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April 8, 2022

Via Electronic Filing

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street – Filing Room (2 North)
Harrisburg, PA 17120

RE: *Verizon Pennsylvania LLC 2019 Price Change Opportunity Filing*, Docket No. R-2018-3005792
Office of Consumer Advocate v. Verizon Pennsylvania LLC, Docket No. C-2018-3005972
Office of Small Business Advocate v. Verizon Pennsylvania LLC, Docket No. C-2018-3006035
Verizon North LLC 2019 Price Change Opportunity Filing, Docket No. R-2018-3005793
Office of Consumer Advocate v. Verizon North LLC, Docket No. C-2018-3005977
Office of Small Business Advocate v. Verizon North LLC, Docket No. C-2018-3006040
Verizon Pennsylvania LLC 2020 Price Change Opportunity Filing, Docket No. R-2019-3014032
Office of Consumer Advocate v. Verizon Pennsylvania LLC, Docket No. C-2019-3014285

Dear Secretary Chiavetta:

On behalf of Verizon Pennsylvania LLC (“Verizon PA”) and Verizon North LLC (“Verizon North”) (together “Verizon”), the Office of Consumer Advocate (“OCA”) and the Office of Small Business Advocate (“OSBA”), enclosed for filing please find the Joint Settlement Petition, with individual Statements in Support of Settlement from each party attached as exhibits.

If you have any questions with regard to this filing, please direct them to me. Thank you for your attention to this matter.

Very truly yours,

Suzan D. Paiva

Enclosures

cc: Dennis J. Buckley, Administrative Law Judge (via email & US Mail)

CERTIFICATE OF SERVICE

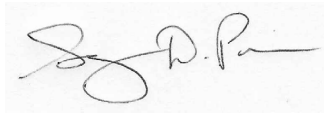
I hereby certify that I have this day served a true copy of the foregoing Joint Settlement Petition and Statements in Support upon the parties listed below, in accordance with the requirements of 52 Pa. Code §1.54 (relating to service by a party).

Dated this 8th day of April, 2022.

Service Via Email

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Suzan D. Paiva
Counsel for Verizon Pennsylvania LLC
and North LLC

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Verizon Pennsylvania LLC 2019 Price Change Opportunity Filing	:	Docket No. R-2018-3005792
Office of Consumer Advocate v. Verizon Pennsylvania LLC	:	Docket No. C-2018-3005972
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Office of Consumer Advocate v. Verizon Pennsylvania LLC	:	Docket No. C-2019-3014285

JOINT SETTLEMENT PETITION

Pursuant to 52 Pa. Code § 5.232, Verizon Pennsylvania LLC (“Verizon PA”) and Verizon North LLC (“Verizon North”) (together “Verizon”), the Office of Consumer Advocate (“OCA”) and the Office of Small Business Advocate (“OSBA”) (collectively the “Parties”) submit this Joint Settlement Petition setting forth their agreement to settle all issues in the above-captioned proceedings. In support of this Joint Settlement Petition, the Parties state as follows:

1. This Joint Settlement Petition constitutes an agreement by the Parties to this proceeding to the settlement described herein. No party to this case opposes the settlement. *See* 52 Pa. Code § 5.232(b).

2. This Joint Settlement Petition proposes to resolve all issues associated with the OCA's and OSBA's Formal Complaints against Verizon PA's and Verizon North's 2019 Price Change Opportunity ("PCO") filings, and the OCA's Formal Complaint and the OSBA's Intervention against Verizon PA's 2020 PCO filing, as described in more detail below.

3. The Parties respectfully request that the presiding Administrative Law Judge recommend approval of the Joint Settlement Petition in its entirety and that the Pennsylvania Public Utility Commission ("Commission") approve this Joint Settlement Petition in its entirety. In support thereof, the Parties submit as follows:

I. BACKGROUND

4. These cases relate to complaints filed by the OCA and OSBA against Verizon PA's and Verizon North's annual PCO filings required by their Chapter 30 alternative regulation plans to calculate the allowed inflation-based annual change to revenue from rates for noncompetitive services and any proposed rate changes to recover that revenue.

5. The alternative form of regulation for incumbent local exchange companies authorized by Chapter 30 of the Public Utility Code, 66 Pa. C.S. § 3011, *et seq.* (and predecessor statute) completely replaced traditional rate-of-return regulation for telecommunications services under the Commission's jurisdiction. Verizon PA has been under Chapter 30 alternative regulation since the mid 1990's while Verizon North's initial Chapter 30 plan was approved in 2002.

6. For services designated by the Commission as “noncompetitive,” any rate changes are governed by a price stability mechanism (“PSM”) set forth in the company’s alternative regulation plan. Only services designated as “noncompetitive” are subject to the PSM process for rate changes. Services designated as “competitive” have complete pricing flexibility under Chapter 30 and their rates can be changed at any time at Verizon’s discretion. 66 Pa. C.S. § 3019(g).

A. The 2019 and 2020 PCO Filings

7. On November 1, 2018, Verizon PA made its 2019 PCO filing, notifying the Commission that the price cap mechanism in the company’s Chapter 30 plan allowed Verizon PA to increase revenue from noncompetitive services by \$1,303,000. To implement that allowed revenue increase, Verizon PA proposed to increase rates for noncompetitive residence and business services to obtain \$944,700 and to bank the remaining \$358,300 of the revenue increase opportunity. Verizon PA’s 2019 PCO filing also contained calculations relating to its bank and the use of the banked 2003 PCO to cover its annual payment to the Pennsylvania Universal Service Fund (“USF”), which are discussed in more detail below.

8. Verizon North’s 2019 PCO filing was also made on November 1, 2018, notifying the Commission that the price cap mechanism in the company’s Chapter 30 plan allowed Verizon North to increase revenue from noncompetitive services by \$246,000. Verizon North made two alternative rate increase proposals (depending on whether the Commission allowed it to transfer banked opportunities to Verizon PA), but in its Order entered December 20, 2018, the Commission rejected the first proposal and approved (subject to refund) the second proposal. The approved alternative was for an aggregate

increase to rates for noncompetitive residence and business services totaling \$438,300, utilizing a combination of the Verizon North 2019 PCO and banked opportunities.

9. On November 8, 2018, the OCA filed complaints against Verizon PA's and Verizon North's 2019 PCO filings. On November 14, 2018, the OSBA filed complaints against Verizon PA's and Verizon North's 2019 PCO filings.

10. By two separate orders entered December 20, 2018, the Commission found Verizon PA's and Verizon North's 2019 PCO filings to be "procedurally consistent with [their] Commission-approved Amended Chapter 30 Plan[s]" and permitted the rate changes to go into effect as filed and remain in effect subject to refund pending adjudication of the formal complaints. *Verizon PA 2019 PCO Order*, Docket R-2018-3005792 (Order entered December 20, 2018), at 6; *Verizon North 2019 PCO Order*, Docket R-2018-3005793 (Order entered December 20, 2018), at 8.

