Description and Justification

1.0 INTRODUCTION

In connection with the May 17, 2011, Annual Filing early submission, the Verizon Telephone Companies[1] hereby submit limited Tariff Review Plan (TRP) pages and the necessary supporting data as required by the Commission[2] and in compliance with Sections 61.41 through 61.49 of the Commission's rules. Appendix A contains all documentation associated with the Verizon TRP under VZTC.

This filing reflects the effects of the exogenous cost adjustments associated with the Flow-through of Excess Deferred Taxes, the Flow-through of Investment Tax Credit Amortization, adjustments to Telecommunication Relay Service, adjustments to Regulatory Fee Obligations, and the North American Numbering Plan Administration.

The total effect on indices in this filing is an overall increase of $13,590,756 which reflects only the change in exogenous costs.

1.1 DESCRIPTION AND JUSTIFICATION

The Commission's Price Cap Plan employs a combination of caps on aggregates of service rates ("baskets") and maximum limits on prices in individual service categories ("bands"). Under this plan, Verizon services subject to Price Cap regulation are grouped into five baskets:

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[1]The Verizon Telephone Companies making this filing include: (a) Verizon Delaware LLC; Verizon Maryland Inc.; Verizon New England Inc.; Verizon New Jersey Inc.; Verizon New York Inc.; Verizon Pennsylvania Inc.; Verizon Virginia Inc.; Verizon Washington, D.C. Inc.; and (b) Verizon California Inc., Verizon Florida LLC, Verizon North LLC, Verizon South Inc., and GTE Southwest Incorporated d/b/a Verizon Southwest.

(1) Common Line
(2) Traffic Sensitive
(3) Trunking
(4) Special Access
(5) Interexchange (IX)

The Common Line basket includes CAP-1 adjustments for USAC Receipts. The Traffic Sensitive, Trunking, and Special Access Baskets also are subject to individual service-specific price bands.

The Traffic Sensitive Basket has six service bands:

(1) Local Switching
(2) Information
(3) Data Base Access Service (includes sub-index for 800 DataBase - Vertical Features)
(4) Billing Name and Address (BNA)
(5) Signalling Transfer Point Termination (STP*)*
(6) Trunk Ports

The Trunking Basket contains five service bands:

(1) Voice Grade (includes sub-indices for rate zones)
(2) High-Cap/Digital Data Services (includes DDS, DS1 and DS3 as well as sub-indices for DS1 and DS3 rate zones)
(3) Tandem-Switched Transport (includes sub-indices for rate zones)
(4) Interconnection
(5) Signalling Interconnection

The Special Access Basket contains four service bands:

(1) Voice Grade, Metallic, Telegraph, and WATS
(2) Program Audio and Video
(3) High-Cap/Digital Data Services (includes DDS, DS1 and DS3 as well as sub-indices for DS1 and DS3 rate zones)
(4) Wideband

For each basket of services, the Price Cap Plan places a ceiling on the aggregate revenue-weighted price changes.

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[2] *See* July 1, 2011 Annual Access Charge Tariff Filings Order, 2011 FCC (Mar. 31, 2011) and Material to be Filed in Support of 2011 Annual Access Tariff Filings, Tariff Review Plans, DA 11-570.

Following are subsections to this general section: Section 1.2 describes the development of the exogenous cost adjustments. Section 1.3 contains an index of the supporting workpapers.

The Price Cap and service band constraints were compared to an index of the aggregate revenue-weighted price changes within each basket (the Actual Price Index, or API) and an index of the revenue-weighted aggregate price changes of the rate elements that comprise each service category (the Service Band Index, or SBI). These indices were determined with reference to actual 2010 base period demand, appropriately adjusted to reflect services, tariff structures, and rates to be in effect as of June 30, 2011.

1.2 EXOGENOUS COST CHANGES

In this filing, Verizon proposes five general exogenous cost adjustments. The five adjustments are: Regulatory Fee

1. Telecommunications Relay Service (TRS)
2. Excess Deferred Taxes (EDT)
3. Investment Tax Credit (ITC)
5. North American Numbering Plan Administration (NANPA)

The Price Cap portion of these exogenous cost amounts is summarized on Figure 1.

1.2.1 ALLOCATION OF EXOGENOUS COST CHANGES TO PRICE CAP AND NON-PRICE CAP

First, EDT and ITC incremental exogenous cost amounts for this filing[3] were allocated to Price Cap and non-Price Cap based on revenues. Price Cap “R” was calculated by multiplying rates at last PCI update by 2010 demand. Second, each of the incremental

[3] This method is used for Excess Deferred Taxes and Investment Tax Credit Exogenous Costs.

