Verizon Wireless and the Other Verizon Affiliate Companies Are Harming Verizon New York's (The State-based Utility) Customers & the State.

Examining Verizon New York's Phone Rate Increases, Income Tax Benefits, Lack of Network Upgrades, Service Quality and Pushing Voice Link Wireless Deployment

New Networks

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Executive Summary[1]

In 2009, the New York Public Service Commission[2] granted Verizon New York (VNY)[3] a rate increase on residential basic service, commonly known as POTS – plain old telephone service. The State attributed their decision to raise rates to a "massive deployment of fiber optics in New York" and because the company "is in need of financial relief" due to massive financial losses. In fact, over a four year period, (2007-2010) Verizon New York showed losses of $4.25 billion and an 'income tax benefit' of $1.74 billion.

In 2012, the Sandy storm damaged wired phone networks on Fire Island as well as other parts of New York and New Jersey. Verizon has started a campaign to relieve itself of its legal obligations to maintain the copper wiring, even after an emergency, claiming it is not 'economical' and Verizon has started to 'transition' wired customers to wireless services, including Voice Link. Voice Link is an inferior wireless service that can't handle basic POTS data applications, such as fax or alarm circuits.

Because of the public outcry, and in order to stop the controversy, Verizon has announced it will be wiring the damaged parts of Fire Island with fiber optics by Memorial Day, 2014.

But Voice Link is problem throughout New York, not just the beach homes and businesses of Fire Island. It would appear that the 'massive deployment of fiber optics', as well as the 'losses' incurred are not based on maintaining the state-based utility networks, including the Verizon New York's wires or the wires on Fire Island, but it appears that the construction budgets went, in part, to Verizon Wireless, the wireless company, and the losses are being caused by Verizon Wireless and the other Verizon affiliates' cross-subsidization and other activities.

In 2012, Fran Shammo, Verizon's EVP and CFO[4] said as much, explaining that the wireline construction budgets were used for the wireless companies' construction needs. He said, "IP backbone, the data transmission, fiber to the cell (tower); that is all on the Wireline books but it's all being built for the Wireless Company." In fact, every year Verizon sends out a press release

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[1] NOTE: This report is based on a larger examination of Verizon's affiliate transactions, which covers 5 states, New York, New Jersey, Pennsylvania, Rhode Island and Massachusetts. http://www.newnetworks.com/Verizonshellgame2012.pdf.

[2] CASE 09-C-0327 – Minor Rate Filing of Verizon New York Inc. to Increase the Monthly Charges for Residence Local Exchange Access Lines (1MR and 1FR) by $1.95 per month, State Of New York, http://documents.dps.ny.gov/public/MatterManagement/CaseMaster.aspx?MatterCaseNo=09-C-0327&submit=Search+by+Case+Number.

[3] Verizon New York is the regulated entity whose assets were paid for by ratepayers.

[4] http://www22.verizon.com/investor/DocServlet?doc=goldman_vz_transcript_092012.pdf .

on the wireline and IT construction expenditures in NY York State – and it includes the construction of fiber optic lines to cell towers as part of these wired expenses.[5]

This is an issue nationwide, anywhere where Verizon provides service, as there is another agenda impacting all wireline and wireless actions – Kill the copper. Lowell McAdams[6], Verizon Chairman & CEO and former CEO of Verizon Wireless stated on June 21, 2012: “In other areas that are more rural and more sparsely populated, we have got (wireless) LTE built that will handle all of those services and so we are going to cut the copper off there. We are going to do it over wireless.”

This corporate plan is to forego maintenance of the wired networks—reducing service quality and thereby helping to force customers to pay for more expensive wireless service even for basic needs such as local phone service. The New York State Attorney General’s Office filed a filed a petition with the New York State Public Service Commission (NY PSC) to examine the declining quality of phone service in New York State.[7] The New York Attorney General (NY AG) wrote: “The Commission allowed the company to provide below standard service to 92% of its customers with impunity.” The NY AG added, “Instead of competing to retain or expand its wireline business, the company's well-documented policy is to focus instead on competing for wireless customers, even at the expense of its own traditional wireline business”.

Verizon argues that its subscribers prefer wireless to wireline service, but on Fire Island, customers complained not only about Voice Link sound quality, but also because it cannot deliver critical data services that are the staple of POTS services, such as credit card processing, fax, alarm circuits, life alert, and DSL.

Meanwhile, Verizon and AT&T have filed with the FCC for permission to close down the Public Switched Telephone Network, (PSTN), claiming that the transition to Internet protocols requires shutting down the utility networks that ratepayers paid for.

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[5] Press Release, Verizon, Verizon Invested More Than $1.5 Billion in New York's Wireline Communications, IT Infrastructure in 2011 (Feb. 15, 2012) http://newscenter2.verizon.com/press-releases/verizon/2012/verizon-invested-more-than-6.html.

[6] Verizon at Guggenhiem Securities Symposium, June 21, 2012, http://www.media-alliance.org/downloads/Verizon_Kill_Copper.pdf.

[7] CASE 10-C-0202 - Proceeding on Motion of the Commission to Consider the Adequacy of Verizon New York Inc.'s Verizon Service Quality Improvement Program http://documents.dps.ny.gov/public/MatterManagement/CaseMaster.aspx?MatterCaseNo=10-C-0202&submit=Search+by+Case+Number; Petition of Attorney General Eric T. Schneiderman to Modify the Verizon Service Quality Improvement Plan, April 25, 2012, http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={E46EDB40-99B2-4664-8BE4-A9646D09BBBF}.

New Networks

What We Found

In analyzing the SEC-based annual and quarterly reports (which are only publicly available though 2010) with a focus on the New York phone rate increases and Verizon's Voice Link plan, we have found some disturbing facts that impact not only the rate hikes but also the entire functioning of Verizon New York and its role as the critical, essential communications infrastructure provider for the state.

- In 2010, Verizon announced that it had stopped deploying FiOS outside the 'footprint'[8]. Were the Verizon New York rate increases in 2009 for fiber optic services customers may never get? Worse, are wireline customers unknowing defacto investors paying to develop services provided only to customers of the wireless company?
- VNY's SEC filings show massive losses (as well as massive "income tax benefits"). In 2010 alone, VNY lost $2.2 billion dollars and had an income tax benefit of $716 million.
- These losses appear to be from major cross-subsidization and other transactions between and among the Verizon affiliates and VNY including: a) The affiliates are not paying competitive prices or their fair share for use of the networks, b) The affiliates are dumping expenses into the wireline business, and c) The companies may be getting free services from VNY including advertising on phone bill inserts and access to customers' account information.
- Dismantling the Utilities and Privatizing Public Assets — While the expenses are being dumped into the utility a number of separate subsidiaries have been formed where the profits go into a different financial bucket so that utility customers have funded public assets that have been privatized.
- Customers may have funded FiOS, the cable service. VNY's SEC reports appear to show that the FiOS build out came directly from the original utility construction budgets.
- Manipulation of data. Virtually every statistic presented by the phone companies pertaining to 'wireless only' households or 'access line' accounting has been manipulated for policy reasons. The 'wireless only' numbers only focus on 'residential voice calling' and not a wire in the home for data applications or any business application.

Verizon Wireless

- Verizon Wireless appears to be paying ½ of what other wireless competitors pay for access and billing and collections.
- Verizon Wireless may be dumping construction costs into the wireline construction budget. There are no reciprocal payments from Verizon Wireless to VNY for construction of wireless cell towers, among other expenses.
- Verizon Wireless may be getting a free access to VNY customer lists and free advertising in VNY mailings. There are no reciprocal payments for these expenses.
- Verizon Wireless appears to be dictating construction and even the location of the deployment areas, while hampering the wireline networks maintenance.

[8] http://online.wsj.com/article/SB10001424052702303410404575151773432729614.html

- Profit Pumping: VNY's losses are in disturbing contrast to Verizon Wireless' profits. In 2nd, quarter 2013, Verizon Wireless has an EBITDA of 49% — making it one of the most profitable companies in America. It appears that the ability to have the wireline division pay for construction (and other financial maneuvering) boosted the profits of Verizon Wireless while decreasing the profits of the VNY.

Some Very Disturbing Questions

- Have Verizon Wireless and Verizon Corporate taken control of VNY and the decision to shut down or stop repairing the wires in Verizon non-FiOS areas is based on a plan to move wireline customers to wireless?
- Has the wireless company's profit pumping been used to goose the profits of the wireless company (and lower the wired profits) — allowing VNY to claim that its own business is out of date and that wireless should replace wired service?
- Is the Voice Link push the first step in Verizon Wireless's plan to kill the copper?
- Have the affiliates all been working together, vertically integrating this plan of closing down the copper networks and pushing customers onto more expensive wireless?
- Is the deal with Verizon Wireless and the cable companies — where Verizon Wireless sells the cable companies' products bundled with the wireless service in areas that were not upgraded really a non-compete agreement — leaving non-upgraded areas with only wireless or cable-wireless package and no cable competition?
- Verizon Wireless is a joint venture with a foreign entity, Vodaphone. When VNY paid the expenses of Verizon Wireless, did the value of Verizon Wireless increase? When Verizon decided to buy out Vodaphone in the third largest business deal of all time, was that record price due to financial shenanigans? Did Vodaphone benefit, and New York ratepayers and shareholders lose, as a result of the milking of VNY for the benefit of Verizon Wireless?[9]

Phone charge increases in 2009 cost customers hundreds of dollars extra on an annual basis. The basic cost of a residential or business POTS line increased, as well as all of the other charges on the bill – including inside wiring, taxes, fees, and surcharges. And it gets applied to everyone including low income families, seniors, and those who can least afford it.

Conclusion

We are asking all government agencies, including the New York State Attorney General's Office, the New York State Public Service Commission, the FCC, and federal legislators to start immediate audits of these transactions and to investigate whether:

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[9] See, e.g., Liz Hoffman, ***Verizon Sets Record With $49B In Bonds For Vodafone Deal***, Law 360 (Sept. 11, 2013, 6:31 PM) http://www.law360.com/articles/471711/verizon-sets-record-with-49b-in-bonds-for-vodafone-deal (calling the deal the " third-largest M&A transaction of all time" and noting that the related $49 billion bond offering "dwarfs competition and easily becomes the largest corporate debt deal of all time." If future billing follows past practice, VNY ratepayers will pay the interest on the bonds, not Verizon Wireless' customers.