11. On November 1, 2019, Verizon PA made its 2020 PCO filing, notifying the Commission that the price cap mechanism in the company's Chapter 30 plan allowed Verizon PA to increase revenue from noncompetitive services by \$1,393,000. Verizon PA did not propose any rate changes in its 2020 PCO filing but rather proposed to bank its 2020 PCO rate increase opportunity and use it to permanently offset a portion of its banked negative 2003 PCO. Verizon PA's 2020 PCO filing also contained calculations relating to its bank and the use of the banked 2003 PCO to cover its annual payment to the state USF, which are discussed in more detail below.

12. On November 14, 2019, OCA filed a formal complaint against Verizon PA's 2020 PCO and on December 6, 2019, OSBA filed a notice of intervention. No complaints were filed against Verizon North's 2020 PCO filing.

13. By order entered January 16, 2020, the Commission found Verizon PA’s 2020 PCO filing to be “procedurally consistent with its Commission-approved Amended Chapter 30 Plan” and permitted the rate changes to go into effect as filed and remain in effect subject to refund pending adjudication of the formal complaint. *Verizon PA 2020 PCO Order*, Docket R-2019-3014032 (Order entered January 16, 2020), at 7.

14. No complaints were filed against the Verizon PA 2021 PCO filing or the Verizon PA 2022 PCO filing. Similarly, no complaints were filed against the Verizon North 2021 PCO filing or the Verizon North 2022 PCO filing. The Joint Settlement Petition does, however, resolve any open issues in the Verizon PA 2021 and 2022 PCO cases, as well as the Verizon North 2021 and 2022 PCO cases.¹

B. Issues Raised in Complaints

15. The complaints raise two issues² with respect to Verizon’s PCO filings, described in more detail below. The OCA’s complaints against Verizon PA’s 2019 and 2020 PCO filings raise the “USF Gap Interest Issue” while the OCA’s and OSBA’s complaints against Verizon PA’s and Verizon North’s 2019 PCO filings raise the “Exogenous Event Issue,” both of which are described in more detail below.

i. The USF Gap Interest Rate Issue

16. By order entered October 11, 2005, the Commission approved the details of an ongoing process by which Verizon PA uses the banked negative value of its 2003 PCO to

¹ See *Verizon PA 2021 PCO Order*, Docket No. R-2020-3022672 (Order entered December 17, 2020), at fn. 8; *Verizon PA 2022 PCO Order*, Docket No. R-2021-3029356 (Order entered December 16, 2021), at fn. 8; *Verizon North 2021 PCO Order*, Docket No. R-2020-3022671 (Order entered December 17, 2020), at fn. 6; *Verizon North 2022 PCO Order*, Docket No. R-2021-3029355 (Order entered December 16, 2021), at fn. 6.

² A third issue (relating to the use of Verizon North’s bank) was already resolved by the Commission’s December 20, 2018, Order.

off-set Verizon PA's USF payment for that year.³ Each year since that time the Commission has reviewed and approved the continued use of that year's value of the banked negative 2003 PCO to off-set Verizon PA's annual USF payment. When the Commission originally approved this process, the banked value of the 2003 PCO was negative \$17.5 million. Over the years, however, Verizon PA has reduced the banked negative value by offsetting it with banked positive rate increase opportunities (*i.e.*, foregoing rate increases) so that the current value in the bank following implementation of Verizon PA's 2022 PCO is negative \$8.4 million. Verizon PA's USF payments have also decreased over time.

17. The issue raised by the OCA relates to the interest rate that is used in the banking calculations if the USF payment for that year is not large enough to off-set the entire one-year negative value of the 2003 PCO, which occurred in the 2019 and 2020 PCOs. This difference (if there is one) is referred to as the USF "gap." Verizon PA's Chapter 30 plan requires it to apply "interest at a rate set forth in 66 Pa. C.S. §1308." To date, Verizon PA has calculated interest on the USF gap using the U.S. Treasury securities 20-year constant maturity rate and the Commission has approved the interest calculations. The OCA alleges that this source for the interest rate does not comply with 66 Pa. C.S. §1308. As discussed in more detail below, the parties have agreed on another interest rate source to be used going forward.

ii. The Exogenous Event Issue

18. The complaints against the Verizon PA and Verizon North 2019 PCO filings contend that Verizon should have made an adjustment to its calculations for an "exogenous

³ *Verizon Pennsylvania Inc. 's 2005 Price Change Opportunity*, Docket No. P-0093715 (Opinion and Order entered October 11, 2005).

event” based upon the effect of the changes in federal tax law enacted at the end of 2017 by the “Tax Cuts and Jobs Act” or “TCJA.” Verizon asserts that its Chapter 30 plans do not require or permit any “exogenous event” adjustment relating to the effects of tax changes such as the TCJA. However, the OCA and OSBA assert that the Verizon position is incorrect and that the allowed change in revenues determined by Verizon’s PCO filings should reflect any reduction in Verizon’s federal tax expense due to the TJCA, to assure just and reasonable rates. Nevertheless, and consistent with the Commission’s Order in a recent CenturyLink case, the Parties have “agreed to disagree” on the merits of whether the TJCA applies, and have reached a unanimous settlement of all issues raised in the complaints.

Specifically, the Commission recently stated, as follows:

[W]e shall decline to reach a determination in this proceeding as to whether the TCJA qualifies as an exogenous event under the Company’s Chapter 30 Plan. Rather, we reinforce that our focus in this proceeding is examining the Settlement on its merits to determine whether it is in the public interest.

The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink 2018 Annual Price Stability Index/Service Price Index Report Filing, Docket No. R-2018-3004019 (Order entered January 13, 2022), at 55.

II. SETTLEMENT OF ISSUES

19. In consideration of the mutual promises and provisions contained in this Joint Settlement Petition, the Parties desire to conclude litigation and to settle all claims regarding Verizon PA 2019 PCO and 2020 PCO filings, as well as the Verizon North 2019 PCO filing. The specific terms and conditions of this proposed settlement are as follows.

20. With respect to the litigation relating to the 2019 PCO filings of Verizon PA and Verizon North at Dockets C-2018-3005972, C-2018-3006035, R-2018-3005792, C-2018-3005977, C-2018-3006040, R-2018-3005793, the Parties agree that the Joint Settlement Petition is in full satisfaction of all issues raised in OCA's and OSBA's complaints.

21. With respect to the litigation relating to the 2020 PCO filing of Verizon PA at Dockets C-2019-3014285 and R-2019-3014032, the Parties agree that the Joint Settlement Petition is in full satisfaction of all issues raised in OCA's complaint and OSBA's intervention.

