alternative requires Commission approval of Verizon North's cumulative banked increase to its affiliate Verizon Pennsylvania LLC (Verizon PA).

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 extraordinary change in federal tax law and reduction in the Company's tax expense. The OCA will seek to ensure that any resulting rate increases implemented by Verizon North are just and reasonable, consistent with the Public Utility Code and Verizon PA's Chapter 30 Plan, and without impact on Verizon PA non-competitive service customers.

CERTIFICATE OF SERVICE

Re: Verizon North LLC's 2019 PCO Filing : Docket No. R-2018-3005793

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

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/s/ Barrett C. Sheridan
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Dated: November 8, 2018
*262189