2017 Annual Access Filing
and
Intercarrier Compensation Compliance

June 16, 2017

Appendix A—2017 Annual Access Filing
Appendix B—Intercarrier Compensation Compliance

Appendix A: 2017 Annual Access Filing

Description and Justification

A1.0 INTRODUCTION

The Verizon Telephone Companies[1] hereby submit Long Form Tariff Review Plan (TRP) pages and the necessary supporting data, in accordance with the *2017 Tariff Review Plan Order*[2] and Sections 61.41 through 61.49 of the Commission's rules. Appendix A contains the documentation associated with the Verizon TRP under identifier "VZTC".

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

The total effect on indices in this filing is an overall increase of approximately $5.1 million, which reflects the change in exogenous costs, the change in growth in the Common Line Basket and using any current headroom in the Special Access basket.

[1] The Verizon Telephone Companies include Verizon Delaware LLC, Verizon Maryland LLC, Verizon New England Inc., Verizon New Jersey Inc., Verizon New York Inc., Verizon North LLC, Verizon Pennsylvania LLC, Verizon South Inc., Verizon Virginia LLC, and Verizon Washington, D.C. Inc.

[2] *See July 1, 2017Annual Access Charge Tariff Filings*, Order, WC Docket No. 17-65, DA 17-258 (March 16, 2017); *Material to be Filed in Support of 2017 Annual Access Charge Tariff Filings*, Order, WC Docket No. 17-65, DA 17-386 (April 24, 2017).

A1.1 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:

(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.

Section 1.2 below describes the development of the exogenous cost adjustments. Section 1.3 describes the demand used in this filing. Section 1.4 describes ratemaking. Section 1.5 below 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 2016 base period demand, appropriately adjusted to reflect services, tariff structures, and rates to be effective as of July 1, 2017.

A1.2 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 above exogenous cost amounts, totaling $5,269,691 and is summarized on *Workpaper 1*.

A1.2.1 ALLOCATION OF EXOGENOUS COST CHANGES TO PRICE CAP BASKETS

First, Excess Deferred Taxes incremental exogenous cost amounts for this filing were allocated to Price Cap services and Non-Price Cap services based on revenues. Price Cap Revenues “R” were calculated by multiplying rates at last Price Cap Index update times 2016 demand units. Second, each of the incremental Price Cap exogenous cost amounts for this filing were 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 Administration (NANPA) amounts are allocated to Common Line and Special Access based on Verizon’s Form 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*, attached.

The summary of the allocation of the incremental exogenous cost amounts for Excess Deferred Taxes, Regulatory Fees, TRS, and NANPA to the Price Cap baskets is shown on *Workpaper* 1.

A1.2.2 THE FCC REGULATORY FEE, TELECOMMUNICATIONS RELAY SERVICE AND NORTH AMERICAN NUMBERING PLAN: GENERAL

In accordance with the Commission's rules[3], Verizon developed certain exogenous costs for inclusion in the Price Cap formula. These include (1) Regulatory Fees; (2) Telecommunications Relay Service; and (3) North American Numbering Plan Administration. Verizon has adjusted the exogenous amounts to reflect a shift in revenue growth, if any. 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. The Regulatory Fee factor was released on May 23, 2017, replacing the factor that was released after Verizon made its 2016 annual filing. However, the impact of the Regulatory Fee factor was minimal in the Verizon footprint. Verizon did not make a filing to reflect the 2016 regulatory fee factor change but will do so in this year's annual filing. Exogenous costs were individually developed for each of the items outlined above and in the aggregate for all changes. A brief description of each change follows and a summary of the exogenous cost changes are shown in *Workpaper 2*, attached. In addition, these exogenous costs can also be found in Tariff Review Plan, Form EXG-1, pages 1 through 2, attached.

[3] Code of Federal Regulations 47 Part 61.45(d).