22. With respect to the interest rate issue raised in OCA's complaints against Verizon PA's 2019 and 2020 PCOs, the Parties agree as follows:

- a. Verizon PA will revise its Chapter 30 plan in the section relating to banking to specify that the Monthly Index of Long-Term United States Government Bond Yields Calculated by the Secretary of Banking Under 41 P.S. § 101, *et seq.* and published in the PA Bulletin for August of the prior year, plus 1.25%, will be used. The following underlined language will be added:

After 2001, annual price decreases calculated under the PSI filed each year may be banked for application in future years, not to exceed four (4) consecutive years. Such banking of decreases will be with interest at a rate set forth in 66 Pa. C.S. §1308. Beginning with the 2023 PCO, the interest rate used will be the Monthly Index of Long-Term United States Government Bond Yields calculated by the Secretary of Banking Under 41 P.S. § 101, et seq. and published in the Pennsylvania Bulletin for August of the prior year, plus 1.25%.

- b. Verizon North will make the same change to its Chapter 30 plan.
- c. The Parties agree that, effective with the 2023 PCO and later PCO filings, the above interest rate will be used to calculate interest on the USF gap, to the extent there is such a gap. To the extent that Commission approval and amendment of the respective Chapter 30 Plan language is delayed, Verizon PA and Verizon North will make corrections and/or adjustments to the interest calculations (if any) in the 2023 PCO and later PCO filings.

23. With respect to the 2023 and 2024 PCO filings of Verizon PA and Verizon North, due to be filed on or about November 1, 2022, and November 1, 2023, respectively, the Parties agree as follows:

- a. With their 2023 and 2024 PCO filings, Verizon PA and Verizon North will not increase the rates for their non-competitive stand-alone residential and business services.
- b. To the extent an allowed increase in revenues is indicated by Verizon PA's 2023 and/or 2024 PCO filings, Verizon PA will bank the revenue increase opportunity and will net this entire banked amount against the

balance of the banked negative 2003 PCO, with the goal of reducing that negative balance.

- c. To the extent an allowed increase in revenues is indicated by Verizon North's 2023 PCO filing, Verizon North will neither implement the revenue increase nor bank the amount. To the extent an allowed increase in revenues is indicated by Verizon North's 2024 PCO filing, Verizon North will bank this amount for future use in accordance with its Chapter 30 plan. Furthermore, in its Order addressing Verizon North's 2022 PCO filing, the Commission confirmed that Verizon North's cumulative bank of allowed revenue increases of \$478,600 is available for future use. *Verizon North 2022 PCO Order*, Docket No. R-2021-3029355 (Order entered December 16, 2021), at 5. Verizon North will agree to not use this available bank to increase rates as part of Verizon North's 2023 or 2024 PCO filings.
- d. OCA and OSBA will not oppose Verizon's 2023 or 2024 PCO filings on the bases raised in the complaints against the 2019 and 2020 PCOs, including, but not limited to, the claim that an exogenous event adjustment is required by the TCJA.

24. With respect to their rates for competitively classified stand-alone residential and business services (the same services subject to the PCO but offered in competitive wire centers), Verizon PA and Verizon North will not increase these rates above the rate for the corresponding non-competitive service before January 1, 2025. The Parties

recognize that these services have full pricing flexibility and are not part of the PCO process, but the Parties have agreed to this term as part of the Settlement.

25. The Parties agree as follows regarding Verizon PA's use of the ongoing negative value of its 2003 PCO to support its payments to the Pennsylvania USF:

- a. Per the Commission's Order in Docket Nos. P-00930715 and P-0001854 entered October 11, 2005, Verizon PA will continue to request permission in its 2023 and 2024 PCO filings to use the ongoing negative value of its 2003 PCO to support its payments to the USF. The OCA and OSBA agree they will not oppose those requests.
- b. Four to three months before Verizon PA makes its 2025 PCO filing, Verizon PA, the OCA, and the OSBA will meet to review and discuss Verizon PA's proposal, if any, to request recovery of its USF payment as part of its 2025 PCO filing. Verizon PA will identify the amount of the USF Assessment and the amount and type of revenues used to calculate the USF Assessment. The Parties will also discuss Verizon PA's plans, if any, regarding the remaining balance of the 2003 PCO. Those meeting(s) and discussions may result in a proposed agreement regarding how the remaining value of the 2003 PCO should be used on a going-forward basis.

26. There is an unexpected additional value to business customers relating to a Verizon North rate implementation error:

- a. Verizon North discovered an error in the implementation of the business dial tone line rate increases approved for the 2019 PCO by

which it has been undercharging for the business dial tone line rate since March 1, 2019, as follows:

Time Period	Rate Approved	Rate Actually Charged
3/1/19 to 2/28/22	\$25	\$22.75

- b. For the 2022 PCO, the Commission approved a \$1 increase to Verizon North’s business dial tone line rate that would have increased the tariffed rate from \$25 to \$26. However, Verizon North discovered this error *before* the increase took effect. Consequently, on February 22, 2022, Verizon North filed a tariff revision to reduce the tariffed dial tone line rate to \$23.75 effective March 1, 2022 (*i.e.*, implementing the approved \$1 increase on the rate that was currently being charged).
- c. As part of this settlement, Verizon North will agree not to attempt to collect from its business dial tone line customers for the under-billing from March 1, 2019, to February 28, 2022, as would be permitted by 52 Pa. Code § 64.19. Furthermore, Verizon North will not seek permission to make an adjustment to its bank in order to recover the revenue that it did not collect in rates due to this error.
- d. Verizon North will not seek to increase the \$23.75 business dial tone line rate before its 2025 PCO filing.
- e. The OSBA and OCA agree not to oppose Verizon North’s reduction of the business dial tone line rate to \$23.75.

III. GENERAL PROVISIONS

27. The Joint Settlement Petition is not an admission by any Party as to whether the TCJA is an “exogenous event” under Verizon PA’s or Verizon North’s Chapter 30 Plans. This Joint Settlement Petition is proffered to settle the instant case; it may not be cited as precedent in any future proceeding, except to the extent required to implement any term specifically agreed to by the Parties. The Joint Settlement Petition is made without any admission against, or prejudice to, any position which any of the Parties might adopt in future proceedings, except to the extent necessary to effectuate or enforce any term specifically agreed to in the Joint Settlement Petition.

28. The Joint Settlement Petition is expressly conditioned upon the Commission’s approval, without modification, of all of its specific terms and conditions therein contained. If the Commission should fail to grant such approval, or should modify any material term or condition, any Party may elect to withdraw, in whole or in part, from this agreement upon written notice to the Commission and the other Parties within 20 calendar days of issuance of an adverse final Commission order. In that event, each of the Parties shall have all legal rights that they may have waived by agreeing to this Settlement.

29. The Parties agree to support this Joint Settlement Petition and to make their best efforts to secure its approval by the Commission, including filing Statements in Support and any Stipulations of Fact or Affidavits necessary to provide evidentiary support for the Settlement.