- There should be a separation of Verizon Wireless (Cellco) and the other Verizon affiliates from VNY—because the wireline business, the customers and New York State are being directly harmed through these cross-subsidies.
- The failure to properly upgrade and maintain the utility plant is caused by VNY financing the wireless company's construction needs.
- The flows of money between the utility networks and Verizon's affiliates have made customers funding sources for the affiliates' development and activities.
- Vodaphone, Verizon Wireless's partner, liable in any of these actions.

We note that there has been no audit performed of affiliates and VNY (at least that is public) in the last decade. Moreover, the FCC has abandoned their role of providing accurate and data-driven oversight. The FCC waived the requirement to supply basic data about affiliates or even about the number of lines and the type of lines in 2006, and the NY PSC has essentially also stopped fact finding.[10]

The primary question remains – Have Verizon Wireless and the other affiliates harmed New York's communications customers? The economic growth of the State is in the balance as Verizon controls critical infrastructure. And if Verizon's actions prove to be legal under the current statutes do the laws need to be changed to reflect a changing environment?

Fire Island, New York appears to be a glimpse into the future of New York's (and America). It is a future where the companies' wireless plans supersede the customers' needs for reliable wired service, even after an emergency. Although Verizon claims it has reversed its plans for Fire Island and will deploy the fiber that Fire Island's residents want, it is clear that the plan for America is to close down the networks that have are already in disrepair.

Finally, this report was dedicated to New York specific issues. Our previous report, "Verizon's State-Based Financial Issues & Tax Losses: The Destruction of America's Telecommunications Utilities, the Public Switched Telephone Networks (PSTN),"[11] was published in April 2012 and covered some of this material in five Verizon states — New York, New Jersey, Pennsylvania, Massachusetts and Rhode Island.

[10] NY PSC, Order Adopting Verizon New York Inc.'s Revised Service Quality Improvement Plan with Modifications (Dec. 17, 2010) http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={432DD15F-A50A-479E-8887-0210879CC606} (allowing Verizon to report service quality metrics only for Core Customers, which are defined as the needy and vulnerable: "[1] customers that do not have wireline alternatives, [2] customers subscribing to Lifeline service, or [3] customers who are characterized as having special needs.").

[11] http://www.newnetworks.com/Verizonshellgame2012.pdf

Discussion

1) Rate Increases for Fiber Optic Investments

The NY State Public Service Commission points out that the fiber optic investments are being funded via rate increases on basic local phone service — commonly called POTS (plain old telephone service).

New York State Public Service Commission, June 2009[12]

> "'We are always concerned about the impacts on ratepayers of any rate increase, especially in times of economic stress,' said Commission Chairman Garry Brown. 'Nevertheless, there are certain increases in Verizon's costs that have to be recognized. This is especially important given the magnitude of the company's capital investment program, including its **massive deployment of fiber optics in New York.** We encourage Verizon to make appropriate investments in New York, and these minor rate increases will allow those investments to continue'." (Emphasis added)

2) Verizon Is Using Questionable Losses to Raise Rates

The Order to raise rates specifically states that Verizon needed financial relief, meaning rate increases, because of the losses, which appear to have been going on for years.

> "Verizon's financial condition is 'relevant' when the Commission considers pricing changes because "the state has an interest in a viable company….There seems to be little question that the company is in need of financial relief; Verizon reported an overall intrastate return of a negative 4.89% in 2006 and its reported intrastate return on common equity was a negative 73.6%."
>
> "For 2007, Verizon reported an overall intrastate return of negative 6.24% and a return on common equity of negative 46.0%." [13]

[12] CASE 09-C-0327 – Minor Rate Filing of Verizon New York Inc. to Increase the Monthly Charges for Residence Local Exchange Access Lines (1MR and 1FR) by $1.95 per month, State Of New York, http://documents.dps.ny.gov/public/MatterManagement/CaseMaster.aspx?MatterCaseNo=09-C-0327&submit=Search+by+Case+Number; Press Release, NY PSC, Verizon Granted Residential Rate Increase (June 18, 2009) https://www3.dps.ny.gov/pscweb/WebFileRoom.nsf/Web/B849A020314983A3852575D900530827/$File/pr09054.pdf?OpenElement.

[13] NY PSC, Verizon New York Inc., Order Regarding Tariff Filing (June 18, 2009) http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={A1D3F278-9475-4A77-87F6-9276A41EDB78}.

And the Order to raise rates continued:

> "Verizon recently submitted its 2008 Annual Report showing that its earnings continue to be depressed. Specifically for 2008, the company reported a negative overall rate of return of 6.70%, a negative return on common equity of 48.66% and negative intrastate earnings of $396 million."[14]

3) Verizon New York's Losses and Tax Benefit

Over a 4 year period, 2007-2010, Verizon, New York claimed in their SEC-filed 4th quarter reports to have lost $4.25 billion and received an 'income tax benefit' of $1.74 billion. In fact, in just 1 year, 2010, the company showed a whopping $2.2 billion loss and a tax benefit of $716 million.

Exhibit 1
Verizon Losses and Tax Benefit 2007-2010
(In the millions)

	Loss	Tax Benefit
2010	-$2,200	$716
2009	-$971	$379
2008	-$528	$178
2007	-$549	$201
Total	**($4,248)**	**$1,474**

4) Major Price Increases for Local Service

The price of basic phone service has gone up a whopping 598% since 1980 — i.e., if you kept your basic local phone service, you paid $7.63 a month (removing the phone rental). By 2010, the exact same service is $53.25 — an increase of almost 598%. This is based on a collection of the author's Aunt Ethel's[15] actual Verizon Brooklyn New York residential local phone service bills and other supplemental Verizon Brooklyn, NY bills.

[14] NOTE: The numbers presented differ from the SEC filings. There is a match of sorts with the losses discussed by the State PSC and VNY's 4th quarter losses for 2008. In 2008, VNY showed a net loss of $350 million and $348 million in 2007. While not an exact match, the $396 million in losses for 2008 quoted by the state would appear to have a direct connection with the SEC filing. (Verizon's original filing to the State for 2008 does not appear to be available online.)

[15] Aunt Ethel is the late aunt of Bruce Kushnick. She paid her phone bill out of her monthly income, which was exclusively social security payments.

As you can see in the exhibit below, in 1980, local service was a bundled service. It came with local calling (and a $4.00 call allowance), 6 free directory calls, after which all directory calls were $.10 each. And if the directory calls were unused the customer received a $.30 credit. The wire inside the home was part of local service and cost $1.24 a month. There was no FCC Line Charge, no extra Universal Service Fund, no E911 charge, and most of the surcharges didn't exist.

As of 2012, the local service calling allowance was removed (and the price increased as discounts were removed for time of day usage), inside wiring cost $7.99 a month, directory assistance is $1.99 per call, and there are no free calls. There is the FCC Line Charge at $6.38 ($6.87 with the added new "Access Recovery Charge") and new surcharges, many of which are actually taxes that are assessed on Verizon but which they can pass through to the customer.

Exhibit 2
Verizon New York Basic Service Prices, 1980-2012[16]

	1980	1987	1992	1998	2004	2006	2008	2012	Increase	Since 2004
Untimed Message	$6.04	$7.44	$6.60	$6.60	$8.61	$9.85	$13.85	$15.80	162%	84%
Wire Maintenance	$1.24	$0.95	$1.51	$1.49	$3.45	$4.48	$5.99	$7.99	544%	132%
FCC Line Charge	0	$2.00	$3.50	$3.50	$6.38	$6.40	$6.42	$6.87	244%	8%
E911	0		$0.35	$0.35	$1.00	$1.00	$1.00	$1.00	186%	0%
DA @ 3 calls (6 free)	($0.30)	$0.92	$1.58	$1.58	$2.81	$4.39	$4.42	$5.97	2090%	112%
Number Portability					$0.23					
Call Allowance	($4.00)	$0.90	$5.09	$5.09	$5.47	$7.20	$7.90	$7.90	298%	44%
Universal Service Fund	0				$0.62	$0.74	$0.73	$1.11	79%	79%
Surcharges				$1.56	$1.67	$1.86	$2.46	$3.02	94%	81%
Total Before State & Local	$6.98	$12.21	$18.63	$20.17	$30.24	$35.92	$42.77	$46.64	568%	54%
State, Local, Federal	$0.65	$1.37	$2.10	$2.27	$3.40	$4.18	$4.81	$6.61	917%	94%
Total	**$7.63**	**$13.58**	**$20.73**	**$22.44**	**$33.64**	**$40.10**	**$47.58**	**$53.25**		
Increases		60%	144%	165%	297%	426%	524%	598%		

Sources, Aunt Ethel's phone bills, Brooklyn, NY (1980-1999, Other customers, 1999-2012)

[16] http://newnetworks.com/VerizonBasicLocalPhoneService19802012.htm

5) The Affiliates and the Losses Generated

The next exhibit was taken directly from the VNY 4th quarter report in 2010[17], the last year the company published state-based reports.

Exhibit 3
Verizon's Affiliate Transactions with Verizon, New York, 2009-2010
(In the millions)

Operating Revenues	**2009**	**2010**	**Total**
Verizon Business	$ 351	$275	$626
Verizon Wireless Inc.	$78	$95	$173
Verizon Services	$56	$59	$115
Verizon Internet	$648	$706	$1,354
Long Distance			
Operating Telephone	$ 2		$2
Other	$1	$ 1	$2
Total	$1,136	$1,136	$2,272
Operating Expenses	**2009**	**2010**	$4,019
Verizon Services	$2,036	$ 1,710	$3,746
Internet Services			
Data Services Inc.	$ 240	$ 249	$489
Connected Solutions.			
Operating Telephone	$ 835	$637	$1,472
Verizon Wireless Inc.	$ 5	$4	$9
Long distance rec.			
Verizon Business	$4	$ 4	$8
Other			
Total	$3,120	$2,604	$5,724

(Source, Verizon New York 4th Quarter report)

NOTE: See Appendix 1 for details of the affiliates.

[17] VNY 4th quarter report 2010

6) Who is Verizon Services?

The largest cost in expenses comes from Verizon Services. The next exhibit highlights 2009 and 2010 and it shows a massive $3.7 billion charge from Verizon Services in expenses for just 2 years.

Verizon Services is the corporate headquarters. It is a kitchen sink of items that includes corporate finance, external affairs, legal, media relations, employee communications and corporate advertising.