A1.2.2.1 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.[4] The exogenous cost associated with Regulatory Fees for this period was calculated as follows. The first step for calculating the total company preliminary amount of the Regulatory Fee for the tariff period 20172018 was to determine the total end user interstate Price Cap revenues at the end of 2016 from Verizon's Form 499-A. The revenues were multiplied by the 2017 proposed Regulatory Fee rate of 0.00302.[5] Next, the total end user interstate amount currently included in rates, annualized, is calculated. Lastly, the 2016 0.00371 factor[6] that was released after the 2016 annual filing was multiplied by the 2015 499A Interstate Revenues, and the difference is then added to the current year amount. The new current amount in rates from the 2016/2017 tariff period was then subtracted from the period of 2017/2018, thus resulting in a Regulatory Fee exogenous cost of ($1,120.737). *Workpaper 2* displays the calculation of the Regulatory Fee obligation and the allocation to the Price Cap Baskets. Verizon will reflect in a future filing any additional exogenous cost change to its Regulatory obligation caused by a change to the estimated Regulatory Fee factor used in this filing.

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[4] *Price Cap Treatment of Regulatory Fees Imposed by Section 9 of the Communications Act*, 9 FCC 6060 (1994), erratum (November 2, 1994).

[5] *In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2017,* Notice of Proposed Rulemaking, FCC 17-62 (May 23, 2017).

[6] *In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2016*, Report and Order, FCC 16-61 (September 2, 2016).

A1.2.2.2 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 2017-2018 was to determine the total end user interstate Price Cap revenues at the end of 2016 from Verizon's Form 499-A. The revenues were multiplied by the 2017 proposed TRS rate of 0.02244.[7] Next, the amount currently included in rates, annualized, is calculated. The 0.01862 factor that was released last year[8] was multiplied by the 2016 499A Interstate Revenues, and the difference is then added to the current year amount. The new current amount in rates from the 2016-2017 tariff period was then subtracted from the period of 2017-2018, which results in a TRS exogenous cost of approximately $6.3 millionM. *Workpaper 2* displays the calculation of the TRS obligation and the allocation to the Price Cap Baskets. Verizon will reflect in a future filing any additional exogenous cost change to its TRS obligation caused by any release of new proposed factors.

A1.2.2.3 COMPUTATION OF EXOGENOUS COST OF NANPA CONTRIBUTION

The interstate exogenous cost adjustment has been calculated to determine the difference between the NANPA obligation in the 2016/2017 tariff period and the proposed obligation in the 2017/2018 tariff period. The methodology used in this filing removes

[7] .*See* Rolka Loube Saltzer Associates Submits Payment Formulas and Funding Requirement for the Interstate Telecommunications Relay Services Fund for the 2017 - 2018 Fund Year, CG Docket 03-123 & 10-51, DA 16-750 (June 2, 2017).

[8] FCC Public Notice: Rolka Loube Saltzer Associates Submits Payment Formulas and Funding Requirement for the Interstate Telecommunications Relay Services Fund for the 2016 - 2017 Fund Year, CG Docket 03-123 & 10-51, DA 16-750 (June 30, 2016).

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 2016 Price Cap allocations. The total NANPA amount is allocated to Common Line and Special Access services based on Verizon's Form 499-A revenues. The FCC released a NANPA and Regulatory fee filing in September of 2016, however, the overall impact of the filing was a slight increase in the factor and Verizon chose to forego recovering the additional cost. Verizon is reflecting that new factor in this filing. The impact of the exogenous cost change is ($8,708). Since NANPA has gone to an October 1, through September 30th calendar year, Verizon will only include NANPA changes in its annual filing if it decides to forego the recovery of any additional revenues in an exogenous cost filing and instead waits to do so until the next annual filing.

1.2.3 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 2016/2017 costs due to Excess Deferred Taxes is calculated. Similarly, the forecast of 2017/2018 costs due to Excess Deferred Taxes is calculated, and the differences in costs from 2016/2017 to 2017/2018 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 $103,230. *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 Workpaper 3,* Columns 1 and 2.

A1.3 DEMAND

A1.3.1 INTRODUCTION

Current rates and base period demand quantities were used to determine the base period revenues. The base period demand is for the year 2016 and was multiplied by rates at last PCI update to determine the weighted revenue for each rate element. This weighted revenue was used in the development of the PCI, APIs, and SBIs.