30. If the presiding officer issues a Recommended Decision approving this Joint Settlement Petition without modification, then the Parties agree to waive the filing of Exceptions and Reply Exceptions.

IV. PUBLIC INTEREST CONSIDERATIONS

31. The resolution of the issues as set forth in this Joint Settlement Petition is in the public interest and should be approved in full.

32. The Joint Settlement Petition achieves a just and fair compromise by all parties to this proceeding, who represent a variety of interests, of the important and contentious issues raised in the proceeding.

33. Approval of the Joint Settlement Petition will avoid the substantial time, expense and uncertainty involved in litigation of issues in this proceeding. By avoiding the necessity of further administrative proceedings and litigation, including possible appeals, the resources of the parties and the Commission will be appropriately conserved.

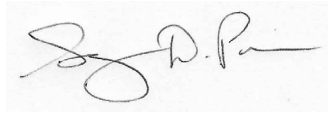
34. Approval of the Joint Settlement Petition will provide for two years of rate stability and certainty for customers of Verizon's stand-alone basic residential and business services in both noncompetitive and competitive wire centers, as well as other valuable consideration to customers as described herein.

35. The Parties have attached individual Statements in Support to this Joint Settlement Petition. Verizon's Statement in Support is attached as Exhibit A. OCA's Statement in Support is attached as Exhibit B. OSBA's Statement in Support is attached as Exhibit C.

V. CONCLUSION

36. Wherefore, the Parties to this Joint Settlement Petition, intending to be legally bound, respectfully request that the Commission approve without modification the terms of this Joint Settlement Petition as the resolution of the issues described herein.

Respectfully submitted,



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Attorney for the Office of
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Date: April 8, 2022

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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Office of Consumer Advocate v. Verizon Pennsylvania LLC	:	Docket No. C-2019-3014285

**VERIZON’S STATEMENT IN SUPPORT OF THE
JOINT SETTLEMENT PETITION**

On April 8, 2022, the parties to this proceeding submitted a Joint Settlement Petition pursuant to 52 Pa. Code § 5.232 setting forth their unanimous agreement to settle all of the issues in the above-captioned proceedings. Verizon Pennsylvania LLC (“Verizon PA”) and Verizon North LLC (“Verizon North”) (together “Verizon”) submit this statement in support of the settlement, to be attached to the Joint Settlement Petition. Verizon urges the Commission to approve this unanimous settlement. Resolution of this

proceeding through settlement will conserve Commission and party resources by avoiding further litigation. This settlement provides a reasonable resolution of the disputed issues and will provide benefits to Verizon’s customers of residential and business stand-alone basic service and certainty on particular matters for future filings. This settlement is in the public interest and should be approved without modification.

I. BACKGROUND

This proceeding involves the filings made by Verizon PA and Verizon North to implement both companies’ 2019 and Verizon PA’s 2020 Price Change Opportunities (“PCOs”) under the terms of their Commission-approved Chapter 30 Alternative Regulation Plans and the requirements of the Chapter 30 statute to calculate the allowed inflation-based annual change to revenue from rates for noncompetitive services and any proposed rate changes to recover that revenue.

The alternative form of regulation for incumbent local exchange companies authorized by Chapter 30 of the Public Utility Code, 66 Pa. C.S. § 3011, et seq. (and predecessor statute), completely replaced traditional rate-of-return regulation for services under this Commission’s jurisdiction. Verizon PA has been under Chapter 30 alternative regulation since the mid 1990’s while Verizon North’s initial Chapter 30 plan was approved in 2002. For services designated by the Commission as “noncompetitive” (a statutory term), any rate changes are governed by a price stability mechanism (“PSM”) set forth in the company’s alternative regulation plan, also known as the PCO.¹

On November 1, 2018, Verizon PA made its annual filing for its 2019 PCO, notifying the Commission that the price cap mechanism in the company’s Chapter 30 plan

¹ Only services designated as “noncompetitive” are subject to the PCO process for rate changes. Services designated as “competitive” have complete pricing flexibility under Chapter 30 and their rates can be changed at any time at the company’s discretion. 66 Pa. C.S. § 3019(g).

allowed the company to increase revenue from noncompetitive services by \$1,303,000, which Verizon PA proposed to implement by increasing rates for noncompetitive residence and business services to obtain \$944,700 and to bank the remaining \$358,300 of the revenue increase opportunity. Verizon PA's filing also contained calculations relating to its bank and the use of the banked 2003 PCO to cover its annual payment to the state Universal Service Fund ("USF"), which are discussed in more detail below. Verizon North's 2019 PCO filing was also made on November 1, 2018, notifying the Commission that the price cap mechanism in the company's Chapter 30 plan allowed it to increase revenue from noncompetitive services by \$246,000. Verizon North made two alternative rate increase proposals (depending on whether the Commission allowed it to transfer banked opportunities to Verizon PA), but in its order entered December 20, 2018 the Commission rejected the first proposal and approved (subject to refund) the second proposal. The approved alternative was for an aggregate increase to rates for noncompetitive residence and business services totaling \$438,300, utilizing a combination of the 2019 PCO and banked opportunities.

On November 8, 2018, OCA filed complaints against Verizon PA's and Verizon North's 2019 PCO filings. On November 14, 2018, OSBA filed complaints against Verizon PA's and Verizon North's 2019 PCO filings. By two separate orders entered December 20, 2018, the Commission found Verizon PA's and Verizon North's 2019 PCO filings to be "procedurally consistent with [their] Commission-approved Amended Chapter 30 Plan[s]" and permitted the rate changes to go into effect as filed and remain in effect subject to refund pending adjudication of the formal complaints.

On November 1, 2019, Verizon PA made its 2020 PCO filing, notifying the Commission that the price cap mechanism in the company’s Chapter 30 plan allowed it to increase revenue from noncompetitive services by \$1,393,000. Verizon PA did not propose any rate changes in its 2020 PCO filing, but rather proposed to bank its 2020 PCO rate increase opportunity and use it to permanently offset a portion of its banked negative 2003 PCO. Verizon PA’s filing also contained calculations relating to its bank and the use of the banked 2003 PCO to cover its annual payment to the state USF.

On November 14, 2019, OCA filed a formal complaint against Verizon PA’s 2020 PCO and on December 6, 2019, OSBA intervened in that case.² By order entered January 16, 2020, the Commission found Verizon PA’s 2020 PCO filing to be “procedurally consistent with its Commission-approved Amended Chapter 30 Plan” and permitted the rate changes to go into effect as filed and remain in effect subject to refund pending adjudication of the formal complaint.

