

## **Description and Justification**

### **1.0 INTRODUCTION**

In connection with the May 17, 2013, Annual Filing early submission, the Verizon Telephone Companies<sup>1</sup> hereby submit limited Tariff Review Plan (TRP) pages and the necessary supporting data, in accordance with the *2013 Tariff Review Plan Order*<sup>2</sup> and Sections 61.41 through 61.49 of the Commission's rules. Appendix A contains the 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, 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 \$19.6 million, 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 three baskets:

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<sup>1</sup> The Verizon Telephone Companies include Verizon California Inc., Verizon Delaware LLC, Verizon Florida LLC, Verizon Maryland LLC, Verizon New England Inc., Verizon New Jersey Inc., Verizon New York Inc., Verizon North LLC, Verizon Pennsylvania LLC, Verizon South LLC, GTE Southwest Incorporated d/b/a Verizon Southwest, Verizon Virginia LLC, and Verizon Washington, DC Inc.

- (1) Common Line
- (2) Special Access
- (3) Interexchange (IX)

The Common Line basket includes CAP-1 adjustments for USAC Receipts.

The Special Access Basket is also subject to individual service-specific price bands.

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.

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 2012 base period demand, appropriately adjusted to reflect services, tariff structures, and rates to be in effect as of July 2, 2013.

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<sup>2</sup> See July 2, 2013 Annual Access Charge Tariff Filings, Order, WCB/Pricing File No. 13-76, DA 13-553 (Mar. 26, 2013); Material to be Filed in Support of 2013 Annual Access Charge Tariff Filings, Order, WCB/Pricing

## **1.2 EXOGENOUS COST CHANGES**

In this filing, Verizon proposes four general exogenous cost adjustments:

1. Regulatory Fee
2. Telecommunications Relay Service
3. Excess Deferred Taxes
4. North American Numbering Plan Administration

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

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

First, Excess Deferred Taxes incremental exogenous cost amounts for this filing<sup>3</sup> 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 2012 demand. Second, each of the incremental Price Cap exogenous cost amounts for this filing was allocated to the Price Cap baskets of Common Line, Special Access, and Interexchange based on this filing’s R-value. The total Regulatory Fee, Telecommunications Relay Service (TRS), and North American Numbering Plan (NANPA) amounts are allocated to Common Line and Special Access based on the 499-A revenues. The allocation of the incremental exogenous cost amounts for Excess Deferred Taxes to non-Price Cap and Price Cap for Common Line, IX and Special Access Price Cap baskets is shown on pages 1 through 3 of *Workpaper 1*.

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File No. 13-08, DA 13-575(April 19, 2013).

<sup>3</sup> This method is used for Excess Deferred Taxes Exogenous Costs.

## **1.2.2 THE FCC REGULATORY FEE, TELECOMMUNICATIONS RELAY SERVICE AND NORTH AMERICAN NUMBERING PLAN: GENERAL**

In accordance with the Commission's Rules<sup>4</sup>, Verizon developed certain exogenous costs for inclusion of the Price cap formula. These include (1) Regulatory Fees; (2) Telecommunications Relay Service; and (3) North American Number Plan Administration. Verizon has adjusted the exogenous amounts to reflect any shift in revenue growth. The result is that no exogenous adjustments are made if the support rate has not changed. In other words, the rate per dollar of revenue remains unchanged if the factor is unchanged. For both Regulatory Fees and TRS, factors that were released after the annual filing but that were not yet put into the indices will need to be reflected in this filing. Exogenous costs were individually developed for each of the items outlined above, and in aggregate for all changes. A brief description of each change follows and a summary of the exogenous cost changes are shown in *Workpaper 2*. In addition, these exogenous costs can also be found in Tariff Review Plan, Form EXG-1, pages 1 through 2.

### **1.2.2.1 CALCULATION OF TOTAL COMPANY CHANGE FOR FCC REGULATORY FEE**

The Commission allows local exchange companies to reflect the impact of regulatory fees as an exogenous cost in annual price cap filings.<sup>5</sup> Normally, exogenous costs for Regulatory Fee impacts are calculated by determining the difference between the Regulatory Fee contained in current tariffed rates and the proposed fee for the upcoming period. Because the

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<sup>4</sup> Code of Federal Regulations 47 Part 61.45(d).

<sup>5</sup> *Price Cap Treatment of Regulatory Fees Imposed by Section 9 of the Communications Act*, 9 FCC 6060 (1994), erratum (November 2, 1994).

0.00375 factor for the 2012 annual filing period<sup>6</sup> was released late, and because the impact was not significant enough for a stand-alone filing, Verizon will be reflecting that impact in this filing.