A1.3.2 DATA SOURCES

Verizon's Carrier Access Billing System (CABS), Customer Records Information System (CRIS), and Company demand and revenue tracking systems served as the primary sources for demand data. These billing and tracking systems provide the demand data for each rate element for the Common Line, Special Access, and Interexchange baskets. The 2016 base period demand has been used in this filing in accordance with the Commission's rules for development of API and SBI indices.[9]

[9] *See* 47 C.F.R. §§ 61.46, 61.47.

A1.3.3 DEMAND RESULTS

Price Cap base period demand detail used in the calculations of the PCIs, APIs, and SBIs is contained in this filing. *See Workpaper VZTC Rate Detail*. There were no new Price Cap services introduced in the 2016 base period, therefore no Demand is included in the Price Cap baskets pursuant to Section 61.42(g) of the Commission's rules.

A1.3.4 TREATMENT OF NEW SERVICES

As indicated above, *Figure 3* identifies the new Price Cap services introduced during the 2016 base period. No new services were introduced. *Figure 4* identifies new services that qualify for pricing flexibility relief introduced between July 1, 2016 and May 31, 2017. No new services that qualify for pricing flexibility were introduced.

A1.4 RATEMAKING

A1.4.1 ANNUAL FILING RATEMAKING

In this filing, Verizon is implementing rate changes in only the Common Line and Special Access Price Cap baskets. Verizon's new rate levels produce indices that are in full compliance with the Commission's rules.[10]

Overall, Verizon index revenues increase by approximately $5.1 million due to change in exogenous costs and change in demand. The Common Line basket revenues increase by approximately $3.4 million. The Special Access basket revenues increase by

[10] *See* 47 C.F.R. §§ 61.43, 61.45(a), 61.46(a), and 61.47(a).

approximately $1.7 million. The Interexchange basket revenues are zero. *See TRP Sum-1*.

Sections A1.5.2 through A1.5.6 provide descriptions of the methodology and ratemaking calculations included in this filing. Rate changes in this filing are indicated by green highlighting in the attached rate detail files.

A1.4.2 Common Line Basket

As shown in the TRP CAP-1, the Revenue for the Verizon Companies is capped at the CMT rate. *Figure 8* lists the CMT per line for each Verizon jurisdiction.[11] Verizon calculated the Common Line charges pursuant to the Commission's rules.

Overall, the Subscriber Line revenues increased by $3.4 million. Rate calculations are displayed in the *TRP CAP-1* and Revenues are displayed in *TRP Sum-1*.

A1.4.2.1 SUBSCRIBER LINE CHARGES (SLCs)

In this filing, the SLC rates are adjusted to reflect the change in exogenous costs and change in demand. The current caps for SLC rates are Primary Residence and Single Line Business at $6.50, Non-Primary Residence SLC at $7.00 and Multi-line Business SLC at $9.20. The actual SLC rate for Primary Residence and Single Line Business is the SLC caps or the CMT revenue calculation per line. For Verizon Tariff F.C.C. No. 1, SLC rates are developed on a state-specific basis. For Verizon Tariff F.C.C. No.11, SLC rates are established at the tariff filing entity level. SLC rates are established by

[11] CMT per line is capped CMT adjusted for Exogenous Costs.

jurisdiction in both Verizon Tariff F.C.C. Nos. 14 and 16. *Figure 5* provides a listing of the proposed SLC rates. In aggregate, SLC rates increase revenues by $3.4 million.

A1.4.2.2 PICC Rates

When the SLCs do not recover the total CMT revenues, the overflow creates a Multi-line Business PICC rate. The Multi-line Business PICC cap is the rate that was in place on December 29, 2011. Since the SLCs do not recover the total CMT revenues, the overflow creates a Multi-line Business PICC rate, and when. The impact of exogenous costs and change in demand resulted in a increase in PICC revenues of $68,306. The FCC TRP form identifies exogenous amounts from Regulatory Fees,

TRS or NANPA that are not recovered from the PICC or CCL rates and allows for them to be recovered through the Access Recovery Charge (ARC). In this filing, an amount of $209,501 will be flowed through to the Eligible Recovery form to be recovered in ARC rates.