The complaints raise two issues with respect to Verizon’s PCO filings.³

First, OCA’s complaints against Verizon PA’s 2019 and 2020 PCO filings raise the “USF Gap Interest Issue,” which relates to the interest rate to be used in calculations to implement the ongoing process approved by Commission order entered October 11, 2005, allowing Verizon PA to use the banked negative value of its 2003 PCO to off-set Verizon PA’s USF payment each year.⁴ When the Commission originally approved this process, the banked value of the 2003 PCO was negative \$17.5 million. Over the years, however,

² No complaints were filed against Verizon North’s 2020 PCO filing or against Verizon PA’s or Verizon North’s 2021 and 2022 PCO filings.

³ A third issue (relating to the use of Verizon North’s bank) was already resolved by the Commission’s December 20, 2018 Order.

⁴ *Verizon Pennsylvania Inc.’s 2005 Price Change Opportunity*, Docket No. P-0093715 (Opinion and Order entered October 11, 2005).

Verizon PA has reduced the banked negative value by offsetting it with banked positive rate increase opportunities (i.e., foregoing rate increases) so that the current value in the bank following implementation of Verizon PA's 2022 PCO is negative \$8.4 million. Verizon PA's USF payments have also decreased over time. OCA's issue relates to the interest rate used in the banking calculations in the event that the USF payment for that year is not large enough to off-set the entire one-year negative value of the 2003 PCO, which occurred in the 2019 and 2020 PCOs. This difference (if there is one) is referred to as the USF "gap." Verizon PA's Chapter 30 plan requires it to apply "interest at a rate set forth in 66 Pa. C.S. §1308." To date, Verizon PA has calculated interest on the USF gap using the U.S. Treasury securities 20-year constant maturity rate and the Commission has approved the interest calculations every time there was a USF gap. OCA alleges that this source for the interest rate does not comply with 66 Pa. C.S. §1308. The parties have agreed on another interest rate source to be used going forward and on language to be added to both companies' Chapter 30 plans to state that source.

Second, OCA's and OSBA's complaints against Verizon PA's and Verizon North's 2019 PCO filings contend that Verizon should have made an adjustment to its calculations that year for an "exogenous event," based upon the effect of the changes in federal tax law enacted at the end of 2017, popularly known as the "Tax Cuts and Jobs Act" or "TCJA." Verizon asserts that its Chapter 30 plans do not require or permit any "exogenous event" adjustment relating to the effects of tax changes such as the TCJA. Consistent with the settlement of the similar complaints against the United Telephone Company of Pennsylvania d/b/a CenturyLink ("CenturyLink"), which were approved by Commission Order entered January 13, 2022 at Docket Nos. C-2018-3005400, etc., the Parties have

“agreed to disagree” on the merits of this issue and reached a unanimous settlement of all issues raised in the complaints.

II. TERMS OF THE SETTLEMENT

The parties have reached a comprehensive, unanimous settlement resolving all of the issues to be decided in this proceeding. The settlement resolves all of the issues raised in the complaints against Verizon’s 2019 and 2020 PCO filings and provides certainty on future PCO filings.

The full details of the settlement are described in the Joint Settlement Petition. In summary, the parties agreed as follows:

- The Settlement is in full satisfaction of all issues raised in the above-captioned complaints against Verizon’s 2019 and Verizon PA’s 2020 PCO filings.
- Verizon PA will revise its Chapter 30 plan in the section relating to banking to specify the agreed-upon source for the interest rate to be used going forward and Verizon North will make the same change to its Chapter 30 plan. Effective with the 2023 PCO and forward, the above interest rate will be used to calculate interest on the USF gap, to the extent there is such a gap.
- The parties agree on rate stability with Verizon PA’s and Verizon North’s 2023 and 2024 PCO filings, as follows:
 - With their 2023 and 2024 PCO filings, Verizon PA and Verizon North will not increase the rates for their non-competitive stand-alone residential and business services.
 - To the extent an allowed increase in revenues is indicated by Verizon PA’s 2023 and/or 2024 PCOs, Verizon PA will bank the revenue increase opportunity and will net this entire banked amount against the balance of the banked negative 2003 PCO, with the goal of reducing that negative balance.
 - To the extent an allowed increase in revenues is indicated by Verizon North’s 2023 PCO, Verizon North will neither implement the revenue increase nor bank the amount. To the extent an allowed increase in revenues is indicated by Verizon North’s 2024 PCO, Verizon North will bank this amount for future use in accordance with its Chapter 30 plan.

- OCA and OSBA will not oppose Verizon’s 2023 or 2024 PCO filings on the bases raised in the complaints against the 2019 and 2020 PCOs, including but not limited to the claim that an exogenous event adjustment is required due to the effect of the TCJA.
- With respect to their rates for competitively classified stand-alone residential and business services (the same services subject to the PCO but offered in competitive wire centers) Verizon PA and Verizon North will not increase these rates above the rate for the corresponding non-competitive service before January 1, 2025.
- With regard to Verizon PA’s use of the ongoing negative value of its 2003 PCO to support its payments to the Pennsylvania USF:
 - Per the Commission’s Order in Docket Nos. P-00930715 and P-0001854 entered October 11, 2005, Verizon PA will continue to request permission in its 2023 and 2024 PCO filings to use the ongoing negative value of its 2003 PCO to support its payments to the USF and OCA and OSBA will not oppose those requests.
 - Four to three months before Verizon PA makes its 2025 PCO filing, Verizon PA, OCA, and OSBA will meet to review and discuss Verizon PA’s proposal, if any, to request recovery of its USF payment as part of the 2025 PCO filing. Verizon PA will identify the amount of the USF Assessment and the amount and type of revenues used to calculate the USF Assessment. The Parties will also discuss Verizon PA’s plans, if any, regarding the remaining balance of the 2003 PCO. The meeting(s) and discussion may facilitate good faith negotiations by the Parties of a proposed agreement regarding how the remaining value of the 2003 PCO (after the 2024 PCO filing) should be used going forward.
- The parties agree as follows regarding a newly discovered Verizon North rate implementation error:
 - Verizon North discovered an error in the implementation of the business dial tone line rate increases approved for the 2019 PCO by which it has been undercharging for the business dial tone line rate since March 1, 2019 as follows:

Time Period	Rate Approved	Rate Actually Charged
3/1/19 to 2/28/22	\$25	\$22.75

- For the 2022 PCO the Commission approved a \$1 increase to Verizon North’s business dial tone line rate, which would have increased the tariffed rate from \$25 to \$26, but Verizon North discovered this error

before the increase took effect. On February 22, 2022, Verizon North filed a tariff revision to reduce the tariffed dial tone line rate to \$23.75 effective March 1, 2022 (i.e., implementing the approved \$1 increase on the rate that was actually being charged).

