

Agenda Date: November 28, 2007
Item Number: A1

Docket: UT-040788
Company: Verizon Northwest Inc.

Staff: Paula Strain
Deputy Asst. Director, Telecommunications Staff

Recommendation

Issue an order suspending the filing to allow further investigation and extend the expiration date until the conclusion of the review of the filing, as contemplated in Order 17 of Docket UT-040788.

Background

Verizon Northwest Inc.'s (Verizon's) recent general rate case in Docket UT-040788 was resolved by a multiparty settlement. In the settlement, the parties agreed that Verizon should institute a late payment charge (LPC) for residential and business customers of \$2.50 or 1.5 percent, whichever is greater. On April 12, 2005, the commission issued a final order approving the settlement. *See UT-040788 Order 15*. The commission, in approving the settlement, expressed concern about the LPC proposal, and ordered Verizon to refile the tariffs with a December 31, 2007, expiration date. The order also provided that Verizon and commission staff should gather data and submit reports about the tariff's effect. Verizon refiled the tariffs to reflect the expiration date. The commission later removed the expiration date from the LPC for business customers (Order 17, May 5, 2005).

Order 17 also clarified that the commission would review information submitted by the parties about the effect of the late payment charge on residential customers, and that in its review it would consider whether the proposed tariff was fair, just, and reasonable. The order encouraged commission staff, Public Counsel and Verizon to review the information jointly and to participate in developing an LPC tariff to go into effect in January 2008. In Order 17 Paragraph 24, the commission stated:

The Commission has not reached any determination about replacement of the tariff, and seeks the benefit of additional information in deciding on a longer-term solution to the revenue requirements and cash flow issues presented by the residential late payment charges. The Commission agrees that, if the proposed replacement tariff is suspended, the Commission will extend the expiration date until the conclusion of the review and such further period as the order on review of the tariff may specify.

In Order 18, the commission determined the scope of the data Verizon would file in its periodic status reports.

Discussion

The Filing

On July 2, 2007, Verizon filed Advice 3252, to remove the December 31, 2007, expiration date from the residential LPC, but to leave the tariff otherwise unchanged. The tariff revision originally had an effective date of September 13, 2007. At the request of staff and Public Counsel, Verizon extended the effective date to October 25, 2007, and again to November 7 and 28, 2007.

Status Reports Filed to Comply with Orders 15 and 18

Verizon and commission staff filed status reports on the LPC and its effects on February 15, 2006 (Verizon's was revised on March 9, 2006); and on February 15, 2007. Verizon filed its most recent status report on August 7, 2007. It includes data through July 2007. Verizon stated in its cover letter that the report data confirm that implementation of the charge has a) reduced the number of late payments (including significant reductions in late payment charges assessed on customers eligible for the Washington Telephone Assistance Program) and b) its implementation has no adverse effect on the disconnection rate because a customer's basic local service is not disconnected for nonpayment of the LPC. Verizon therefore proposes to keep the existing residential LPC in place, by removing the expiration date from the tariff.

Verizon filed all the data in the report as confidential, but did disclose that overdue residential service payments had dropped by thirty percent since June 2005, when the LPC was imposed. Other trends shown by the data, for the period June 2005 through July 2007, are summarized below in percentage terms:

For the period June 2005 to July 2007	Non-WTAP	WTAP	Total
Percent decline of customer accounts subject to LPC:	36.2%	42.2%	36.7%
Percent decline in percentage of accounts paying LPC:	20.1%	26.6%	20.6%
Percent decline in revenue generated by the LPC	39.6%	52.2%	40.6%

Commission staff reports

Commission staff filed reports in February 2006 and February 2007 which summarized consumer inquiries and complaints received by the UTC consumer affairs division. The reports show that the UTC receives very few inquiries and complaints about the residential LPC.

Additional Analysis Performed

Commission staff and Public Counsel requested additional information to aid in the analysis of the effect of the LPC. The LPC is charged if any part of payment on a bill is received after the due date shown on the bill. Verizon data indicate that an LPC is charged on overdue balances as small as one penny, and that the LPC is assessed even if the customer pays the overdue amounts before the next billing cycle. The minimum charge of \$2.50 is assessed on overdue balances smaller than \$166.66; on larger balances, the charge is 1.5 percent of the overdue balance. Verizon data for the period January to June 2007 indicate that the minimum charge exceeds 1.5 percent of the median overdue balance for all customers; the amount by which it exceeds 1.5 percent is much greater for WTAP customers than non-WTAP customers. For example, the \$2.50 charge on a \$30 overdue balance equates to 8.3 percent of the overdue balance.

Commission staff also compared Verizon's LPC to those charged by other utilities regulated by the UTC, and to Verizon LPCs in other states See Attachment 1 to this memo. The comparison also includes Comcast and Vonage with respect to their VOIP offerings. While the list does not include every utility the UTC regulates, there are 33 Washington companies included. The LPC tariffs listed differ in how the charge is applied. Some companies' late payment charges incorporate a credit to recognize the advance billing of local service; the tariffs also differ in when a bill is considered late. Of those companies on Attachment 1, Verizon's 1.5 percent LPC rate is higher than all but one. Seven of the 33 companies impose a minimum or flat charge (Comcast charges a \$3.00 flat fee but no percentage charge). Only one (Comcast) is higher than Verizon's minimum. Regarding Verizon LPC tariffs in six other states, the percent LPC is 1.5 percent in all those states; only one tariff contains a minimum charge (New York), which is \$5.00. The New York tariff excludes the previous month's local service charges, and does not impose the \$5.00 minimum on overdue balance of \$5.00.

Staff has also performed preliminary analysis of the potential effects of revisions to the LPC on Verizon's revenue, noting that the LPC contributes significantly to Verizon's intrastate revenues in Washington. Revisions to conform the LPC more closely to those charged by other companies would cause substantial reductions to Verizon's intrastate revenues.

Staff, Verizon and Public Counsel have discussed the form a replacement LPC should take. The parties continue to disagree on what Verizon's LPC should be in the future, and a mutually agreeable solution is now unlikely before the sunset date.

Staff's analysis suggests that:

1. Verizon's Late Payment Charge (LPC) has been effective in reducing the incidence of late payment;
2. The \$2.50 minimum LPC is higher than necessary;
3. The \$2.50 minimum is disproportionately high for WTAP customers;
4. Assessment of a late payment charge for minimal amounts is unreasonable.

Staff has recommended to the Company and Public Counsel a Late Payment Charge modified as follows:

1. Minimum of \$1.50 rather than \$2.50
2. Waiver of Late Payment Charge on underpayments of less than \$1.50

The proposed \$1.50 minimum charge translates to a “crossover point” of \$100 (in other words, \$1.50 is 1.5 percent of \$100), which is closer to the median overdue amounts for Verizon’s customers.

Commission staff recommends the Commission suspend this filing to allow further discussion by the parties, and allow the existing LPC to remain in effect pending review and reconsideration.

Conclusion

Commission staff recommends that the Commission issue an order suspending Verizon’s proposed revision to its residential late payment charge, and extend the expiration date of the current tariff until conclusion of the review of the tariff revision, as contemplated in Order 17 of Docket UT-040788.

Attachment 1 – Comparison of Verizon Northwest Late Payment Charges with Other Washington Companies and with Verizon Late Payment Charges in Other States