Price Cap exogenous cost amounts for this filing was allocated to the Price Cap baskets of Common Line, Traffic Sensitive (800 Data Base and BNA only), Special Access, and Interexchange based on this filing's R-value. None of the exogenous cost amounts has been allocated to the Traffic Sensitive (other than 800 DB and BNA) and Trunking baskets so as to not allow the Average Traffic Sensitive rate to recover any exogenous cost amounts according to 61.45(d)(3). The total Regulatory Fee, TRS, and NANPA amounts are allocated to Common Line and Special Access based on the 499A revenues. The allocation of the incremental exogenous cost amounts for Excess Deferred Taxes and Investment Tax Credits to non-Price Cap and Price Cap non-ATS Price Cap baskets is shown on the pages 3 through 8 of Workpaper 1.

1.2.2 THE FCC REGULATORY FEE

The FCC Regulatory Fee exogenous cost changes were calculated by determining the difference between the Regulatory Fee contained in the current tariff rates and the proposed fee[4] for July 1, 2011 through June 30, 2012 tariff. The methodology used in this filing removes the Regulatory Fees from the price cap baskets based on last year's Price Cap allocations and then re-allocates this year's exogenous amounts based on the 2010 Price Cap allocations. Verizon has also adjusted the exogenous amounts to reflect any shift in revenue growth. The result is that no exogenous adjustment is made if the support rate has not changed. In other words the rate per line remains unchanged if the factor is unchanged. However, since there was a September 16, 2010 filing to reflect the current factor, the amount of gross-up in that filing to collect an annual amount over nine

[4] In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2011, MD Docket No. 11-76, (released May 3, 2011)

months will be removed in this filing. The total Price Cap Exogenous Cost for Regulatory Fees in this filing is an increase of $287,295. *See Workpaper 2A.*

1.2.2.1 CALCULATION OF TOTAL COMPANY CHANGE FOR FCC REGULATORY FEE

The first step for calculating the total company preliminary amount of the FCC Regulatory Fee for the tariff period 2011/2012 was to determine the total end user interstate price cap revenues at the end of 2010 from Verizon's Form 499-A. The revenues were multiplied by the proposed Regulatory Fee rate of 0.00361. Next, the difference between the annual amount and amount put in rates to collect an annual amount over nine months is calculated. The difference is then added to the current year amount. The new current amount in rates from the 2010/2011 tariff period was then subtracted from the period of 2011/2012. *Workpaper 2A* displays the calculation of the Regulatory Fee Obligation and the allocation to the Price Caps Baskets.

1.2.3 TELECOMMUNICATIONS RELAY SERVICE

The TRS contributions were calculated by determining the difference between the TRS contribution obligation in the current tariff rates and the TRS contribution required for the July 1, 2011 through June 30, 2012 tariff period. Verizon used the proposed factor[5] for July 1, 2011 through June 30, 2012 tariff in FCC's Public Notice, National Exchange Carrier Association Submits Payment Formulas and Funding Requirements for the Interstate Telecommunications Relay Services For the July 2011 through June 2012 Fund Year, CG Docket No. 03-123, DA 11-286. The methodology used in this filing removes the TRS Fees from the price cap baskets based on last year's Price Cap allocations, and then re-allocates this year's exogenous amounts based on the 2010 Price Cap allocations. Verizon has also adjusted the exogenous amounts to reflect any shift in revenue growth. The result is that no exogenous adjustment is made if the support rate has not changed. In other words, the rate per line remains unchanged if the factor is unchanged. However, since there was a September 16, 2010, filing to reflect the current factor, the amount of gross-up in that filing to collect an annual amount over nine months will be removed in this filing. *See Workpaper 2B.*

1.2.3.1 COMPUTATION OF EXOGENOUS COST OF TRS FUND CONTRIBUTION

To calculate the total company preliminary amount of the FCC TRS for the tariff period 2011/2012, Verizon first determined the total end user interstate price cap revenues at the end of 2010 from Verizon's Form 499-A. Those revenues were multiplied by the proposed TRS rate of 0.01056. Next, the difference between the annual amount and amount put in rates to collect an annual amount over nine months is calculated. The difference is then added to the current year amount. The new current amount in rates from the 2010/2011 tariff period was then subtracted from this amount. The result is that no exogenous adjustment is made if the support rate has not changed. Workpaper *2B* displays the calculation of the Price Cap TRS obligation. The current exogenous amount for TRS exogenous is $12,958,549. *See Workpaper 2B* for exogenous cost allocation to Price Cap baskets. Verizon will reflect the additional exogenous cost change to its TRS