Regulatory Fee exogenous fees for this period were calculated as follows. The first step for calculating the total company preliminary amount of the FCC Regulatory Fee for the tariff period 2014/2013 was to determine the total end user interstate price cap revenues at the end of 2012 from Verizon's Form 499-A. The revenues were multiplied by the 2012 proposed Regulatory Fee rate of 0.00375<sup>7</sup>. Next, the amount currently included in rates, annualized, is calculated. Lastly the .00361 factor that was released in 2011<sup>8</sup> was multiplied by the 2011 499A Interstate Revenues, and the difference is then added to the current year amount. The new current amount in rates from the 2012/2013 tariff period was then subtracted from the period of 2013/2014. This results in a Regulatory Fee exogenous cost of (\$300,774). *Workpaper 2* displays the calculation of the Regulatory Fee Obligation and the allocation to the Price Caps Baskets. Verizon will reflect the additional exogenous cost change to its Regulatory Fee obligation caused by a new Regulatory Fee Factor, if any, following a further Regulatory Fee order issued by the FCC.

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<sup>6</sup> *Assessment and Collection of Regulatory Fees for Fiscal Year 2012*, Notice of Proposed Rulemaking, MD Docket No. 12-116, FCC 12-76 (July 19, 2012).

<sup>7</sup> This is the current factor. No new factor has been released at the time of this filing.

<sup>8</sup> *Assessment and Collection of Regulatory Fees for Fiscal Year 2011*, Notice of Proposed Rulemaking, MD Docket No. 11-76, FCC 11-68 (May 3, 2011).

### **1.2.2.2 COMPUTATION OF EXOGENOUS COST OF TRS FUND CONTRIBUTION**

TRS exogenous fees for this period were calculated as follows. The first step for calculating the total company preliminary amount of the TRS Fee for the tariff period 2013/2014 was to determine the total end user interstate price cap revenues at the end of 2012 from Verizon's Form 499-A. The revenues were multiplied by the 2012 proposed TRS rate of 0.02330<sup>9</sup>. Next, the amount currently included in rates, annualized, is calculated. Because there were two mid-year orders for rates, there are separate calculations to reflect the .01058<sup>10</sup> and .01056<sup>11</sup>. Lastly the .01053 factor that was released last year<sup>12</sup> was multiplied by the 2011 499A Interstate Revenues, and the difference is then added to the current year amount. The new current amount in rates from the 2012/2013 tariff period was then subtracted from the period of 2013/2014, which results in a TRS exogenous cost of \$19.7 million. *Workpaper 2* displays the calculation of the TRS Obligation and the allocation to the Price Caps Baskets. Verizon will reflect the additional exogenous cost change to its TRS obligation caused by a change to the estimated TRS factor used in this filing.

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<sup>9</sup> Rolka Loube Saltzer Associates Submits Payment Formulas and Funding Requirement for the Interstate Telecommunications Relay Services Fund for the July, 2013 through June, 2014 Fund Year, filed May 1, 2013.

<sup>10</sup> *In the Matter of Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities*, CG Docket 03-123, FCC 11-104, (June 30, 2011)

<sup>11</sup> Public Notice *National Exchange Carrier Association Submits Payment Formulas and Funding Requirement for the Interstate Telecommunications Relay Service Fund for the July 2011 through June 2012 Fund Year*, CG Docket 03-123, FCC 11-826, (May 4, 2011)

<sup>12</sup> *In the Matter of Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities*, CG Docket 03-123, FCC 11-104, (June 26, 2012)

### **1.2.2.3 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 2012/2013 tariff period and the proposed obligation in the 2013/2014 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 2012 Price Cap allocations. The total NANPA amount is allocated to Common Line and Special Access services based on the 499-A revenues. Because there was no factor change released prior to this filing there is no resulting exogenous cost.

### **1.2.5 FLOW THROUGH OF EXCESS DEFERRED TAXES**

The Tax Reform Act of 1986 repealed the Investment Tax Credit and reduced the corporate tax rate. The flow-through of those changes results in exogenous cost changes calculated as follows. First, the 2012/2013 costs due to Excess Deferred Taxes is calculated. Similarly, the forecast of 2013/2014 costs due to Excess Deferred Taxes is calculated, and the differences in costs from 2012/2013 to 2013/2014 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 Excess Deferred Taxes. The Price Cap exogenous cost associated with the Excess Deferred Taxes is \$182,438. See *Workpaper 1* for allocation to Price Cap and non-Price Cap.

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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, Columns 1 and 2.*

### **1.3. INDEX**

#### **Exogenous Cost Workpaper**

<b>Workpaper 1</b>	Allocation of Exogenous costs-VZTC
<b>Workpaper 2</b>	Regulatory Fee Exogenous Cost-VZTC
	TRS Exogenous Cost-VZTC
	NANPA Exogenous Cost-VZTC
<b>Workpaper 3</b>	Excess Deferred Taxes-VZTC

#### **Tariff Review Plan (Short Form) (VZTC)**

**TRP—VZTC**

<b>VZTCAS13</b>	Short Form TRP-Exogenous Cost Summary
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