In Verizon Tariff F.C.C. Nos. 1, 11, 14 and 16 the proposed PICC rates are zero, except in Verizon Tariff F.C.C. No. 16, the PA proposed Multi-line Business PICC rate remains at $0.98 and the Virginia proposed Multi-line Business PICC rate this is an increase to $0.32. Also, in Verizon Tariff F.C.C. No. 14 the PICC rate for VA is increasing to $0.23. Rates that are calculated based on the Multi-line Business PICC, such as ISDN-PRI and Centrex will also change. The Multi-line Business PICC rate development is shown on *TRP CAP-1*. *Figure 6* shows the proposed PICC rates by jurisdiction.

A1.4.2.3 Carrier Common Line Rates

The premium MOU (Common Line and Marketing) originating and terminating rates are zero for Verizon Tariff F.C.C. Nos. 1, 11, 14 and 16. Since the FCC order does not allow increases to the CCL rates after December 29, 2011, current rates will remain in place. However, if a Regulatory Fee, TRS or NANPA exogenous cost would have resulted in a CCL rate, those revenues, not collected in CCL, would be allowed to be recovered from the ARC. The premium MOU (Common Line and Marketing) originating and terminating rates for Verizon Tariff Nos. F.C.C. 1, 11, 14 and 16 are shown on *Figure 7*. The rate development for CCL charges is shown on the *TRP CAP-1*.

A1.4.3 SPECIAL ACCESS RATES

As displayed in the *TRP PCI-1*, the new PCI for the Verizon Special Access basket is 44.4264%. Verizon is changing certain Special Access rates to reflect the change in exogenous costs incurred in this filing. Specifically, Verizon is increasing rates for DS1 channel terminations in Verizon Tariff Nos. 1 and 11 to cover the current headroom in addition to the other headroom caused by the annual filing exogenous costs. This change in rates increases Special Access revenues by approximately $1.7 million.

The SBI values for the Special Access basket are within the ranges permitted under the Commission's Price Cap Plan. *See TRP IND-1*. Calculations supporting the Special Access basket indices and upper limits can be found in the *TRP RTE -1*.

A1.4.4 INTEREXCHANGE

As displayed in the *TRP PCI-1*, the new PCI for the Verizon Interexchange basket is 77.8366%. Since there are no revenues in the Interexchange basket, there is no change to current indices. The indices are in compliance with the rules.

A1.5 WORKPAPERS AND TARIFF REVIEW PLANS

A1.5.1 INTRODUCTION

The Verizon Telephone Companies have provided the necessary detail to support the calculations of indices and exogenous costs in various workpapers. The following is the index of such workpapers. Appendix A below, contains the list of supporting documentation for this Annual Access filing.

A1.5.2 SUPPORTING DOCUMENTATION INDEX

Appendix A

<u>Price Cap Rate Detail</u>
VZTC Rate Detail 2017

	Rate Detail BATR
	Rate Detail NXTR
	Rate Detail VZNC
	Rate Detail COPT
	Rate Detail COVA
	Rate Detail GTPA
	Rate Detail GTVA
Workpaper GDP-PI	GDP-PI Factor Development
Workpaper Revenue	Revenue Summary

<u>Exogenous Cost Workpapers</u>

Workpaper 1	Allocation of Exogenous costs-VZTC
Workpaper 2	Regulatory Fee-VZTC
	Telecommunications Relay Service-VZTC
	North American Numbering Plan Administration
Workpaper 3	Excess Deferred Taxes-VZTC

<u>Tariff Review Plan--Long Form (VZTCAN061617)</u>

ANALYZER	TRP Analyzer
COSA IND-1	Price Cap Indices Display
COSA PCI-1	Price Cap Index Calculations
COSA SUM-1	Price Out Summary
COSA EXG-1	Exogenous Cost Changes
COSA EXG-2	Net Exogenous Cost Shifts
COSA RTE-1	Rate Detail
CAP-1 (COSA)	Calculation of EUCL Limit, PICC and CCL Rates
CAP-2 (COSA)	Manual Input of EUCL rates
CAP-3 (COSA	Calculation of Minimum and Maximum End User Rates
CAP-4 (COSA)	Allocation of Pool Revenues to MLB PICC and MLB EUCL
CAP- 5 (COSA)	Verification of Recovered CMT Revenue
VZTCOUTPC-1	Services Excluded from Price Cap
VZTCOUTPC-2	Services Removed from Price Cap
Certification Letter	Certification Letter for Price Cap Appendix A of the Annual Access Filing