- As part of this settlement Verizon North agrees not to attempt to collect from its business dial tone line customers for the under-billing from March 1, 2019 to February 28, 2022, as would be permitted by 52 Pa. Code § 64.19, and not to seek permission to make an adjustment to its bank to restore the money that it did not collect in rates due to this error.
 - Verizon North will not seek to increase the \$23.75 business dial tone line rate before the 2025 PCO.
 - OSBA and OCA will not oppose Verizon North’s reduction of the business dial tone line rate to \$23.75.
- The Settlement is not an admission by any Party that the effect of the changes in federal tax law enacted at the end of 2017 popularly known as the “Tax Cuts and Jobs Act” or “TCJA” are or are not an “exogenous event” under Verizon PA’s or Verizon North’s Chapter 30 Plans and the parties agree to disagree on this issue. The Settlement is proffered to settle the instant case; it may not be cited as precedent in any future proceeding, except to the extent required to implement any term specifically agreed to by the Parties. The Settlement is made without any admission against, or prejudice to, any position that any of the Parties might adopt in future proceedings, except to the extent necessary to effectuate or enforce any term specifically agreed to in the Settlement.
 - The Settlement is expressly conditioned upon the Commission’s approval, without modification, of all of its specific terms and conditions. If the Commission should fail to grant such approval, or should modify any material term or condition, any Party may elect to withdraw, in whole or in part, from this agreement upon written notice to the Commission and the other Parties within 20 calendar days of issuance of an adverse final Commission order. In that event, each of the Parties shall have all legal rights that they may have waived by agreeing to this Settlement.

III. THIS SETTLEMENT IS IN THE PUBLIC INTEREST AND SHOULD BE APPROVED

“It is the policy of the Commission to encourage settlements.” 52 Pa. Code §

5.231(a). The parties to this proceeding include the companies and advocates representing the interest of consumers and small business customers. They have

thoroughly examined the record and the competing legal, policy and factual arguments and have reached a reasonable compromise of the disputed issues in this matter.

Consistent with the structure approved by the Commission in *Office of Consumer Advocate v. United Telephone Company of Pennsylvania d/b/a CenturyLink*, Docket Nos. C-2018-3005400, etc. (Opinion and Order entered January 13, 2022) (“*CenturyLink Order*”), the parties have agreed to disagree on the issue of whether an “exogenous event” occurred requiring adjustment under the relevant plans and instead have agreed upon settlement terms that provide a public benefit. As the Commission observed, this is an acceptable basis for settlement based on “the very nature of a settlement, which reflects a compromise among the settling parties,” and the terms should “balance[] the concerns of all Parties involved” and be “in the public interest.” *CenturyLink Order* at 65. This settlement is in the public interest for several reasons.

Approval of this settlement will conserve party and Commission resources by avoiding further litigation and possible appellate proceedings and will provide for a reasonable resolution of the 2019 and 2020 PCO filings, taking into account the costs and risks of litigation. It will also provide certainty as to issues relating to the Verizon’s upcoming 2023 and 2024 PCO filings, thereby reducing the prospect of future litigation. The agreement also ensures that the parties will discuss the 2025 PCO filing in advance, which increases the likelihood that litigation can be avoided for that filings as well. The rate stability agreement, together with the terms relating to the interest rate calculation, the use of the banked negative 2003 PCO and the correction of Verizon North’s rate implementation error also serve to avoid future litigation and uncertainty over these issues. As the Commission concluded in the *CenturyLink Order*, “we concur with the

Joint Petitioners that the Settlement provides the benefit of conserving resources. More specifically, the Settlement will result in significant savings of time and expenses for all parties involved by avoiding the necessity of further administrative proceedings, as well as possible appellate court proceedings.” *CenturyLink Order* at 69.

The settlement also ensures that Verizon’s rates for noncompetitive basic standalone residential and business services will remain at their current levels through at least January 1, 2025. Verizon has also agreed to extend this rate stability to its competitive standalone basic residential and business services (the same services subject to the PCO, but offered in competitive wire centers where Verizon has full pricing flexibility for these services). As the Commission concluded in the *CenturyLink Order*, a period of “rate stability” resulting from an agreement not to increase rates through the PCO process provides a public benefit. *CenturyLink Order* at 68-69. In addition, by avoiding changes to the already implemented rate increases from the 2019 PCO, the settlement will avoid customer disruption and confusion. The terms regarding the correction of Verizon North’s billing error also benefit business customers by avoiding possible back-billing.


Accordingly, this settlement is in the public interest and should be approved without modification. If the settlement is approved by the presiding officer without modification, the parties have agreed to waive exceptions and reply exceptions, allowing for a prompt resolution of this matter by the Commission.

IV. CONCLUSION

For the foregoing reasons, Verizon respectfully requests that the Commission approve the Joint Settlement Petition without modification as the resolution of this proceeding.

Date: April 8, 2022

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Suzan D. Paiva", is written over a light gray rectangular background.

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LLC and Verizon North LLC

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Verizon Pennsylvania LLC 2019 Price Change Opportunity Filing	:	Docket No. R-2018-3005792
Office of Consumer Advocate v. Verizon Pennsylvania LLC	:	Docket No. C-2018-3005972
Office of Small Business Advocate v. Verizon Pennsylvania LLC	:	Docket No. C-2018-3006035
Verizon North LLC 2019 Price Change Opportunity Filing	:	Docket No. R-2018-3005793
Office of Consumer Advocate v. Verizon North LLC	:	Docket No. C-2018-3005977
Office of Small Business Advocate v. Verizon North LLC	:	Docket No. C-2018-3006040
Verizon Pennsylvania LLC 2020 Price Change Opportunity Filing	:	Docket No. R-2019-3014032
Office of Consumer Advocate v. Verizon Pennsylvania LLC	:	Docket No. C-2019-3014285

**STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF SETTLEMENT**

The Office of Consumer Advocate (OCA) is a signatory party to the Joint Petition for Settlement (Settlement) of the formal complaints of the OCA against the separate Verizon Pennsylvania LLC (Verizon PA) and Verizon North LLC (Verizon North; collectively Verizon)

2019 Price Change Opportunity (PCO) filings and Verizon PA's 2020 PCO filing. The OCA finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

I. INTRODUCTION

On December 22, 2017, the federal Tax Cut and Jobs Act (TCJA) was signed into law. The TCJA reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent. Tax Cuts and Jobs Act of 2017, Pub.L.No. 115-97, 131 Stat. 2054. In February 2018, the Public Utility Commission commenced a proceeding "to seek to determine the effects of the TCJA on the tax liabilities of Commission-regulated public utilities for 2018 and future years and the feasibility of reflecting such impacts in the rates charged to Pennsylvania utility ratepayers." Re: Tax Cuts and Jobs Act, Docket No. M-2018-2641242, Secretarial Letter (Feb. 12, 2018).

