

**PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120**

Public Meeting held December 22, 2022

Commissioners Present:

Gladys Brown Dutrieuille, Chairman
Stephen M. DeFrank, Vice Chairman
Ralph V. Yanora
Kathryn L. Zerfuss
John F. Coleman, Jr.

Verizon North LLC
2023 Price Change Opportunity Filing

R-2022-3036475

Verizon North LLC Amended Alternative
Regulation and Network Modernization Plan

P-00001854F1000

ORDER

BY THE COMMISSION:

I. BACKGROUND

Before us for disposition is Verizon North LLC's (Verizon North or Company) annual 2023 Price Change Opportunity (PCO) filing. The Company's filing was made under the provisions of Act 183 of 2004, P.L. 1398 (66 Pa.C.S. §§ 3011-3019) (Chapter 30) and pursuant to the Company's Amended Alternative Regulation and Network Modernization Plan (Amended Chapter 30 Plan) that this Commission approved at Docket No. P-00001854F1000.¹

As a result of the passage of Act 183 of 2004, companies with that filed Chapter 30 Plans with the Commission were entitled to amend them with significantly lower inflation offset values within their respective price cap formulas in exchange for a commitment to accelerated broadband deployment. Consequently, inflation offsets previously ranging from 2% to 2.93% in those initial Chapter 30 Plans were reduced to

¹ *Final Alternative Regulation and Network Modernization Plan of Verizon North LLC*, Docket Nos. P-00981449, P-00001854F1000, and R-00051227, finalized in compliance with the Commission's Orders entered July 26, 2001, and April 11, 2002, and revised on October 10, 2002. Further revised in compliance with the Commission's Orders entered May 20, 2005; April 25, 2007; April 14, 2008; and May 27, 2008.

either 0% or 0.5%, depending on each company's Amended Chapter 30 Plan filing. In Verizon North's case, the inflation offset was reduced from 2.5% to 0.5%. Accordingly, annual PCO filings have the potential for substantial revenue and rate impacts on end-user consumers.

Under the Company's Price Stability Mechanism (PSM), the PCO calculates the allowable change (increase or decrease) in rates for noncompetitive services based on the annual change in the Gross Domestic Product Price Index (GDP-PI). The PSM also contains special provisions for protected services and addresses revenue neutral adjustments to the rates of noncompetitive services. The PSM set forth in Verizon North's Chapter 30 Plan is a complete substitution of the rate base/rate-of-return regulation. Noncompetitive services are defined as regulated services or business activities that have not been determined or declared to be competitive. Further, the Company's Chapter 30 Plan acknowledges that nothing in its Plan shall be construed to limit the requirement under 66 Pa.C.S. § 1301 that rates shall be just and reasonable.

II. COMPANY'S FILING

On November 1, 2022, Verizon North made its annual PCO filing using the change in 2021 and 2022 first quarter GDP-PI of 7.18%. After deducting the inflation offset of 0.5%, this equates to a preliminary 2023 PCO amount of \$643,000 based on noncompetitive services revenues of \$9,632,908.

Verizon North states that, consistent with its 2016 - 2022 PCO filings, the Residential Exchange, Business Exchange and Billing Services revenues included in its 2023 PCO base have been adjusted to reflect this Commission's Order entered March 4, 2015, *In re Joint Petition of Verizon Pennsylvania LLC and Verizon North LLC for Competitive Classification of All Retail Services in Certain Geographic Areas and for a Waiver of Regulations for Competitive Services* at Docket Nos. P-2014-2446303 and P-2014-2446304 (*Reclassification Order*). The *Reclassification Order*, *inter alia*, granted competitive classification of basic local exchange services in 153 of the 194 wire centers included in the Petition. Verizon North avers that it was able to isolate the

revenues associated with the wire centers affected by the *Reclassification Order* and that the Exchange and Billing revenues included in the PCO base calculation reflect only those from noncompetitive wire centers.²

Part 3.A.12 of the Company's Amended Chapter 30 Plan states as follows:

If historical line counts (defined as the actual line counts from a point in time before the rate changes went into effect) are used to determine the magnitude of the rate changes that implement a Price Change Opportunity], then Verizon [North] will include in its next [PCO] filing . . . an adjustment to noncompetitive revenue representing the difference between the amount of revenue projected to be collected using historical line counts and the amount of revenue projected to be collected using actual lines . . . on the mid-point of the first year of [PCO] implementation. Any changes to rates resulting from this true-up will be reflected in the next [PCO] filing.

Based on this provision above, the Company's 2023 PCO includes a true-up adjustment to account for a revenue shortfall of \$16,000 from its 2022 PCO. When added to the preliminary PCO of \$643,000, the addition of the true-up adjustment results in a final 2023 PCO of \$659,000.

Consistent with the Commission-approved Protective Order entered December 15, 2011, at Docket Nos. P-2011-2275803, P-2011-2270788, P-2011-2275730, and P-2011-2270786, and pursuant to 52 Pa. Code § 5.365, the Company has marked specific information in its filing as proprietary.

Verizon North is not proposing any rate changes in its 2023 PCO filing.

² Verizon North indicated that this revenue separation was effectuated through the use of the NPA-NXX numbering codes for the competitively classified wire centers, the development of appropriate data base queries including "an indicator designating each wire center as competitive or noncompetitive," and the performance of various data tests. Verizon North 2016 PCO Filing, Docket No. R-2015-2510233, Executive Summary, October 22, 2015, at 1. *See also* Verizon North 2023 PCO Filing, Docket No. R-2022-3036475, Executive Summary, November 1, 2022.