Appendix B Intercarrier Compensation Compliance

Appendix B

Description and Justification

B 1.0 INTRODUCTION

Inter-carrier Compensation Compliance

In accordance with the *USF-ICC Transformation Order,*[12] in which the Commission modernized and reformed the inter-carrier compensation and universal service systems, Verizon is providing the TRP pages and the necessary supporting data required by the *2015 Tariff Review Plan Order* regarding the Access Recovery Charge (ARC). In the 2012 Annual Filing, Verizon established a transitional recovery mechanism, including the new tariffed ARC, which is intended to mitigate the effect of reduced inter-carrier revenue. In this Appendix B, Verizon describes how it determined the Eligible Recovery (the revenue incumbent LECs are entitled to recover) for price cap carriers in compliance with Section 51.915(d)(1)(i) of the Commission's rules and how it calculated the ARC in compliance with Section 51.915(e)(5).

Appendix B includes the necessary supporting data and documentation for this filing.

B1.1 Step 6 Access Reductions

Section 51.907(g)(1) of the Commission's rules requires that effective July 1, 2017, price cap carriers must reduce their interstate and intrastate end office switched access rates to

[12] *Connect America Fund, et al.*, Report and Order and Further Notice of Proposed Rulemaking, WC Docket Nos. 10-90 *et al*., FCC 11-61, (Nov. 18, 2011) ("*USF-ICC Transformation Order*").

bill-and-keep. Therefore, the proposed July 1, 2017 Composite Terminating End Office Charge (CTEOC) rate is reduced to $0.00000 from the current rate of $0.0007.

Section 51.907(g)(2) of the Commission's rules requires that effective July 1, 2017, price cap carriers must reduce the terminating tandem-switched transport (TST) per minute of use (MOU) rate elements associated with calls terminating to Verizon LEC end offices to a composite rate level of $0.0007 per minute of use from current rate levels. In order to determine terminating TST rate element demand that was subject to rate this reduction, rate element demand was obtained via CABS billing records for the base period October 2010 through September 2011. Since total demand quantities had been previously reported, demand quantities for calls terminating to third-party networks was identified and removed from total quantities, in order to provide demand quantities that were targeted for rate reduction. Third party networks included all Competitive Local Exchange Carrier (CLEC), Independent Telephone Company (ITC), and Wireless Service Provider networks.

As mentioned above, only terminating TST rates for calls terminating to Verizon LEC end offices are subject to a rate reduction from current rate levels, therefore no rate changes were made TST rate elements for calls terminating to third party networks. Since the terminating TST composite rate cannot exceed $0.0007 per MOU, the current terminating tandem switching usage rate of $0.001574 per MOU was reduced to $0.0007 per MOU and all other terminating TST per MOU rates currently above $0.0000 per MOU were lowered $0.0000 per MOU for calls terminating to Verizon LEC end offices.

Finally, since the FCC's order excludes any transition of dedicated transport rates beyond those required in Step 1, there are no changes proposed to the rate levels for the dedicated transport rate elements associated with tandem-switched transport service, i.e. direct-trunked transport, dedicated multiplexing, and dedicated trunk ports.

Verizon's revenue calculations are displayed separately on *Workpaper VZTC_AR_17*.

B 1.2 Demand collection

Verizon determined Eligible Recovery using Fiscal Year 2011 demand for which Verizon received payments by March 31, 2012. The systems that Verizon uses to track and analyze inter-carrier compensation demand, however, are based on billed data. To determine collected demand, Verizon developed a factor to apply against billed demand. First, Verizon identified the total charges billed for switched access and reciprocal compensation by customer during the twelve months of the Fiscal Year. Next, Verizon identified the amounts that each customer paid to Verizon for switched access and reciprocal compensation. Verizon adjusted both the billed and paid amounts to exclude late payment charges. Verizon also adjusted the Fiscal Year paid amounts to exclude payments for charges incurred before the Fiscal Year and to include payments for Fiscal Year charges that were received after the Fiscal Year. Verizon then used the resulting billed and paid amounts to calculate a factor that represents the amount collected as a percentage of the amount billed during the Fiscal Year. Verizon multiplied the factor by the billed demand for each access rate element to calculate the demand used to determine Eligible Recovery from reductions in Transitional Intrastate Access Service revenues. In addition, Verizon multiplied the factor by the CMRS reciprocal compensation billed revenue to determine the portion of Eligible Recovery from reductions in CMRS Net Reciprocal Compensation Revenues.