On November 1, 2018, Verizon PA and Verizon North filed their respective PCO filings and proposed tariffs, pursuant to each company's Amended Alternative Regulation Plan (Chapter 30 Plans). Based on its Chapter 30 Plan price cap mechanism, Verizon PA calculated an allowed increase in annual revenues for non-competitive services of \$1,303,000. Verizon North calculated an allowed increase of \$246,000. The Verizon PA and Verizon North 2019 PCO filings each proposed tariffs, to increase rates for residence and business dial tone lines.

On November 8, 2018, the OCA filed formal complaints against the Verizon PA and Verizon North 2019 PCO 2019 and proposed rate increases. The OCA complaints challenged the PCO filings that did not but should have included an adjustment to recognize tax savings arising from the TCJA. The OCA complaint also alleged that Verizon PA did not apply the proper rate of interest in its banking adjustment. The OCA opposed Verizon's proposed cross-

company sharing of Verizon North's bank of allowed revenue increases. The Office of Small Business Advocate filed formal complaints in each case on November 14, 2018.

The Commission entered Orders on December 20, 2018 which deemed the Verizon PA and Verizon North 2019 PCO filings as "procedurally consistent" with their respective Chapter 30 Plans. The Commission rejected the proposed cross-company sharing of Verizon North's bank. This resolved one element of the OCA complaints. The Commission allowed Verizon PA and Verizon North to increase rates for non-competitive services, subject to resolution of the balance of the pending OCA and OSBA complaints.

On November 1, 2019, Verizon PA filed its 2020 PCO filing. Based on its Chapter 30 Plan price cap mechanism, Verizon PA calculated an allowed increase in annual revenues for non-competitive services of \$1,393,000. On November 14, 2019, the OCA filed a formal complaint against the Verizon PA 2020 PCO filing, alleging that the proper interest rate was not applied as part of the banking process.

The Commission described Verizon PA's 2020 PCO filing as "procedurally consistent" with its Chapter 30 Plan by Order entered January 16, 2020, subject to resolution of the OCA formal complaint.

The OCA and OSBA formal complaints were assigned to the Office of Administrative Law Judge and further assigned to Administrative Law Judge Dennis Buckley. Verizon PA filed Preliminary Objections, which the OCA opposed, and ALJ Buckley denied. The parties engaged in discovery. The presiding ALJ granted the parties' requests for additional time, prior to further litigation.

In accordance with the Commission's Rules and Regulations at 52 Pa. Code § 5.231, the parties undertook discussions in an attempt to reach a settlement. On March 18, 2022, the parties informed ALJ Buckley that a settlement in principle had been reached on all remaining issues.

The OCA submits that the terms and conditions of the Settlement are in the public interest and should be approved. The OCA addresses the key provisions of the Settlement as set forth below.

II. SETTLEMENT

A. The Settlement Agreement Benefits Verizon PA's and Verizon North's Ratepayers and Is in the Public Interest.

Verizon PA's Chapter 30 Plan contains a price change opportunity formula which determines what change in revenues and rates for intrastate, non-competitive services is allowed or required, based in part on the one year change in the GDP-PI. Verizon North's Chapter 30 Plan contains a similar formula. Both Chapter 30 Plans address the possible adjustment for external changes or exogenous events which might also be factored into the PCO calculation, with variations in the wording. The Verizon PA and Verizon North Chapter 30 Plans also include provisions regarding the banking of allowed changes revenue changes and cite to Section 1308 of the Public Utility Code to determine the appropriate interest rate.

The OCA submits that the Settlement provides benefits to the Companies' ratepayers and provides a reasonable resolution to complex and difficult issues. The Settlement addresses the prime concern that Verizon PA's and Verizon North's rates for non-competitive services must be just and reasonable. The Settlement is in the public interest because it provides specific benefits to Verizon PA ratepayers and to Verizon North ratepayers.

Verizon Residential and Business Non-Competitive Service Customers

Specifically, Verizon PA's and Verizon North's residential and business customers who rely on non-competitive services will experience rate stability in 2023 and 2024 as part of the Settlement. Verizon PA and Verizon North each agree that that will be no increase in rates proposed with their 2023 and 2024 PCO filings.

The Settlement provides rate stability for Verizon PA residential and business stand-alone non-competitive service customers. Verizon PA agrees that it will not propose increases to these rates as part of Verizon PA's 2023 and/or 2024 PCO filings. To the extent these PCO filings indicate an allowed increase in revenues, Verizon PA will bank those increases and offset the amounts against the remaining balance of the 2003 negative PCO. This reduces the likelihood that Verizon PA will add positive amounts to its bank, amounts which could be implemented as rate increases in the future.

The Settlement also provides rate stability for Verizon North residential and business stand-alone non-competitive service customers. Verizon North agrees that it will not propose increases to these rates as part of Verizon North's 2023 and/or 2024 PCO filings. Verizon North's non-competitive service ratepayers will also benefit from Verizon North's commitment to not use its existing bank to increase rates in 2023 and 2024. Further Verizon North's 2023 PCO filing will not bank the amount of any allowed increase in revenues.

The Settlement also provides a benefit for Verizon North business customers, to the extent Verizon North identified an alleged under-billing as part of implementation of a prior rate increase. The Settlement provides certainty that those rates as implemented and billed will not be subject to a request for re-billing or revision.

Verizon Banking Provisions and Interest Rate

The Settlement identifies the source for an interest rate to apply as part of Verizon PA's and Verizon North's Chapter 30 Plan banking provisions going forward, through amendment of the respective Chapter 30 Plans. As a practical matter, the application of an interest rate has been a recurring part of Verizon PA's accounting for the remaining value of its 2003 negative PCO balance. Verizon PA has annually requested Commission approval to use the one-year value of the 2003 negative PCO to offset Verizon PA's annual payment to the Pennsylvania Universal Service Fund. Some years, that includes a calculation of interest owed.

The Parties have agreed that Verizon PA and Verizon will amend their Chapter 30 Plans to specify that the interest rate for banking will be the sum of the Monthly Index of Long Term Government Bond Yields Calculated by the Pennsylvania Secretary of Banking and published each August in the Pennsylvania Bulletin plus 1.25%.

This Settlement term will provide regulatory certainty going forward. This provision addresses a part of the OCA formal complaints.

Verizon PA's Future Disposition of the 2003 Negative PCO Remaining Balance

The remaining balance of Verizon's 2003 negative PCO is addressed annually in Verizon PA's PCO filing. In addition to the provisions regarding Verizon PA's 2023 and 2024 PCOs and the change in interest, the Parties agree to engage in an exchange of information and meeting several months prior to Verizon PA's filing of its 2025 PCO filing. This provision of the Settlement should help the Parties understand and informally address any concerns regarding Verizon PA's proposed disposition of the 2003 negative PCO balance (that remains after the 2024 PCO filing) in advance of Verizon PA's 2025 PCO filing.

Collectively, these Settlement terms which address Verizon PA's 2003 negative PCO provide regulatory certainty and encourage collaboration to avoid or minimize future disputes.