Exhibit 4
Verizon Services Expenses for Verizon, New York, 2009-2010
(In the millions)

	2009	**2010**	**Total**
Verizon Services	$2,036	$ 1,710	$3,746

Verizon's 4th Quarter 2010 state-based SEC report states:

> "We have contractual arrangements with Verizon Services for the provision of various centralized services. These services are divided into two broad categories. The first category is comprised of network related services which generally benefit only Verizon's operating telephone subsidiaries. These services include marketing, sales, legal, accounting, finance, data processing, materials management, procurement, labor relations, and staff support for various network operations. The second category is comprised of overhead and support services which generally benefit all subsidiaries of Verizon. Such services include corporate governance, corporate finance, external affairs, legal, media relations, employee communications, corporate advertising, human resources, treasury, and rent expenses associated with the rental of facilities and equipment. Costs may be either directly assigned to one subsidiary or allocated to more than one subsidiary based on functional reviews of the work performed."

Translated into English, this most likely means that Verizon Services dumps everything, from lobbying, monies for the Verizon Foundation, executive pay, travel and a host of other charges that have nothing to do with the cost of actually offering phone service. Prior to massive deregulation, virtually none of these expenses would have been allowed to be considered as a factor in a local rate adjustment.

And to confuse this more, this was included in the Verizon, New York 2010 SEC year end filing. "Verizon Services Group," "Verizon Services Corp.," and "Verizon Corporate Services Group" (*collectively known as "Verizon Services") are all listed.

> "The consolidated financial statements include the accounts of Verizon New York Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. We have a 66-2/3% ownership interest in Telesector Resources Group, Inc. (d/b/a Verizon Services Group) and share voting rights equally with the other owner, Verizon New England Inc. (Verizon New England), which is a wholly owned subsidiary of NYNEX. Verizon Services Group operates in conjunction with Verizon Services Corp. and Verizon Corporate Services Group Inc. (collectively known as Verizon Services) to provide various centralized services on behalf of Verizon's subsidiaries. We use the equity method of accounting for our investment in Verizon Services Group."

It is hard to imagine why the NY PSC granted rates increases when most of these expenses would never have been included in the regulated entity's rate base.

7) Wireless Cross-Subsidization

Verizon's overall domestic wireless revenues were $60 billion for 2009 and $63 billion for 2010, with 89 million customers in 2009 and 94 million in 2010. In 2012, the company showed $76 billion in wireless company revenues with 98 million connections.

VNY subsidized the wireless company through:

- **Access Fees and Billing and Collections —** There are connection fees. Does Verizon pay back to Verizon New Jersey or New York all the monies and fees the other competitors are required to pay?
- **Advertising and Marketing** — when Verizon sends out inserts with the local phone bill, many times it advertises the wireless service. Did the wireless service pay for the advertising, the mailing, etc?
- **Construction Budgets —** where the wireline capital expenditures have been diverted to build lines to cell towers.

If the price of phone service is being increased based on the reported losses of the companies, if the companies' affiliates are not paying their fair share, are customers being overcharged as these increases would not happen had the wireless company paid their full freight?

8) Comparing AT&T Access Charges to Verizon Wireless Payments

Verizon Wireless (as well as AT&T and Sprint) make payments to Verizon New York that are called access fees. Some are "special access" fees. Others are billing and collection fees, among other things.

The Benton Foundation explains special access fees this way:[18]

> "Special access rates are the wholesale prices that large telephone companies — Verizon, AT&T, and Qwest — charge cell phone companies and smaller carriers for entree to their high-speed digital circuits. Special access circuits play a significant role in the availability and pricing of broadband service. For many broadband providers, including small incumbent LECs, cable companies and wireless broadband providers, the cost of purchasing these high-capacity circuits is a significant expense of offering broadband service, particularly in small, rural communities."

Verizon has more or less a monopoly on these lines and VNY is charging lower special access fees to Verizon Wireless.

And the National Broadband Plan[19] includes "Recommendation 4.8: The FCC should ensure that special access rates, terms and conditions are just and reasonable". It continues:

> "Special access circuits are usually sold by incumbent local exchange carriers (LECs) and are used by businesses and competitive providers to connect customer locations and networks with dedicated, high-capacity links. Special access circuits play a significant role in the availability and pricing of broadband service. For example, a competitive provider with its own fiber optic network in a city will frequently purchase special access connections from the incumbent provider in order to serve customer locations that are "off net." For many broadband providers, including small incumbent LECs, cable companies and wireless broadband providers, the cost of purchasing these high-capacity circuits is a significant expense of offering broadband service, particularly in small, rural communities".

And yet, based on this information, Verizon Wireless has a sweetheart deal that disadvantages the competitors.

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[18] Benton Foundation, ***Ensure that Special Access Rates, Terms and Conditions are Just and Reasonable***, http://benton.org/node/33292

[20]Two examples of Billing and Collections, Centurylinkhttp://www.centurylink.com/wholesale/pcat/thirdpartybillcollectsvcs.html

There is also “Billing & Collections”[20], which are a wide array of services that can include everything from the accounting of wireless traffic from multiple carriers, including details of the calling information required to do billing. These services can be related to the use of the special access services or even end user phone bills.

Calculating the Access Fee Payments by Carrier in New York

Let’s go through the Access Fees paid by Verizon Wireless to VNY as compared to AT&T and Sprint. In 2010, Verizon Wireless had 94.1 million subscribers, AT&T Wireless had 95.5 million subscribers and Sprint-Nextel had 44.5 million nationwide.

Exhibit 5
Verizon, AT&T and Sprint Wireless Subscribers, 2008-2010[21]
(In the millions)

	2009	2010
Verizon	89,172	94,135
AT&T	85,120	95,536
Sprint	39,953	44,521

The following information is in VNY’s SEC 2010 4th quarter discussion of the access and billing and collection fees paid by Sprint/Nextel and AT&T.

> “Concentrations of credit risk with respect to trade receivables, other than those from AT&T Inc. (AT&T) and Sprint Nextel Corporation (Sprint), are limited due to the large number of customers. We generated revenues from services provided to AT&T and Sprint (primarily network access and billing and collection) of $237 million and $104 million in 2010 and $279 million and $119 million in 2009, respectively.“[22]

The VNY 2010 4th Quarter SEC filing[23] explains that Verizon Wireless’ revenue payment to VNY is for “network access and billing and collections.”

> “Verizon Wireless: Our operating revenues include transactions with Verizon Wireless Inc. (Verizon Wireless) associated with the provision of local and

[21] Sources:
- Verizon: 2010 EX-13 7 dex13: Portions of Verizon's Annual Report to Shareowners
- AT&T EX-13 8 ex13, AT&T INC. 2010 Annual Report
- Sprint FORM 10-K Sprint Nextel Corporation , For the fiscal year ended December 31, 2010

[22] Verizon, New York SEC Annual Report for the Year ending December 31, 2010.
[23] Verizon New York, for the year ending December 31, 2010, page 21

network access services, billing and collection services and from interconnection agreements. These revenues are earned from Verizon Wireless who provides wireless voice and data services, paging services and equipment sales to their customers."

VNY's 2010 SEC report shows that Verizon Wireless paid $78 million in 2009 and $95 million in 2010. Verizon Wireless paid about $200 million less than AT&T paid in 2009, even though AT&T and Verizon have virtually the same numbers of subscribers. Verizon Wireless paid even less than Sprint, which has less than half of the subscribers of Verizon Wireless.

Exhibit 6
Verizon Wireless Payments to Verizon NY, Compared to AT&T and Sprint, 2009-2010
(In the millions)

	2009	2010	2 Year Total	AT&T	Verizon Underpay
Verizon Wireless	$78	$95	$173	$343	$377
AT&T	$279	$237	$516		
Sprint	$119	$104	$223		

Estimate of AT&T, Verizon and Sprint Wireless Subscribers in New York

We estimate that Verizon Wireless customers account for 6.6%[24] of the national whole, as shown in Exhibit 5, (using Census data for national and state population and the FCC's data on telecommunications revenue by state). This next exhibit supplies New York State wireless customers by carrier.

Exhibit 7
Estimated New York State Wireless Subscribers, 2009-2010
(In the millions)

	2009	**2010**
Verizon	5,885	6,213
AT&T	5,618	6,305
Sprint	2,637	2,938

[24] We base this estimate on the following:

- 6.4% census of population, as of 2007 –(source Time Almanac, 2009)
- 6.8% FCC, Table 15.5:Total Telecommunications Revenues by State: For the year 2005, Trends in Telephone Service, published 2008.

Average Payment to VNY Per New York State Wireless Customer by Carrier

Using the monies paid by the carriers to Verizon New York in Exhibit 5, and the number of customers in New York State by carrier, Exhibit 7, the next exhibit highlights the estimated fees paid by the carriers per year for network access and billing and collections per customer.

It would appear that Verizon Wireless paid 72% less than AT&T or Sprint in 2009 and 58% less in 2010 to Verizon New York. Or another way of looking at it, in 2010, AT&T and Sprint paid about 2.4 times more money than Verizon Wireless paid for access and billing and collections per subscriber.

Exhibit 8
Average Payment per Subscriber to VNY

	2009	**2010**	**2009**	**2010**
Verizon	$13.22	$15.29		
AT&T	$49.66	$37.62	3.76x	2.46x
Sprint	$45.77	$35.39	3.46x	2.31x
Average difference			72%	58%

Caveats

- There is no detailed data on Verizon Wireless payments to VNY.
- There is no detailed data on payments by Sprint/Nextel or AT&T to VNY.
- We assume Verizon has a larger market share of the wireless markets in their incumbent territories, including New York State.
- We are using Verizon New York data for 2010 because the company stopped publishing its state-based annual reports.
- The FCC doesn’t publish any data on the actual costs of access fees by carrier.

9) Is Verizon Wireless Paying VNY for Advertising, Customer Names and Customer Acquisition?

There are no reciprocal payments itemized in the SEC reports from Verizon Wireless to Verizon New York for advertising or marketing fees, even though there are clear indications that Verizon Wireless is marketing and advertising to wireline customers.

a) Marketing & Advertising Use of Customer Names, Lists, Free Advertising

- Is VNY giving Verizon Wireless the customers' names, addresses and other information for free?

- Verizon Wireless may be getting a free ride in POTS customers' phone bill inserts. Verizon's POTS customers pay for the printing and mailing of this insert, which often advertises products from Verizon Wireless.

b) Handing Over the Customer to Verizon Wireless (Cellco)—Customer Acquisition from Free?