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[5] *National Exchange Carrier Association Submits Payment Formulas and Funding Requirements for the Interstate Telecommunications Relay Services For the July* 2011 through June 2012 Fund Year, Public Notice, CG Docket No. 03-123.

obligation caused by a new TRS Factor, if any, following a further TRS Order issued by the FCC.

1.2.4 NORTH AMERICAN NUMBERING PLAN

Since the proposed NANPA factor for the current period is not yet available, the exogenous cost amount in this was determined by the Form 499-A the end user price cap revenues at the end of 2010 the multiplied by the proposed NANPA rate of 0.0000181, as set forth in *Proposed North American Numbering Plan Administration Fund Size Estimate and Contribution Factor for July 2010 through June 2011*, Public Notice, CC Docket 92-237, DA 10-924 (May 24, 2010). Verizon will update the NANPA exogenous cost when the current factor becomes available.

1.2.4.1 COMPUTATION OF EXOGENOUS COST OF NANPA CONTRIBUTION

The exogenous interstate cost adjustment has been calculated to determine the difference between the NANPA obligation in the 2010/2011 tariff period and the proposed obligation in the 2011/2012 tariff period. The methodology used in this filing removes the NANPA amounts from the price cap baskets based on last year's allocations, and then re-allocates this year's exogenous amounts based on the 2010 Price Cap allocations. Verizon has also adjusted the exogenous amounts to reflect any shift in revenue growth. The result is that no exogenous adjustment is made if the support rate has not changed. In other words, the rate per line remains unchanged if the factor is unchanged. The total NANPA amount is allocated to Common Line and Special Access services based on the 499-A revenues. The allocation of the incremental exogenous cost amounts to Price Cap and non-ATS Price Cap baskets is shown on the bottom of Workpaper 2C. The total

Price Cap exogenous cost increase in this filing is zero since there was no change in the NANPA factor. *See Workpaper 2C.* Verizon will reflect the additional exogenous cost change to its NANPA obligation, if any, when the FCC issues its proposed NANPA Contribution Factor.

1.2.5 FLOW THROUGH OF EXCESS DEFERRED TAXES AND INVESTMENT TAX CREDIT

The Tax Reform Act of 1986 repealed the Investment Tax Credit (ITC) and reduced the corporate tax rate. The flow-through of such changes due to the Tax Reform Act of 1986 results in exogenous cost changes. These changes are calculated as follows. First, the 2010/20010 costs due to Excess Deferred Taxes (EDT) and Investment Tax Credit Amortization (ITC) are calculated. Similarly, the forecast of 2011/2012 costs due to EDT and ITC are calculated, and the differences in costs from 2010/2011 to 2011/2012 on a total price cap interstate basis are quantified. The price cap interstate difference (grossed-up for taxes) is the exogenous cost amount for this filing. The cost impacts (before allocation to Price Cap and Non-Price Cap) of the changes are detailed in Workpaper 3 for EDT and Workpaper 4 for ITC. The Price Cap exogenous cost associated with the EDT is $344,912. The Price Cap exogenous cost associated with the ITC is zero for Verizon. *See Workpaper 1* for allocation to Price Cap and non-Price Cap.

The methodology in these workpapers is identical to the methodology Verizon used, and the Commission accepted, in all previous price cap filings. In response to questions raised in previous filings, Verizon has included two additional columns that provide the total company forecast for both the current and previous year. *See Workpapers 3 and 4*, Columns 1 and 2.

1.3. INDEX

Figure 1 Exogenous Cost Summary

Exogenous Cost Workpaper

Workpaper 1 Allocation of Exogenous costs-VZTC

Workpaper 2A Regulatory Fee Exogenous Cost-VZTC

Workpaper 2B TRS Exogenous Cost-VZTC

Workpaper 2C NANPA Exogenous Cost-VZTC

Workpaper 3 Excess Deferred Taxes-VZTC

Workpaper 4 Investment Tax Credit-VZTC

Tariff Review Plan (Short Form) (VZTC)

TRP—VZTC

VZTC EXG-1 Exogenous Cost Summary