Verizon PA and Verizon North Residential and Business
Single-Line Competitive Services and Rates

Verizon PA and Verizon North commit to not increase their rates for competitively classified stand-alone residential and business services, as offered in competitive wire centers, above the corresponding rate for non-competitive services before January 1, 2025.

The OCA submits that this a bargained for term of the Settlement which provides public benefits to residential and business customers who rely upon Verizon PA or Verizon North for service, even if they are in competitive wire centers. This provision provides important price stability for these consumers.

B. The Settlement Merits Approval by the Commission

The OCA submits that the Settlement provides benefits to Verizon PA and Verizon North residential and business customers and provides a reasonable resolution to complex and difficult issues. The Settlement addresses the prime concern that Verizon PA's and Verizon North's rates for non-competitive services must be just and reasonable.

The Settlement provides a mutually-agreed upon resolution of this broad question, without the expense and administrative burden of full litigation. Litigation of the Verizon PA 2019 and 2020 PCO filings, the Verizon North 2019 PCO filing, and the OCA and OSBA Formal Complaints would involve complex issues of fact, pertaining to financial and tax records and jurisdictional allocations, as well as interpretation of each company's Chapter 30 Plan price cap formula language, including exogenous event provisions. Litigation of the complex, contested issues would have involved more time, expense, and administrative resources to arrive at an answer to the same question concerning what rates are just and reasonable.

The Settlement provides benefits and certainty as to the rates or prices which Verizon PA and Verizon North residential and business single-line customers will pay through the end of 2024. The Settlement also provides a negotiated path for clarification of issues related to the proper interest rate for banking and Verizon PA's disposition of the remaining balance of the 2003 negative PCO in coming years.

III. CONCLUSION

The OCA submits that the terms and conditions of the proposed Settlement of these Verizon PA and Verizon North PCO filings, and the OCA and OSBA Formal Complaints represent a fair and reasonable resolution of the issues raised by the OCA in these proceedings. The OCA respectfully requests that the Commission approved the Settlement, without modification, as in the public interest.

Respectfully Submitted,



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April 8, 2022
326693

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :
:
:
v. : **Docket No. R-2018-3005792**
:
VERIZON PENNSYLVANIA LLC :

PENNSYLVANIA PUBLIC UTILITY COMMISSION :
:
:
v. : **Docket No. R-2018-3005793**
:
VERIZON NORTH LLC :

PENNSYLVANIA PUBLIC UTILITY COMMISSION :
:
:
v. : **Docket No. R-2019-3014032**
:
VERIZON PENNSYLVANIA LLC :

**STATEMENT OF
THE OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE
JOINT SETTLEMENT PETITION**

Introduction

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. Pursuant to that statutory authority, the Office of Small Business Advocate (“OSBA”) filed

complaints against Verizon PA's and Verizon North's 2019 Price Change Opportunity ("PCO") filings, and a Notice of Intervention in Verizon PA's 2020 PCO filing.

The OSBA actively participated in the negotiations that led to the proposed settlement and is a signatory to the Joint Settlement Petition ("*Joint Settlement Petition*"). The OSBA submits this statement in support of the *Joint Settlement Petition*.

The *Joint Settlement Petition*

The *Joint Settlement Petition* sets forth a list of issues that were resolved through the negotiation process. The following issues were of particular significance to the OSBA when it concluded that the *Joint Settlement Petition* was in the best interests of the small business customers of Verizon PA and Verizon North (collectively, "Verizon").

The TCJA and Exogenous Events

If the OSBA complaints against the Verizon PA and Verizon North 2019 PCO filings were fully litigated, the OSBA would have argued that the "Tax Cuts and Jobs Act" or "TCJA" would have been an exogenous event that would have required Verizon to reduce its non-competitive rates to reflect the reduction in federal taxes paid by both companies. Such a reduction in rates would have been necessary in order for those rates to be just and reasonable.

However, for purposes of settling this difficult and contentious issue, the OSBA is agreeing to follow the guidance set forth by the Commission in a recent CenturyLink case:

[W]e shall decline to reach a determination in this proceeding as to whether the TCJA qualifies as an exogenous event under the Company's Chapter 30 Plan. Rather, we reinforce that our focus in this proceeding is examining the Settlement on its merits to determine whether it is in the public interest.

The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink 2018 Annual Price Stability Index/Service Price Index Report Filing, Docket No. R-2018-3004019 (Order entered January 13, 2022), at 55.

Consequently, for purposes of this case, the OSBA is willing to forego litigation of whether the TCJA constitutes an exogenous event for purposes of Verizon's annual PCO filings.

Future Non-Competitive Service Rate Increases

The *Joint Settlement Petition* proposes, in exchange for setting aside the issue of the impact of the TCJA, that both Verizon PA and Verizon North will forego any possible rate increases for their small business customers in the companies' 2023 and 2024 PCO Filings. *Joint Settlement Petition*, at Paragraph 23(a).

This rate freeze is of great value to small business customers of both Verizon companies. The Office of ALJ and the Commission are well aware of the impacts of the COVID-19 Pandemic, supply chain problems, and the resulting rising inflation. Simply put, Commonwealth small businesses are faced with significant difficulties on a day-to-day basis, with the added burden of increasing small business rates that result from the annual Verizon PCO filings. The *Joint Settlement Petition's* proposed rate freeze would come at a welcome time for Verizon's small business customers. Furthermore, a multi-year rate freeze allows other promising technological developments to come to fruition, including broadband networks made possible by a variety of federal broadband programs.

Future Competitive Service Increases

The *Joint Settlement Petition* also proposes a rate freeze on *competitive* small business rates until January 1, 2025. *Joint Settlement Petition*, at Paragraph 24. Although Verizon's annual PCO filings do not address competitive service rates, this additional term is, for reasons

identical to the non-competitive serve rates, of great value to Verizon's small business customers and proposes a rate freeze that, absent settlement, would not be within the OSBA's authority to achieve. Any such rate freeze will allow Verizon's small business customers a window of opportunity to address the difficulties that have cropped up over the past two years, while small businesses hope for greater competitive alternatives in the future.

The OSBA fully supports this additional settlement term.

The Verizon North Rate Correction

Verizon North has discovered that it has been undercharging its small business customers for their dial tone rate since March 1, 2019. The *Joint Settlement Petition* proposes to correct that error, but not have Verizon North's small business customers pay for that error by increasing their rates. *Joint Settlement Petition*, at Paragraph 26.

The OSBA fully supports this additional settlement term.

Conclusion

For the reasons set forth in the *Joint Settlement Petition*, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed *Joint Settlement Petition* and respectfully requests that the ALJ and the Commission approve the *Joint Settlement Petition* in its entirety.

Respectfully submitted,

/s/ Steven C. Gray

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Dated: April 8, 2022