Customer acquisition[25] is the cost to a wireless carrier to secure a new customer or have a customer return after leaving. While each company is different, Leap Wireless and Clearwire[26] averaged $150-250 dollars per customer in 2011-2012 for customer acquisition.[27]

On Fire Island, Verizon New York, and everywhere else Voice Link is installed, Verizon wireline is simply handing over the customers to another company, Verizon Wireless. Also, Verizon Wireless is "upselling"' the customers to a wireless broadband service , Jet Pack, which is being sold to those who previously had DSL service over the old copper wire but can no longer get this service.

Voice Link wireless is also giving more business to Verizon Wireless as Verizon Wireless handles the Voice Link calls. And while Voice Link is being offered by Verizon New York today, it is clear that to get rid of the unions, Verizon will move this business to Verizon Wireless.

10) Transfer of Wireline Construction Budgets for Wireless

Fran Shammo[28], Verizon's EVP and CFO stated that the wireline construction budgets have been diverted to charge customers for the Wireless companies' construction needs.

> "The fact of the matter is Wireline capital — and I won't get the number but it's pretty substantial — is being spent on the Wireline side of the house to support the Wireless growth. So the IP backbone, the data transmission, fiber to the cell, that is all on the Wireline books but it's all being built for the Wireless Company."

[25] NOTE: CPGA is the ***Cost Per Gross Addition*** (***CPGA***) ***Definition*** | Investopedia
http://www.investopedia.com/terms/c/cpga.asp

[26] Clearwire paid from 143-242 in 2012. http://www.fiercewireless.com/story/clearwire-confirms-verizon-bid-spectrum-still-aims-sprint-deal/2013-04-25.

[27] Leap wireless paid $228 per customer in 2011,
http://www.leapwireless.com/ar2011/downloads/Leap_4Charts+PM_050112.pdf.

[28] Thomson Reuters Edited Transcript, Verizon at Goldman Sachs Communacopia Conference, Sept. 20, 2012,
http://www22.verizon.com/investor/DocServlet?doc=goldman_vz_transcript_092012.pdf.

But this isn't the only time the issue of the wireless-wireline construction budget relationship came up. Multiple press releases by Verizon pertaining to Verizon New York wireline construction expenditures outlines how the wireless towers are now part of the 'wired construction' budgets.

The headline reads:

> **"**Verizon Invested More Than $1.5 Billion in New York's Wireline Communications, IT Infrastructure in 2011."[29]

And the text states that the fiber optic cell towers for wireless services are a wired product.

> "Accelerated deployment of fiber-optic links to wireless carriers' cell sites throughout New York as these carriers expand their infrastructure to meet ever-growing demand for wireless broadband and advanced 4G services. In 2011, Verizon deployed fiber optics to connect 1,848 of these sites in the state."

In 2013, Verizon put an almost identical press release, and while the headline construction budget stayed the same, this new release added Connecticut to hide Verizon's shrinking investment in New York.

> "Verizon Invested More Than $1.5 Billion on New York's and Connecticut's Wireline Communications, IT Infrastructure in 2012"[30]

And again the punchline is that the wireless networks are funded via the wireline construction budgets.

> "Continued deployment of fiber-optic links to wireless providers' cell sites throughout New York and Connecticut, as these carriers expand their infrastructure to meet ever-growing demand for wireless broadband and advanced 4G services. In 2012, Verizon deployed fiber optics to connect 867 of these sites in the two states."

And let us be clear, this is a Verizon-wide practice it would seem.

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[29] Press Release, Verizon, ***Verizon Invested More Than $1.5 Billion in New York's Wireline Communications, IT Infrastructure in 2011***, Feb., 12, 2012 http://www.bizjournals.com/prnewswire/press_releases/2012/02/15/NY54012.

[30] Press Release, Verizon, ***Verizon Invested More Than $1.5 Billion on New York's and Connecticut's Wireline Communications, IT Infrastructure in 2012***, Feb. 25, 2013, http://newscenter.verizon.com/corporate/news-articles/2013/02-25-ny-ct-infrastructure-investment/.

In 2011 then president of Verizon New Jersey, Dennis Bone gave a speech on the future of telecommunications in the state. He was quoted as saying that landlines are now relics and that Verizon is investing in its broadband networks, including wireless. (Note the difference between 'land lines' and 'broadband networks', which he claims are different.)

> "Landlines are also becoming relics, Bone said, noting Verizon has lost 60 percent of its traditional landline business in the past decade. Meanwhile, Verizon is heavily investing in its broadband network, pumping $3.5 billion in New Jersey into the network over the past five years. The future also includes the full roll-out of the 4G wireless network by 2013, offering up to 10 times faster connectivity and less latency than current 3G networks."[31]

Why was the Verizon New Jersey President, who ran the wired network, talking about wireless deployments, which are supposed to be offered by a different company that Verizon New Jersey does not control and is supposed to be working with at arms-length?

Based on these statements, it appears that the utility company was spending money on Verizon Wireless' 4G wireless networks. The article states:

> "deployment of fiber-optic links to wireless providers' cell sites throughout New Jersey as these carriers expand their infrastructure to meet ever-growing demand for wireless broadband and advanced 4G services. In 2010, Verizon deployed fiber optics to connect more than 1,660 of these sites."[32]

Does this mean that Verizon, New Jersey, the utility, was charging local phone customers for construction budgets of the wireless networks?

In interviews with IBEW staff in New Jersey during 2012, we were told that instead of upgrading the wireline services, including DSL, the staff was being put on projects to build out the wireless networks throughout the state. Ratepayers paid for network maintenance that never occurred; ratepayers funded Verizon Wireless' new, expensive service.

11) Wireless "Profit Goosing" Is a Systemic Problem in the Industry

This cross-subsidization of wireless and wireline business with the goal to goose the wireless profits appears to be a systemic issue throughout the industry and not simply for construction or access alone but for all reported revenues, expenses and profits.

[31] Local Talk News, New Jersey Must Prepare Itself for Rapid Advances in Telecommunications Technology to Capitalize on Business Opportunities, May 5, 2011, http://localtalknews.com/state/news/862-new-jersey-must-prepare-itself-for-rapid-advances-in-telecommunications-technology-to-capitalize-on-business-opportunities.html.
[32] Id.

AT&T's 2010 Annual Report had a disturbing "Management's Discussion", which stated that the wireless division's profit margins increased based on what looks like dumping expenses into the wireline division.

> "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations-Continued Dollars in millions except per share amounts…"Historically, intersegment activity had been reported as revenue in the billing segment and operating expense in the purchasing segment. Upon consolidation, the intersegment revenue and expense were eliminated with the consolidated results reflecting the cash operating and depreciation expense of providing the intersegment service. As part of AT&T's ongoing initiatives to manage its business from an external customer perspective, we no longer report intersegment revenue and report the cash operating and depreciation expense related to intersegment activity in the purchasing segment, which provided services to the external customer. While this change did not impact AT&T's total consolidated results, the impact to each operating segment varied. In particular, the Wireless segment, as a purchaser of network, IT and other services from the Wireline segment, experienced a reduction in cash operating expense partially offset by increased depreciation expense with the net result being increased operating margins."

12) Voice Link Can't Handle Basic POTS Data Applications

Verizon New York decided to use a 1990's styled cell phone (literally 2G) device (i.e., before cell phones could handle data services) as the replacement for copper wires on Fire Island.

The next exhibit compares Verizon's Voice Link and the data services that a regular POTS line supplies. Some services, like fax or alarm circuits, have been around for decades. Businesses rely on them. People rely on them.

Exhibit 9
Plain Old Telephone Service VS Voice Link

	Voice Link	COPPER
Fax Machines	NO	YES
DVR Services	NO	YES
ATM Business Machines	NO	YES
Credit Card Processing	NO	YES
Medical Alert or Other Monitoring Services	NO	YES
Calling Cards or Dial-Around Calls	NO	YES
Accept Collect Calls or Third Number Billed Calls	NO	YES
Bill Any Charges on Behalf of Other Carriers	NO	YES
Allows International Calls from Other Carriers	NO	YES
Does Not Require Providing Power	NO	YES
E911 is a Guaranteed Service	NO	YES
Competitors Can Use the Wires*	NO	YES

Sources: Verizon Voice Link Terms of Service, New Networks[33]

According to the Verizon Voice Link® Terms of Service[34], the service can't do basic data applications, including fax or credit card handling or DSL (broadband) or even dial-up Internet service using a modem and a phone line. It can't do medical alert services, it can't do alarm company services and it doesn't let you use a calling card to make cheap calls.

Verizon writes:

- "The Service is not compatible with fax machines, DVR services, credit card machines, or some High Speed or DSL Internet services,
- The Service is not compatible with medical alert or other monitoring services.
- The Device may not be compatible with certain monitored home security systems.
- The Service does not allow the Customer to make 500, 700, 900, 950, 976, 0, 00, 01, 0+, calling card or dial-around calls (e.g., 10-10-XXXX). The Service does not allow the Customer to accept collect calls or third number billed calls.
- The Company will not bill any charges on behalf of other carriers. You must have an International Calling Plan in order to make international calls."

[33] PLEASE NOTE: * While competitors have been restricted from using the wires to offer services, Voice Link prevents ALL future competitors from using the networks. Moreover, Verizon terms of service have specific language to remove any liabilities if the E911 service doesn't work, even though Verizon claims that Voice Link is just like the wired E911 service.

[34] Verizon Voice Link Terms of Service, ***available at*** http://www.publicknowledge.org/files/VZ%20Voice%20Link%20TOS.pdf.

No Reliable Emergency E911 Service. Many people keep their land line for emergencies. Verizon claims that "Voice Link offers the same E911 capabilities as traditional wireline service[35]."

But Verizon refuses to take any liability when the E911 emergency services don't work. Verizon's terms of service states that the E911 call may not go through and the E911 dispatcher may not be able to identify your location based on your phone number –which is standard for all wireline-based E911 service phone lines. Here's a snippet:

> "Additional Service Limitations that Apply in the Event that Verizon Cannot Route Your 911 Call Directly to the Appropriate Emergency Service Provider. If, for any reason, Verizon cannot directly route your 911 call to the appropriate emergency service provider, your 911 call may be routed to a Verizon operator. You agree that the operator and/or emergency response center personnel receiving your call may not be able to identify your phone number or the physical address from which you are calling."

13) FiOS and Cable Cross-Subsidization

FiOS is a fiber optic-based broadband and cable service that is offered through a cable franchise. FiOS is also an Internet service and offers voice phone calling using VoIP. Where FiOS is deployed, Verizon aggressively markets it, replacing copper PSTN service.