III. DISCUSSION

1. Plan Provisions

Part 3.A.6-8 of Verizon North's Approved Amended Chapter 30 Plan states the following: "Each . . . annual filing may be accompanied by tariffs to implement any [rate changes]. Such tariffs will contain an effective date one hundred and five (105) days from the date of the filing A Commission Order must be entered within one hundred five (105) days of the filing; otherwise, the tariff(s) shall become effective as filed, and shall be deemed to be approved."

2. Calculations

The annual Verizon North PCO submissions under Chapter 30 must conform to its Commission-approved Amended Chapter 30 Plan. Our review of the calculations submitted by Verizon North indicates that they appear to be procedurally consistent with the terms of the Company's Price Stability Mechanism/Price Change Opportunity formula approved in its Amended Chapter 30 Plan at Docket Nos. P-00981449, P-00001854F1000, and R-00051227.

3. Banked Revenues

Part 3.E of the Company's Amended Chapter 30 Plan outlines the following banking methodology:

1. After 2001, annual price decreases calculated under the [PCO] filed may be banked for application in future years, not to exceed four (4) consecutive years.³ Such banking of decreases will be with interest at a rate set forth in 66 Pa. C.S. § 1308.
2. The banked price changes must be implemented no more than four (4) years after the annual price change is applied.

³ For annual price increases, the Company may apply them in future years, without limitation as to time.

3. If a decrease is greater than \$500,000, the Company will implement the decrease immediately.

Prior to its 2023 PCO filing, Verizon North had a banked amount of \$478,600. For its 2023 PCO, the Company had a total of \$659,000 available for increases. As discussed below, the Company will not be adding its 2023 PCO amount to its banked revenues.

4. 2008 PCO Settlement Agreement

Consistent with the Commission-approved June 6, 2008, Joint Settlement Agreement which resolved certain issues raised in the Verizon companies' 2008 PCO filings,⁴ Verizon North's 2023 PCO supporting data indicates the Company has consistently rounded inputs to the nearest penny and notes that no ITC Settlement Revenue⁵ is included in its noncompetitive revenue calculations. Based on the data provided, we are of the opinion that Verizon North's 2023 PCO calculations are consistent with the Joint Settlement Agreement approved by the Commission on September 25, 2008.

5. 2019 & 2020 PCO Settlement Agreement

By Order entered June 16, 2022, the Commission adopted the Office of Administrative Law Judge's Recommended Decision that approved, without modification, the Joint Petition for Settlement resolving all issues associated with the Office of Consumer Advocate's (OCA) and Office of Small Business Advocate's (OSBA) Formal Complaints against Verizon Pennsylvania LLC's (Verizon PA) and Verizon North's 2019 PCO filings, and the OCA's Formal Complaint and the OSBA's

⁴ See *Verizon Pennsylvania Inc.'s 2008 Price Change Opportunity Filing*, Docket Nos. P-00930715F1000, C-20078513, P-00001854F1000, and C-20078514 (Order entered September 25, 2008).

⁵ ITC Settlement Revenues are those payments made under agreements among Incumbent Local Exchange Carriers to account for services provided between the companies. In each of their previous PCO filings, the Verizon Companies had included these as part of their noncompetitive revenues. The Settlement Petition contains provisions for phasing these revenues out of future PCO calculations.

Intervention against Verizon PA's 2020 PCO filing.⁶ Part 23.a –c of the Joint Petition for Settlement states the following:

- 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

In its 2023 PCO filing, Verizon North did not increase any rates and will not add its 2023 PCO amount of \$659,000 to its bank. Therefore, we find that Verizon North's 2023 PCO filing is consistent with the terms of the 2019 & 2020 PCO Settlement Agreement. Verizon North's banked amount remains at \$478,600, which is available for future use.

IV. CONCLUSION

⁶ See *Verizon Pennsylvania LLC 2019 Price Change Opportunity Filing*, Docket No. R-2018-3005792; *Office of Small Business Advocate v. Verizon Pennsylvania LLC*, Docket No. C-2018-3006035; *Office of Consumer Advocate v. Verizon Pennsylvania LLC*, Docket Nos. C-2018-3005972; *Verizon North LLC 2019 Price Change Opportunity Filing*, Docket No. R-2018-3005793; *Office of Small Business Advocate v. Verizon North LLC*, Docket No. C-2018-3006040; *Office of Consumer Advocate v. Verizon North LLC*, Docket No. C-2018-3005977; *Verizon Pennsylvania 2020 Price Change Opportunity Filing*, Docket No. R-2019-3014032; and *Office of Consumer Advocate v. Verizon Pennsylvania LLC*, Docket No. C-2019-3014285 (Order entered June 16, 2022).

Our review of Verizon North's 2023 PCO filing indicates that it is in compliance with the terms of the 2008 PCO Settlement Agreement, the 2019 & 2020 PCO Settlement Agreement, and that the 2023 PCO calculations are procedurally consistent with the terms of the Company's Commission-approved Amended Chapter 30 Plan;

THEREFORE,

IT IS ORDERED:

1. That Verizon North LLC's 2023 PCO, filed on November 1, 2022, is accepted as being procedurally consistent with its Commission-approved Amended Chapter 30 Plan.
2. That a copy of this Order be served on Verizon North LLC, the Office of Consumer Advocate, the Office of Small Business Advocate, the Bureau of Investigation and Enforcement, and the Office of Administrative Law Judge.
3. That the case be marked closed.

BY THE COMMISSION,



Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: December 22, 2022

ORDER ENTERED: December 22, 2022