B1.3 Recovery Mechanism

The *USF-ICC Transformation Order* established a "transitional recovery mechanism to facilitate incumbent LECs' gradual transition away from ICC revenues reduced" as part of the *USF-ICC Transformation Order*.[13] The mechanism has two basic components: the revenue that ILECs are eligible to recover, known as "Eligible Recovery," and the limited end-user charges through which incumbent LECs' can recover Eligible Recovery.[14]

The Commission "permits[s] incumbent telephone companies to charge a limited monthly Access Recovery Charge (ARC) on wireline telephone service, with a maximum annual increase of $0.50 for consumers and small business, and $1.00 per line for multiline business, to partially offset [inter-carrier compensation] revenue decline."[15]

Section 51.915 of the Commission's rules describes the extent to which Price Cap carriers such as Verizon may recover certain revenues through the recovery mechanism.

B1.4 Eligible Recovery

Section 51.915(d) establishes the Eligible Recovery for price cap carriers. Generally speaking, the Eligible Recovery for price cap carriers like Verizon – that is, the revenue

[13] *USF-ICC Transformation Order* ¶847.

[14] *Id*. ¶850.

[15] *Id*. ¶36.

subject to the recovery mechanism – is "the difference between: (a) the Price Cap Baseline, subject to 10 percent annual reductions; and (b) the revenues from the reformed inter-carrier compensation rates in that year, based on estimated MOUs multiplied by the associated default rate for that year." [16]

The way in which Eligible Recovery is to be calculated is set forth in Section 51.915(d)(1)(i). That rule has three pieces, and the sum of those pieces, multiplied by the Price Cap Carrier Traffic Demand Factor and the Calls Study Area Base Factor, determines the Eligible Recovery.

The first of the three components is described in Section 59.915(d)(1)(i)(A). This component is based upon the reduction in Transitional Intrastate Access Service revenues determined pursuant to Section 51.907(b)(2). The workpaper in which Verizon calculated this amount is *Workpaper VZTC_AR_17.* The total amount of this calculation is $201,816,229.

The second of the three components is described in Section 59.915(d)(1)(i)(B). This component is based upon the reduction in CMRS Net Reciprocal Compensation Revenues, defined at Section 51.915(b)(3). Verizon calculated this amount as shown in a separate *Workpaper, VZTC_RC_17*. The total amount of this calculation is $4,746,363.

The third of these three components, described in Section 59.915(d)(1)(i)(C), is based on certain reductions in Fiscal Year 2011 net reciprocal compensation. Section

[16] *Id*. ¶851.

59.915(d)(1)(i)(C) (3) permits a price cap carrier to elect to forgo this step and receive no recovery for reductions in net reciprocal compensation. Consistent with that option, Verizon has elected to forgo this third step.

There is a separate workpaper that adds up these components and provides Verizon's total Eligible Recovery. That *Workpaper, VZTC_ER_17*, multiplies the sum of the amounts produced by the three components of Eligible Recovery by the Price Cap Carrier Traffic Demand Factor and the CALLS Study Area Base Factor, as Section 59.915(d)(1) requires. The total amount of Verizon's Eligible Recovery is $ 98,415,321.

B1.5. Access Recovery Charge Calculations

Section 51.915(e) describes the Access Recovery Charge and sets forth a series of constraints and limitations regarding the ARC. Generally speaking, the monthly ARC cannot increase more than $0.50 per year for a residential or single-line business customer or more than $1.00 per line per year for a multi-line business customer. Generally speaking, price cap carriers are also limited to increasing the ARCs for no more than five years. Moreover, the consumer ARC cannot increase if the increase would result in certain residential End-User rates exceeding the Residential Rate Ceiling of $30.00. And third, ARCs can only be charged in a particular year to recover Eligible Recovery for that year, and total revenue from ARCs cannot exceed Eligible Recovery.[17]

[17] *Id*. ¶908.