As we pointed out, Verizon sought approval for rate increases in 2009 to pay for the company's massive fiber optic investment. FiOS TV, the cable service, also benefits from VNY's construction budgets. In 2011, Verizon's press release[36] stated: "Verizon Spent more than $1.4 Billion in New York's Landline Telecommunications Infrastructure in 2010."

The press release continues:[37]

> "Last year, Verizon completed the following New York projects and initiatives:

- "The company continued its rollout of its revolutionary FiOS TV service to more communities, bringing competition and choice for cable TV service. Verizon ended the year with a total of 178 towns and villages that have enabled their

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[35] Tom Maguire, The Fire Island Voice Link Solution, Verizon Policy Blog (June 3, 2013) http://publicpolicy.verizon.com/blog/entry/the-fire-island-voice-link-solution.

[36] Press Release, Verizon, ***Verizon Spent More Than $1.4 Billion in New York's Landline Telecommunications Infrastructure in 2010*** (Feb. 1, 2011) http://newscenter2.verizon.com/press-releases/verizon/2011/verizon-spent-more-than-14.html.

[37] Ibid.

residents to order state-of-the-art, all-fiber-optic FiOS TV service. The company continued to build its all-fiber network deeper into communities that had already granted a TV franchise to Verizon. FiOS TV is now available in large parts of New York City, Long Island, the counties to the north of New York City and into the mid-Hudson area, and in western and central New York.

- "The company offered enhancements that further differentiate FiOS services from the competition. For example, FiOS TV provides a host of innovative, interactive features including an advanced interactive media guide; social TV, news, sports and entertainment widgets; DVR management via broadband or compatible smartphone; multi-room Home Media DVR; and more."

There can be little doubt, then, that the fiber optics is FiOS and that one of the major selling points is the cable service.

14) FiOS Current Deployment

This next exhibit gives the actual installations of FiOS and the copper plant for Verizon's entire territories. While the perception is that Verizon is "everywhere" or that there are no longer any copper wires, the truth is that the overwhelming number of lines are still copper-based and have not been upgraded, and as we noted earlier, Verizon has stated the company is no longer planning to deploy fiber outside their current footprint.

Exhibit 10
Verizon's Copper and FiOS Statistics

Verizon's Total Locations	Unknown
Verizon Households in Territories	27 million
Current FiOS TV customers	5 million
Total Coverage FiOS TV 2013	14.5 million
Percent of Customers "upgraded"	53%
Percent of Customers Still on Copper	82%
Percent of FiOS TV and Total	18%

How much of Verizon is actually wired and how many customers are on FiOS? As of July, 2013, FiOS has only 5 million TV customers. And while the media keeps parroting the Verizon's claims that they would have 18 million households passed, it appears that the deployment is closer to 14-15 million currently.

Verizon's 2012 Annual Report said:[38]

> "We have continued to grow our subscriber base and consistently improved penetration rates within our FiOS service areas during 2012. Also contributing to the increase in revenue from FiOS services were changes in our pricing strategy adopted in 2012. As of December 31, 2012, we achieved penetration rates of 37.3% and 33.3% for FiOS Internet and FiOS Video, respectively, compared to penetration rates of 35.5% and 31.5% for FiOS Internet and FiOS Video, respectively, at December 31, 2011."

If 33.3% of households passed represents 4.7 million customers then the total coverage at the end of 2012 was only 14 .2 million households PASSED, not wired.

This means that Verizon has misled the public in thousands of public statements. — or at least they don't bother to correct the reporters.[39]

But here's the rub — while it is almost impossible to find Verizon's exact number of households or businesses or 'locations' because the company has been selling rural properties over the last decade — including Maine, New Hampshire, and Hawaii, — Verizon still claims that its footprint has about 27 million households.[40] But it could be higher.

This then means that 45% of customers are not in a service area for FiOS. Moreover, this also means that Verizon's lines are still mostly copper — about 80% in the Verizon footprint, as the company only has 5 million customers out of 27 million households — it is probably higher as businesses are not included.

15) FiOS and Overall Wired Construction Budgets

Verizon claims that the company spent $23 billion dollars overall in rolling out FiOS since 2004[41]. Multiple reports, including Reuters[42] and Fierce Telecom[43] claim that the money was

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[38] Verizon Annual Report 32, ***available at*** http://www.verizon.com/investor/app_resources/interactiveannual/2012/downloads/12_vz_ar.pdf.

[39] Sean Buckley, ***Verizon's Shammo doubts Google Fiber will build in FiOS areas***, Fierce Telecom (May 30, 2013) http://www.fiercetelecom.com/story/verizons-shammo-doubts-google-fiber-will-build-fios-areas/2013-05-30.

[40] Comment by Matt Davis, ***Verizon Sells Most of Its Remaining Rural Footprint to Frontier***, Forbes Custom http://www.forbescustom.com/TelecomPgs/idcnews/6.22.09/VerizonFrontierP1.html.

[41] Transcript, p. 17, ***Verizon Communications' Response to Questions for the Record for Verizon-Spectrum Co. Hearing From Senator Lee***, Apr. 19, 2012, Randal S. Milch, Verizon (Executive Vice President & General Counsel), available at http://www.judiciary.senate.gov/resources/transcripts/upload/032112QFRs-Milch.pdf.

[42] Reuters, ***Verizon sees FiOS less profitable than copper*** (Aug. 10, 2011 4:33 PM) http://www.reuters.com/article/2011/08/10/us-verizoncommunications-wireline-idUSTRE7796FV20110810.

[43] Sean Buckley, ***Verizon CFO Shammo: Expanding wireline's profit remains a challenge***, FierceTelecom (Aug. 12, 2011) http://www.fiercetelecom.com/story/verizon-cfo-shammo-expanding-wirelines-profit-remains-challenge/2011-08-12.

spent. The construction budgets indicate that Verizon has been able to use the utility's construction budgets to fund FiOS, including the cable service.

This next chart and exhibit details Verizon's construction budgets for 2000 through 2011, taken directly from the Verizon annual SEC reports. It also shows an imaginary "FiOS Bump" — about $3.8 billion dollars per year in addition to the baseline — that should have been spent annually over a six year period if the company had really been paying $23 billion dollars for the construction of FiOS. But the numbers show no bump in construction for FiOS; no major increases in capital expenditures in general. In fact, Verizon, on average, spent about the same from 2000 to 2004 as it spent from 2005 to 2010. That is difficult to square with its reported expenditures on building the FiOS network.

Exhibit 11
Verizon Wireline Construction Budgets, 2000-2011

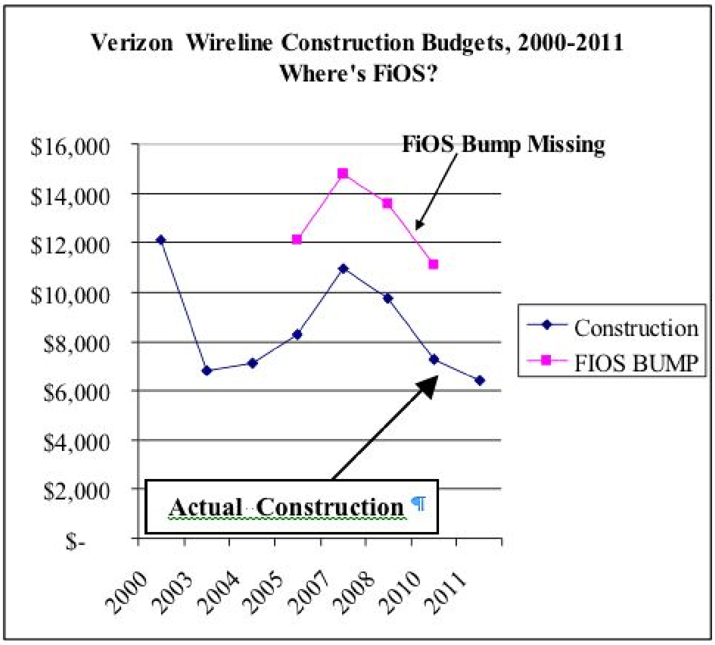


Exhibit 12
Verizon Wireline Construction Expenditures, including FiOS, 2000-2010
(In the millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1)Construction	$12,119	$11,480	$8,004	$6,820	$7,118	$8,276	$10,259	$10,956	$9,757	$8,892	$7,269
2) FIOS						$3,833	$3,833	$3,833	$3,833	$3,833	$3,833
3) PSTN						$4,443	$6,426	$7,123	$5,924	$5,059	$3,436
4) % spent on PSTN						54%	63%	65%	61%	57%	47%
5) FIOS Bump						$12,109	$14,092	$14,789	$13,590	$12,725	$11,102

1) Construction: Verizon Wireline Construction Expenditures by Year
2) If FiOS was built from 2005-2010, the company spend $3.8 billion annually.
3) PSTN represents the cash left to pay for PSTN-based network upgrades and maintenance.
4) As this shows, Verizon wireline spent about 58% of the total on its own ratepayers' network.
5) The "FiOS Bump" is the construction budget level if FiOS construction had not displaced wireline construction.
6) From 2002 through 2004, Verizon decreased construction budgets in order to obtain state franchise agreements.

Comparing Verizon construction averages 2000-2004 to the FiOS years 2005-2010**,** this detail below supplies the average construction budgets before FiOS deployment, 2000-2004, and during FIOS deployment. On average, there was only a 1.4% increase to the budgets.

Exhibit 13
Verizon's Wireline Construction for 2000-2010
(In the Millions)

2000-2004	$9,108.20	1.4%
2005-2010	$9,234.89	

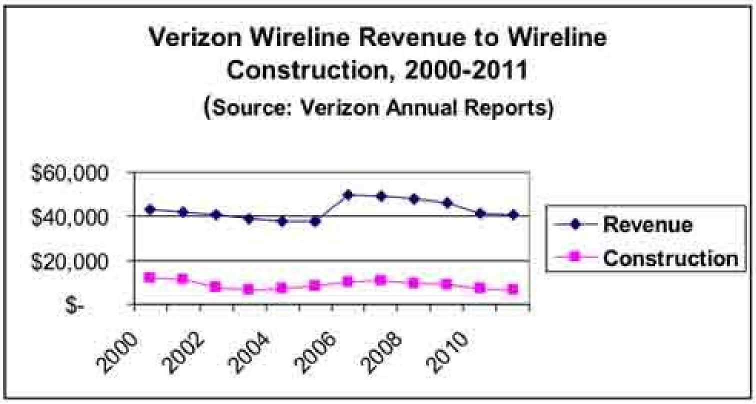
16) Verizon Construction Budgets as Compared to Revenues

An alternate analytical framework leaves us with similar questions. Construction budgets for wireline services historically equal about 20 to 25 percent of revenues. One could reasonably expect that building out a $23 billion network over seven years would lift that percentage to well over 25 percent a year, and that this would be reflected in reporting on expenditures.

