

July 21, 2014

MEMORANDUM

TO: The Chair and Members of the Commission

FROM: Connie S. McDowell, Senior Regulatory Policy Administrator

SUBJECT: IN THE MATTER OF THE APPLICATION OF VERIZON DELAWARE LLC FOR ITS ANNUAL APPLICATION OF THE PRICE CAP FORMULA IN ACCORDANCE WITH SECTION 707(b) OF THE TELECOMMUNICATIONS TECHNOLOGY INVESTMENT ACT (FILED APRIL 1, 2014)-
PSC DOCKET NO. 14-129

Since 1994, Verizon Delaware LLC ("Verizon" or the "Company") has elected to be regulated under the provisions of the Telecommunications Technology Investment Act ("TTIA") 26 Del. C. §§ 704-711. On April 25, 2013, the General Assembly of the State of Delaware enacted House Bill 96 to amend Title 26 of the Delaware Code relating to the jurisdiction of the Commission and public utilities providing telecommunications services, which became effective on July 15, 2013. Based on this amended code, on July 15, 2013, Verizon filed a letter with the Delaware Public Service Commission ("Commission") electing to determine its rates and prices for its telecommunications services pursuant to the amended 26 Del. C. §§ 704-711.

Under the TTIA, the rates that Verizon charges for basic services may be changed annually under a formula keyed to a percentage change in the Gross Domestic Product Price Index ("GDP-PI").

The amended legislation revised the definitions of basic and competitive services in 26 Del. C. § 705. Basic services are now defined as (1) individual residential local exchange access line and residential local usage at a location where there is no "Alternative Provider of Telephone Service" available to retail residential customers and (2) switched access service and also revised the GDP-PI formula by eliminating the productivity offset.

In this GDP-PI filing, Verizon stated that it only provided information relating to switched access revenues because the only basic revenue stream that remains for Verizon DE relates to switched

access services. Even though there may be individual residential local exchange access lines (local loops) where there is no alternative provider of telephone service available, 26 Del. C. § 707 (c)(9), which became effective January 1, 2014, permits Verizon to increase rates for basic services, other than switched access services, up to 10% per calendar year for a period of 5 years and thus makes the price cap formula no longer applicable regardless of whether the local exchange access lines are basic or competitive.

Staff has reviewed Verizon's annual GDP-PI filing for compliance with the Delaware Code and the Commission's regulations and has found that it is in compliance with both. Also, on June 26, 2014, the Company published notice of its filing, solicited comments from any interested parties, and the date this matter would be heard before the Commission in the Delaware State News and the News Journal. Staff received an e-mail from Gary Myers who asked 2 questions about the filing and a response was sent to Mr. Myers.

The calculation for the switched access services shows that Verizon could have increased rates for these services. However, under federal law, Verizon is prohibited from increasing its intrastate Switched Access rates and pursuant to 26 Del. C. § 707 (c)(1), Verizon may not increase its switched access rates unless required to maintain parity with its interstate switched access rates. Therefore, Verizon cannot implement the rate increase according to this GDP-PI filing and has stated that they will track the results for further consideration in future GDPPI filings.

Based on Staff's review of this matter, Staff recommends that the Commission approve Verizon's GDP-PI filing as compliant with the Delaware Code and the Commission's regulations.