This is the fourth year that carriers are required to begin making true-ups to certain revenue amounts projected in 2015 to reflect differences between projected and actual demand. For the tariff year 2015-16 Verizon determined that actual ARC revenues exceeded the expected ARC revenue by $0.6 million. Verizon's Eligible Recovery for the tariff year 2017-2018 therefore is reduced by that amount.

Verizon calculated the Maximum ARC Revenue Opportunity using *Workpaper VZTC_ARC_17*. This year is the fourth year that interstate access reductions are included. Because the Eligible Recovery is less than the Maximum ARC Revenue, Verizon does not qualify for additional ICC support from the Connect America Fund (CAF).

Verizon also calculated the Tariffed ARC Revenue using *Workpaper VZTC_TRC_17*. Verizon set ARC rates that comply with Section 51.915(e)'s constraints, as *Workpaper VZTC_TRC_17* demonstrates. The monthly, per-line ARC rates are as follows:

- Residential, Single Line Business, and BRI: $1.46
- Centrex: $0.59
- Multiline Business: $2.97

Note that Verizon will not be charging the ARC for residential lines in New York and Virginia. In those states, all or some exchanges exceed the $30 Residential Rate Ceiling, and as a result, Verizon has elected not to bill the ARC for residential service in those states. In addition Verizon will be charging a reduced ARC in Washington, D.C. to recover only the interstate portion of the access recovery charge; that reduced ARC will be $0.20 for Residential, Single Line Business, and BRI lines. Verizon will also only charge a Residential ARC of $0.29 in Maryland and $1.29 in North Carolina due to rules requiring that any ARC rate not be any higher than to result in regulated residential end-user rates that exceed the $30 Residential Rate Ceiling.

Based on the ARC rates listed above, the amount of Verizon's Tariffed ARC Revenue, found on *Workpaper VZTC TRC 17*, is $98,415,321.

Consistent with Section 59.15(e)(2), this amount does not exceed Verizon's Eligible Recovery of $98,415,321.

The true up for the 2017-2018 tariff ARC revenues will be in 2019-2020 ARC calculation.

B 1.6 WORKPAPERS AND TARIFF REVIEW PLANS

B1.6.1 INTRODUCTION

The Verizon Telephone Companies have provided the necessary detail to support the calculations of reductions required by the Intercarrier Compensation Regulations. The following is the index of such workpapers. The Appendix contains the workpapers and the Intercarrier TRP for VZTC.

B 1.6.2 SUPPORTING DOCUMENTATION INDEX

<u>Appendix B</u>

Tariff Review Plan

Verizon Access Reduction Tariff Review Plan Sheets

VZTC_AR_17_Public	Access Reduction Calculations by Study Area--Public
VZTC_AR_17_Proprietary	Access Reduction Calculations by Study Area--Proprietary

Verizon ARC Calculations

VZTC_ARC_17_Proprietary	Maximum ARC Opportunity Calculations -- Proprietary
VZTC_ARC_17_Public	Maximum ARC Opportunity Calculations -- Public

Verizon Tariff Rate Comparison

VZTC_TRC_17_Proprietary	Tariff Rate Comparison -- Proprietary
VZTC_TRC_17_Public	Tariff Rate Comparison –Public

Eligible Recovery

VZTC_ER_17	Verizon Eligible Recovery

Reciprocal Compensation

VZTC_RC_17	Reciprocal Compensation Calculations

Eligible Recovery Summary

VZTC SUMER 17 Proprietary	2016 and 2017 Eligible Recovery Summary Proprietary
VZTC SUMER 17 Public	2016 and 2017 Eligible Recovery Summary Public

True Up

VZTC True Up 17 Proprietary	2017 Annual True up Process for 2015-2016 Tariff year - Proprietary
VZTC True Up 17 Public	2017 Annual True up Process for 2015-2016 Tariff year - Public

Certification Letter	Certification Letter for Intercarrier Compensation Compliance Appendix B of Annual Access Filing