But this expectation isn't met. From 2000 to 2004, construction amounted to 22.2 percent of wireline revenues. From 2005 to 2011,[44] it was only 19.7 percent. That's actually a $5.9 billion reduction in construction spending in those latter years, compared to what would have been spent had Verizon continued constructing its network at the same pace before it built its new fiber network.

This chart compares revenue and construction costs for wireline services from 2000 to 2011, in millions of dollars.

Exhibit 14
Verizon Wireline Revenue as Compared to Wireline Construction



How Did FiOS Cable Service Get Built?

Whatever amount Verizon did spend on FiOS — and obviously it was not an insignificant amount — appears to have come out of the construction budgets which should have been used to upgrade the lines that most Americans are still using the Public Switched Telephone Network, or PSTN. It would seem that customers, including seniors, low income families, minorities, and municipalities have been funding the construction of a cable service through the hefty monthly fees they pay for a dialtone and ancillary services. In some states this is actually illegal.

17) Cross Subsidization of FIOS Cable and the Fiber Optic Deployments.

For this section, we are focusing on events in New Jersey because of the activities of the NJ Ratepayer Advocate as there are no corollary analyses done by New York regulators or advocate offices.

[44] This information uses 2005-2011 as the reference point instead of 2010, primarily because we found conflicting reports of when the $23 billion had actually been spent.

Cross subsidization was illegal in New Jersey state legislation, the New Jersey BPU rulings, and even the Telecommunications Act of 1934 (as amended in 1996). The Ratepayer Advocate noted this issue in 2007[45]. On the federal side, the Ratepayer Advocate quotes the federal Telecom Act:

> "More than ten years ago, in its passage of the sweeping Telecommunications Act of 1996, Congress explicitly prohibited subsidization of competitive services by noncompetitive services. Section 254(k) of the 1996 Act states:
>
> "A telecommunications carrier may not use services that are not competitive to subsidize services that are subject to competition. The Commission, with respect to interstate services, and the States, with respect to intrastate services, shall establish any necessary cost allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services'". [46]

According to the Advocate, the state statutes also do not allow for cross-subsidization:

> "In a statutory mandate that parallels the directive that the federal 1996 Act establishes, a New Jersey statute, enacted in 1992, prohibits the subsidization of competitive services with revenues derived from noncompetitive services. The Legislature stated that 'no local exchange telecommunications company may use revenues earned or expenses incurred in conjunction with noncompetitive services to subsidize competitive services'."[47]

The Ratepayer advocate outlined the harms of when there is cross-subsidization:

> "Ratepayers of utilities face at least three categories of risk when their utility, or its holding company, invests in non-utility businesses. First, the utility holding company investments in non-utility businesses may lead to utility ratepayer subsidies of non-utility services, second, the acquisition of a utility by a holding company can affect the incentives of utility management as new management may have priorities other than local utility service and may lack the State-specific experience necessary to ensure reliable service at reasonable rates. Third, because the utility industry is capital intensive, utilities are highly dependent on access to the capital markets. When the

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[45] [45] IN THE MATTER OF THE BOARD'S REGULATIONS OF CABLE AMENDMENTS: N.J.A.C. 14:18 AND PROPOSED NEW RULES N.J.A.C. 14:18-14 AND 15 VERIZON BPU DOCKET NO. CX06030141 AND CX06080580, PROPOSAL NUMBER: PRN 2006-384PUBLIC HEARING, Board of Public Utilities, Newark, New Jersey, January 4, 2007, Remarks Of Seema M. Singh, Esq, Director, Division Of Rate Counsel

[46] 1996 Act, Section 254 (k).

[47] N.J. S.A.:48:2-21-18.c.

> utility's credit ratings decline as a result of activities at the parent holding company or affiliate, the compensation demand by providers of capital can increase, putting ratepayers at risk."[48]

And to tie the knot of cross subsidization regulation, even the cable part of this argument of cross-subsidizing was identified by the Ratepayer Advocate:

> "The Cable Act also established Board authority to protect cable ratepayers as cable companies diversify into new lines of business.
>
> "Similarly, the Cable Act has the same type of broad provisions that are found in sections of Public Utility Law and these parallel provisions give the Board the same authority to protect cable ratepayers when cable companies diversify into other non-cable businesses, like telephone and Internet services. 232 This broad authority compels that the Board impose appropriate safeguards on both telephone companies and cable companies as part of this rulemaking."

The Ratepayer Advocate noted Verizon, in New Jersey sometimes claimed that FiOS is a cable service, and sometimes claimed it's a telecommunications service.

> "Verizon New Jersey and its corporate parent are providing these new services over plant once used exclusively for voice service and are dedicating personnel and resources to these new services, it once focused primarily on intrastate regulation operations. Verizon New Jersey's November 2007 application to the Board for a system-wide cable franchise asserted that Verizon New Jersey was not seeking authority … to construct the FTTP (fiber to the premises) Network but rather seeking the authority to provide cable television service pursuant to a system wide franchise under NJSA 48:5a-15. On the other hand, Verizon New Jersey characterized this video deployment as simply an upgrade of substantial portions of it's telecommunications networks with FTTP technology as a common carrier," and stated further "{a}s such, the construction being performed in the public rights of way is being undertaken pursuant to Verizon New Jersey's authority as a telecommunications service provider." Clearly in addition to relying on its new fiber networks for the roll out of FiOS TCV, Verizon also intends to utilize portion of its existing networks for the provision of new services.

There has been no audit we are aware of to see if telephone customers have paid for the buildout of a fiber-based cable service.

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[48] IN THE MATTER OF THE BOARD'S REGULATIONS OF CABLE AMENDMENTS: N.J.A.C. 14:18 AND PROPOSED NEW RULES N.J.A.C. 14:18-14 AND 15 VERIZON BPU DOCKET NO. CX06030141 AND CX06080580, PROPOSAL NUMBER: PRN 2006-384PUBLIC HEARING, Board of Public Utilities, Newark, New Jersey, January 4, 2007, Remarks Of Seema M. Singh, Esq, Director, Division Of Rate Counsel

18) The Communications Trust Colludes

Over the last few years, Verizon not only stopped deploying FiOS in new areas, but cut a deal with the cable companies whereby the cable companies offer Verizon Wireless to cable customers. This eliminated Verizon as a competitor to the cable company, among other harms.

A Washington Post[49] story described the deal:

> ”Under the deal announced Friday, Verizon will pay $3.6 billion to Comcast, Time Warner and Bright House Networks to use a swath of cellphone airwaves that the cable giants own but do not use. That would cement Verizon’s status as the dominant wireless carrier and give it access to valuable spectrum at a time when its primary rival — AT&T — is struggling to expand its network through a controversial proposed merger with T-Mobile.”
>
> “But perhaps the most extraordinary aspect of the deal is its cooperative marketing arrangement, which calls for the cable companies and Verizon to “become agents to sell one another’s products.
>
> “That would allow, for example, a consumer to walk into a Comcast store and get a Verizon Wireless plan tacked on to his television, Internet and landline phone service. Eventually, Verizon’s name might not appear on those bundled plans, the firms said.
>
> “The cable companies would essentially kill plans to move into the cellular industry. Meanwhile, Verizon would promote the cable companies even where it offers its fledgling cable and home Internet service known as FiOS.”[50]

If the wireless companies are owned by the wireline companies, this is nothing more than collusion as it is clear that the wireline companies have slowed, if not halted anything that could compete with cable service. It closes down Verizon expanding its own competitive cable service in the future. It is a classic division of territories between companies that claim to compete.

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[49] Cecilia King, ***Verizon Wireless makes marketing, airwave deal with three cable companies***, Washington Post (Dec. 2, 2011) http://www.washingtonpost.com/business/economy/verizon-wireless-makes-marketing-airwave-deal-with-three-cable-companies/2011/12/02/gIQARvPYMO_story.html.

[50] Ibid.

19) Verizon, New York Phone Bill Issues and Affiliates

This marked up phone bill clearly outlines the affiliates' control of the utility customer.

Verizon has Divided the Phone Bill into Multiple Affiliates (Numbers 1 -5). There are:

- Verizon New York--- which is not listed on the bill.
- Verizon Solutions for Business
- Verizon Online
- Verizon Enterprise Solutions
- Verizon's partner, Intuit

Financial and Tax Issues

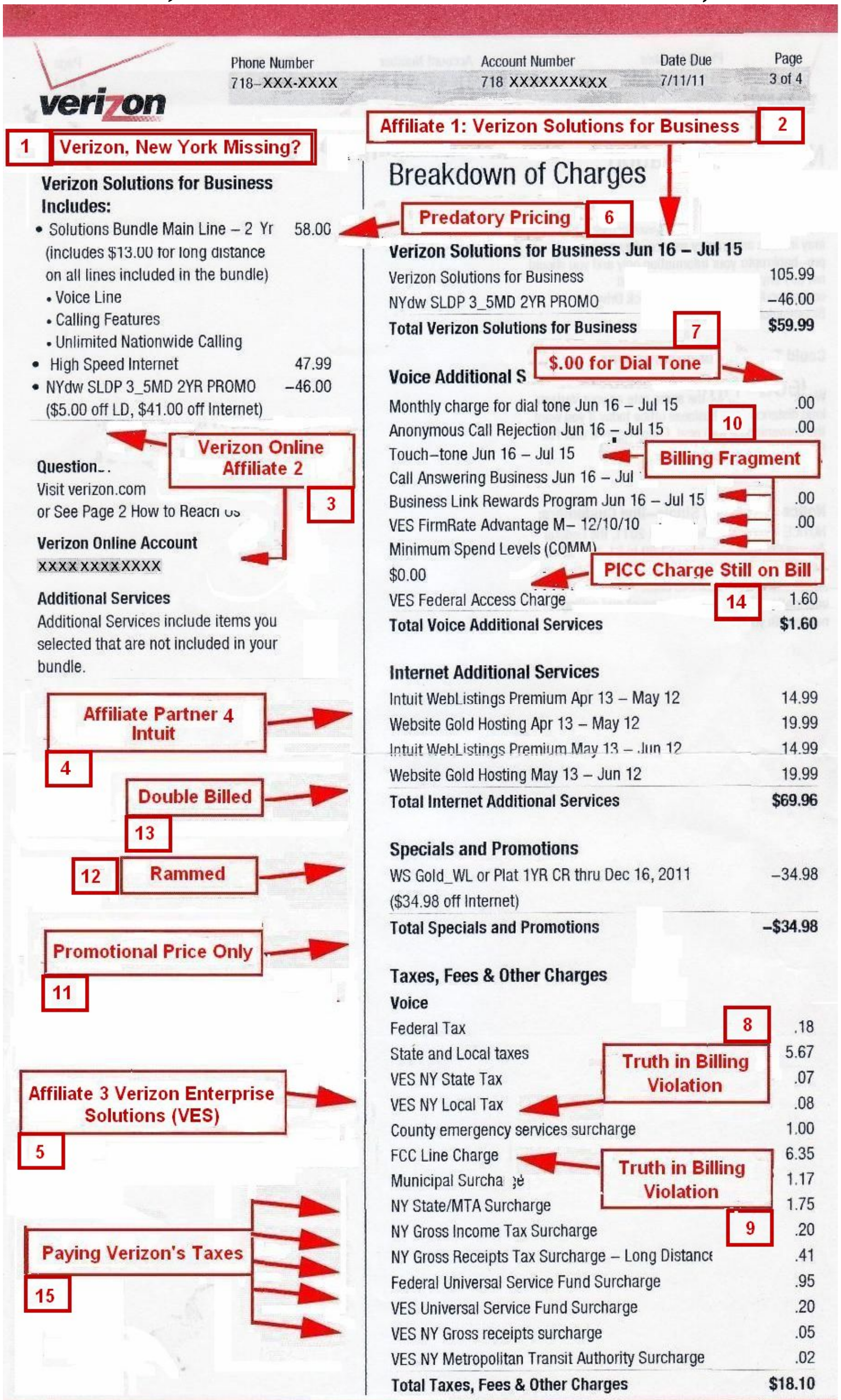
a) **Follow the Money— Who Gets the Money? Where Are the Expenses Paid?** When the customer pays this bill, where does all the money go? Which buckets do the revenues go into?

b) **Tax Assessments—** It is clear that the movement of assets and the definitions used by Verizon have profound tax issues. Verizon New York showed losses of $2.2 billion dollars in 2010 alone, with a tax saving of $716 million.

Billing and Customer Protection Issues

c) **Truth in Billing, Truth in Advertising.** (**Numbers 8, 9, 10, 11) —** There are hundreds of violations on this bill and related information supplied on the Verizon web sites, advertisements, etc. This has happened because the vertical integration of products blocks competitors who could use these issues as a competitive edge.
d) **Ramming: (Number 12 & 13) —** This customer was put on packages of services they did not order, did not want, and can't even use including high speed Internet, Intuit Weblistings, and Website Gold Hosting. The customer only needed a regular business line, and worse doesn't even have a computer so the web stuff was simply stuffed onto the customers' bill. They were also double billed for these services

Exhibit 15
Verizon, New York Small Business Customer Bill, 2011



verizon

Phone Number	Account Number	Date Due	Page
718–XXX-XXXX	718 XXXXXXXXXX	7/11/11	3 of 4

Verizon Solutions for Business Includes:

- Solutions Bundle Main Line – 2 Yr 58.00 (includes $13.00 for long distance on all lines included in the bundle)
  - Voice Line
  - Calling Features
  - Unlimited Nationwide Calling
- High Speed Internet 47.99
- NYdw SLDP 3_5MD 2YR PROMO –46.00 ($5.00 off LD, $41.00 off Internet)

Question…
Visit verizon.com
or See Page 2 How to Reach Us

Verizon Online Account
XXXXXXXXXXXX

Additional Services
Additional Services include items you selected that are not included in your bundle.

Breakdown of Charges

Verizon Solutions for Business Jun 16 – Jul 15	
Verizon Solutions for Business	105.99
NYdw SLDP 3_5MD 2YR PROMO	–46.00
Total Verizon Solutions for Business	**$59.99**
Voice Additional S	
Monthly charge for dial tone Jun 16 – Jul 15	.00
Anonymous Call Rejection Jun 16 – Jul 15	.00
Touch–tone Jun 16 – Jul 15	
Call Answering Business Jun 16 – Jul	
Business Link Rewards Program Jun 16 – Jul 15	.00
VES FirmRate Advantage M– 12/10/10	.00
Minimum Spend Levels (COMM)	
$0.00	
VES Federal Access Charge	1.60
Total Voice Additional Services	**$1.60**
Internet Additional Services	
Intuit WebListings Premium Apr 13 – May 12	14.99
Website Gold Hosting Apr 13 – May 12	19.99
Intuit WebListings Premium May 13 – Jun 12	14.99
Website Gold Hosting May 13 – Jun 12	19.99
Total Internet Additional Services	**$69.96**
Specials and Promotions	
WS Gold_WL or Plat 1YR CR thru Dec 16, 2011 ($34.98 off Internet)	–34.98
Total Specials and Promotions	**–$34.98**
Taxes, Fees & Other Charges	
Voice	
Federal Tax	.18
State and Local taxes	5.67
VES NY State Tax	.07
VES NY Local Tax	.08
County emergency services surcharge	1.00
FCC Line Charge	6.35
Municipal Surcharge	1.17
NY State/MTA Surcharge	1.75
NY Gross Income Tax Surcharge	.20
NY Gross Receipts Tax Surcharge – Long Distance	.41
Federal Universal Service Fund Surcharge	.95
VES Universal Service Fund Surcharge	.20
VES NY Gross receipts surcharge	.05
VES NY Metropolitan Transit Authority Surcharge	.02
Total Taxes, Fees & Other Charges	**$18.10**

20) The Manipulation of Access Line Accounting: Special Access and Other Data Lines are NOT part of the Statistics Presented to the Public.

Former Verizon New Jersey President Dennis Bone claimed that Verizon New Jersey was losing customers every year. Its line count was decreasing. In all 'access line' discussions by Verizon (and even at the FCC), we find that Verizon does not give an accurate count of the actual lines in service—in order to influence public policy. It's all part of Verizon's plan to shut down the ratepayer-funded network.

The FCC's Statistics of Common Carriers (SOCC) reports (which stopped in 2006) revealed that the majority of lines were actually "non-switched" or "special access", not "switched." FCC data for the last two decades shows that since 1984, Bell "Switched Access" increased 17%, but that total lines increased 240%.

Exhibit 16
Bell "Switched" Lines vs Bell "Total Lines", 1985-2006[51]
(In the millions)

	1985	1990	1995	2000	2005	2006	change
Switched	110,153,844	126,388,961	148,410,289	174,178,811	136,292,186	128,645,200	17%
Special	1,390,896	4,035,297	17,603,651	70,604,556	213,138,243	250,621,476	17919%
Total	111,544,740	130,424,258	166,013,940	244,783,367	349,430,429	379,266,676	240%
switched %	99%	97%	89%	71%	39%	34%	

Source: FCC using phone company supplied data.

In 2006, only 34% of the access lines were switched. The majority of lines, 66%, where Special Access.

There are two types of Special Access lines. We discussed the first in a previous section, the lines that handle wireless and broadband traffic.

The second type of special access lines can use copper wiring (POTS). They are data lines, such as alarm circuit or a dedicated data lines used for an ATM machines. Some of these lines are 'information services', such as FiOS of DSL and are not part of the access line accounting.

There are also packages and bundles, as well as small business voice services which are not being counted as Switched Access. Examining actual bills, it appears that when a regular POTS voice line is included in a package with DSL, it may not be counted as an access line. The bundling changes its accounting category. There is also a small business service known as

[51] We note that the accounting of lines for data can use sometimes an 'equivalency' for switched lines as the POTs line's capability to handle data was changed with the advent of being able to add DSL on the line or converting to a 'broadband pipe' or going from analog to digital.

"Custopak," which is nothing more than a switched voice line with calling features that has been placed on 40% of all small businesses that may also not be counted as a switched access line.

NOTE: There is no federal or state information pertaining to the various types of lines in service, or (laying fallow like unused 'dark fiber') nor is there any lexicon of how these types of lines have been categorized, from 'special access', or as an 'information service'.

21) State Examples of Access Line Accounting from FCC's Reports

Here is another example of the ratio of total access lines to Switched Access, this time State-by-state from the same FCC Statistics of Common Carriers report using 2006 data (the last data the FCC collected and made public) supplied by the phone companies.

Exhibit 17
FCC Statistics of Common Carriers, Verizon New York and New Jersey
December 2006.

	Verizon NJ	**Verizon, NY**
Total Switched Access Lines	4,909,917	7,960,486
Total Access Lines (Switched and Special)	21,319,502	42,993,193
	23%	19%

It shows that in Verizon New Jersey and New York the "switched" lines were only 23% and 19% respectively of the total lines, which can include copper or fiber lines. Thus, this information clearly shows that when Verizon discusses its line losses, it is using only the number of "switched' access line and not the total lines (which include special access lines).

The idea that 81% of lines in New York and 77% of lines in New Jersey are not counted, even though almost all of these services go over the same PSTN wiring, seems to have been overlooked the FCC and may have been overlooked by state regulators.

22) "Wireless Only" Is the 'Voice Link of Data'.

After a hard day at work, you get home, take off your shoes, maybe even have a cold beer, sit on the couch, and pull out your 2 inch by 3 inch cell phone to watch a night of Netflix, right?

The Center for Disease Control's data on 'wireless only' households is so popular that even the FCC's General Counsel, Sean Lev, quotes it.

> "More than a third of U.S. households are now wireless and the percent of adults between the ages of 25 and 29 living in wireless-only homes is 60%. Yes 6-0."

Besides the fact that your wireless bill would be hundreds of dollars if you watched Netflix with HD, what's going on is simple: The CDC's data is based only on residential phone service. Period. The CDC failed to ask whether there is a wire in the home. Moreover, it failed to survey businesses, especially small businesses about whether they are 'wireless only" – meaning no wires.

Misrepresenting the number of homes that don't use a wireline connection helps Verizon obtain permission to force its customers to switch to wireless.

The CDC statistics are the 'Voice Link of Data'. The customers who have data applications, like grandma's Life Alert, or a small business out of their home or even in town, are or course, simply not counted. Verizon plans to shut them off and abandon them.

Exhibit 18
"Wireless Only" (CDC) Data vs Verizon's Voice Link vs POTS,

	Wireless Only	Voice Link	POTS
Business Phone Services	NO	YES	YES
Internet Service	NO	NO	YES
Broadband Service (DSL)	NO	NO	YES
Work at home phone line	NO	YES	YES
Dial Up Internet	NO	NO	YES
VOIP and broadband	NO	NO	YES
Cable Service	NO	NO	NO
Video Services	NO	NO	YES
Fax Machines	NO	NO	YES
DVR Services	NO	NO	YES
ATM Business Machines	NO	NO	YES
Credit Card Processing	NO	NO	YES
Deaf Relay Services	NO	NO	YES
Data Services	NO	NO	YES
Medical Alert or Other Monitoring Services	NO	NO	YES

PART 2: Historical Perspective of Affiliate Transactions and Audits

The Bell companies have a long history of cross-subsidization.

23) The NARUC Audits: Historical Perspective

In 1991, NARUC passed a resolution to audit the Baby Bells because of numerous concerns. The two mostly-completed audits were that done on Pacific Telesis[52], mainly California, and some of Ameritech's five states (the rest of the audits were abandoned).[53] The findings for both audits clearly revealed that cross-subsidization was rampant; the issues were almost identical from phone company to phone company and state to state. There had been no serious oversight so abuses were unchecked throughout the Bell local phone companies and their affiliates. Utility ratepayers were illegally funding the construction of wireless service construction (PCS) and other new non-regulated services. Customers, not funded by the phone companies' investors, were therefore defacto investors, but without the benefits of any investment.

Exhibit 19
Similarities of Ameritech and Pacific Telesis Audits

Foggy Audit Trail

- **Pacific Telesis—** "Pacific Bell has not developed a clear audit trail for research and development project expenditures."
- **Ameritech—** "ASI failed to provide sufficient written documentation to analyze and substantiate the apportionment of Ameritech's costs between regulated and non-regulate services."

New Product Development

- **Pacific Telesis—** "The present regulatory scheme provides the utilities with the incentive and the means to charge the ratepayers with the costs of developing Information Age products and services."
- **Ameritech—** "Ameritech allocated costs....of developing new products and services to regulated operations."

Personal Communications (PCS)

- **Pacific Telesis—** "Personal Communication Services (PCS) was developed using ratepayer funding."
- **Ameritech—** "Ameritech Services failed to directly assign the PCS trial to non-regulated activity."

[52] Audit of the Affiliate Interests of the Pacific Telesis Group, 1994

[53] Review of Affiliate Transactions at Ameritech Services Inc., 1995

24) Audit of Pacific Bell's Affiliate Transactions

In the Pacific Bell California audit, which managed to examine only three year (1997 to 1999), the audit found a $1.94 billion problem.[54]

> "In 1989 the California Public Utilities Commission (Commission or CPUC) adopted an incentive-based regulatory framework for Pacific Bell and Verizon California (at the time GTE California, Inc.). The New Regulatory Framework (NRF) incorporated financial incentives, streamlined regulation and safeguards for customers and shareholders. The Commission established a set of regulatory goals and linked the success of the NRF to its ability to obtain information of sufficient quality and depth to determine whether the goals were met. The Commission adopted a monitoring program intended to provide specific utility data and reports to assess progress in meeting its NRF regulatory goals.
>
> "The audit covered calendar years 1997 through 1999 and included reviews of Pacific Bell's compliance with CPUC accounting requirements, procedures to allocate costs between regulated and non-regulated activities, policies and rules for pricing transactions between Pacific Bell and its affiliated companies and NRF monitoring reports. This audit report focuses on Commission-prescribed regulatory accounting and is not intended to express any opinion on financial statements that Pacific Bell or its parent, SBC Communications, Inc. (SBC), filed with the Securities and Exchange Commission (SEC) or in annual shareholder reports.
>
> **"II. <u>Overview of Audit Findings and Conclusions</u>**
>
> "The audit of financial results identified 67 corrections to Pacific Bell's regulated operating revenues, expenses and rate base. Audit corrections to bring financial results into compliance with CPUC requirements increased the regulated intrastate net operating income that Pacific Bell reported during the audit period by $1.94 billion. This translates into recommended customer refunds under NRF earnings sharing rules of $349 million for the years 1997 and 1998. NRF earnings sharing rules were suspended by the CPUC effective in 1999. Customer refunds for 1999 would have totaled $457 million if the sharing rules had been effective. "

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[54] Regulatory Audit of Pacific Bell, For the Years 1997, 1998 and 1999, California Public Utilities Commission, February 21, 2002. We do not know the final outcome of these actions.
http://docs.cpuc.ca.gov/published/REPORT/13420.htm

25) FCC Audit of Property Records Found $18.6 Billion in Vaporware.

In 1999, the FCC released[55] a series of audits of the Bell companies. It found $18.6 billion dollars of network equipment was either missing, unverifiable or non-existent**.** Known as the "Continuing Property Records", the FCC audited only ¼ of the total amount of equipment and wires, and only audited "central office equipment." A central office is a building where the wires for a specific community or parts of a large city are aggregated then sent onward.

Multiply $18.6 billion by four: $80 billion of dollars of equipment (or more) was missing at the end of the millennium. The government was ripped off by tens of billions of dollars in taxes as the companies depreciated equipment that did not exist or was taken out of service. The nonexistent equipment inflated phone rates across America as the equipment was part of the rate base.

In a proceeding known as CALLS, the FCC, based on pressure from Congress, chose not to pursue the audits. The FCC allowed the states to take over and bury them. No state that we can find ever completed the audits. We found only one report by New York State.[56] It agreed with the FCC's audits and found $634 million dollars of missing equipment. New York never took action and never completed the audit.

The New York State Attorney General's Office[57] wrote:

> "The New York State Attorney General is an advocate on behalf of New York State's residential and small business utility ratepayers, before both the FCC and the New York State `Public Service Commission ("NYPSC"). The interest of New York consumers in the FCC's audit of NYNEX/Bell Atlantic North's continuing property records is manifest. Approximately half of NYNEX/Bell Atlantic North's reported costs represent capital investment recorded in the continuing property records. The FCC and the NYSPSC use these cost figures to set NYNEX/Bell Atlantic North's rates. The audit shows that NYNEX/Bell Atlantic North's costs are inflated. New York State telephone customers, both commercial and residential, are adversely affected if the various charges which

[55] FCC, ***FCC Releases Audit Reports on RBOCs' Property Records*** (Feb. 25, 1999) http://transition.fcc.gov/Bureaus/Common_Carrier/News_Releases/1999/nrcc9015.html.

[56] CASE 00-C-0788 - Proceeding on Motion of the Commission to Investigate the Accounting Practices of New York Telephone Company Concerning its Telephone Plant in Service, http://documents.dps.ny.gov/public/MatterManagement/CaseMaster.aspx?MatterCaseNo=00-C-0788&submit=Search+by+Case+Number ;, NY PSC, ***Review of the Federal Communications Commission's Staff Report of the Audit of the Continuing Property Records of New York Telephone Company***, Aug. 8, 2001, http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={0BD05F75-9E36-47CA-83AA-1E0B7129968C}.

[57] Letter from Keith Gordon, Assistant Attorney General, New York Attorney General's Office, to Magalie Roman Salas, Secretary, FCC (June 4, 1999) http://apps.fcc.gov/ecfs/document/view?id=6007545290.

comprise their rates are inflated because of overstated capital investment figures. In rough terms, as much as $631 million of NYNEX/Bell Atlantic North's New York intrastate rate base could be affected by a potential $1.18 billion write- off of NYNEX/Bell Atlantic North's capital investment accounts recommended by the auditors. This estimate is based upon the fact that New York Telephone Company represents approximately two- thirds of NYNEX/Bell Atlantic North's operations and about 80% of this is contained in the intrastate jurisdiction. Thus, the auditors' findings, if adopted by the FCC, could lead to significant adjustments in the intrastate and interstate rates paid by New York businesses and residents."

To read our collected materials on this topic please visit:
http://www.teletruth.org/auditupdate.html

APPENDIX 1

Verizon Internet Services Inc.

Our operating revenues include transactions with Verizon Internet Services Inc. (Verizon Internet Services) associated with the provision of network access and billing and collection services. These revenues are earned from Verizon Internet Services who utilizes our facilities to provide Internet access services to their customers.

Verizon Business

Our operating revenues include transactions with Verizon Business associated with the provision of network access services, wholesale interconnection service agreements and from billing and collection services.

Our operating expenses also include transactions with Verizon Business. We recognize costs associated with interconnection agreements and capacity services agreements.

Verizon Wireless Inc.

Our operating revenues include transactions with Verizon Wireless Inc. (Verizon Wireless) associated with the provision of local and network access services, billing and collection services and from interconnection agreements. These revenues are earned from Verizon Wireless who provides wireless voice and data services, paging services and equipment sales to their customers.

Our operating expenses also include transactions with Verizon Wireless. We recognize costs associated with wireless voice and data services and for interconnection agreements.

Verizon Services

Our operating revenues include transactions with Verizon Services (including Verizon Services Corp., Verizon Services Group and Verizon Corporate Services Group Inc., and Verizon Long Distance) for the provision of local telephone service and for the rental of facilities and equipment.

We have contractual arrangements with Verizon Services for the provision of various centralized services. These services are divided into two broad categories. The first category is comprised of network related services which generally benefit only Verizon's operating telephone subsidiaries. These services include marketing, sales, legal, accounting, finance, data processing, materials management, procurement, labor relations, and staff support for various network operations. The second category is comprised of overhead and support services which generally benefit all subsidiaries of Verizon. Such services include corporate governance, corporate finance, external affairs, legal, media relations, employee communications, corporate advertising, human resources, treasury, and rent expenses associated with the rental of facilities and equipment.

Costs may be either directly assigned to one subsidiary or allocated to more than one subsidiary based on functional reviews of the work performed.

Verizon Operating Telephone Companies

Our operating revenues and expenses include transactions with other Verizon operating telephone companies. Revenues and expenses associated with transactions with these affiliates are primarily earned from the rental of facilities and equipment.

Verizon Data Services, Inc.

Verizon Data Services Inc. provides data processing services, software application development and maintenance, which generally benefit Verizon’s operating telephone subsidiaries, including us. We are charged for these affiliated transactions based on proportional cost allocation methodologies.

Other Affiliates

Other operating revenues primarily include miscellaneous items of income resulting from transactions with other affiliates. These transactions include primarily the provision of local and network access services and rental of facilities and equipment.

Verizon Network Funding Corp. and Verizon Financial Services LLC

We recognize interest expense/income in connection with contractual agreements with affiliated companies, Verizon Network Funding Corp. and Verizon Financial Services LLC, for the provision of short-term financing and cash management services.