It’s All Interconnected.

To Read the Report:

http://www.newnetworks.com/verizonfiostitle2/

1.1 Executive Summary

Verizon New York, Inc., (VNY) is the incumbent wireline state-based utility provider that controls most of New York State’s Public Switched Telephone Networks (“PSTN”). VNY is a wholly owned subsidiary of Verizon Communications, Inc.[1]

Verizon New York Rates for Telephone Service

- Since 2006, VNY has imposed multiple rate increases on residential and business local service, as well as increased the prices for ‘ancillary services’, such as inside wiring and non-published numbers. The New York Public Service Commission (NYPSC) allowed these increases in reliance upon Verizon’s claims of ‘massive deployments of fiber optics’ and financial losses, among other reasons.

- Based on actual New York City customer phone bills, since 2006 the price of residential ‘dial tone’ service (one line item on the bill) went up 84%, while other services, such as inside wire maintenance, went up 132%.

- Since 1980, if a customer kept the same Verizon NY local service in New York City, the total price increased 598%.[2]

- Based on Verizon New York’s information about the number of telephone access lines in service, from 2006 to 2013, price increases approved by the NYPSC allowed VNY to collect an estimated $2.4 billion more for the ‘dialtone’ line. There were $1.4 to $2.0 billion more in additional charges for optional or ancillary services, such as Caller ID, inside wiring and non-published numbers. Including estimated taxes, the total added charges since 2006 amount approximately $4.4 billion. The increases to ‘basic service’ alone added over $500.00 in additional charges per customer from 2006-2013.

[1] See Appendix 2 for the definitions of VNY and the affiliate companies of Verizon Communications, Inc.
[2] Using the CPI or inflation as a barometer of price increases for POTS service is not useful. Network costs, especially for the copper-based networks, have been continually declining, while CPI assumes the costs always go up. The copper-based networks have been fully depreciated, while VNY staff, especially for this part of the network, has decreased over 70% since 1984. Thus, if VNY rates keep up with inflation or the CPI, that proves that the costs to offer the service has nothing to do with the prices to customers.

VNY has Multiple Financial Books

Although it is part of a larger holding company structure, VNY prepares financial reports of its revenues and expenses for various purposes, including the following, which are or were publicly available:

- **“PSC-Annual” —** The annual report to the NYPSC
- **“SEC-Report” —** The SEC-filed state-based annual and quarterly financial reports for Verizon New York provided to shareholders/bondholders (which stopped in 2010).
- **The “Corporate Annual” —** Verizon Communications, the holding company’s, 10-K and quarterly reports provided to the SEC and shareholders. These consolidate VNY data with other affiliates and states.
- **The FCC’s “ARMIS” and “SOCC” Reports —** contain information reported to the FCC by the holding companies’ telephone companies and state-based telephone companies’ information, which use the USOA (Uniform System of Accounts) guidelines. The FCC stopped publishing this information in as of 2007.

Other financial records may be made available through voluntary disclosure or discovery in the course of rate review and other regulatory proceedings. The NYPSC has not publicly reviewed in detail the expenses, revenues, and returns on investment of VNY for many years.

Different Financial Books Tell Different Stories.

There are anomalies in the treatment of major items in the various financial reports.

- “**Black Hole Revenues”[3] —** The VNY SEC-Report indicates billions of dollars of additional revenues in comparison with the state-based PSC-Annual. In 2010, there was an extra $2.2 billion of VNY revenues in the SEC-Report.
- Significant affiliate transactions payments or expenses to VNY do not reconcile for any affiliate listed in the SEC-Report vs the PSC-Annual.
- The FCC data was based on the PSC-Annual information, and left out extra revenues that would have been reported in the SEC-Report; i.e., the FCC’s information never gave a complete picture of the revenues of VNY in any year.

FiOS Rides over a “Title II”, Common Carriage, Telecommunications Network.

[3] According to Wikipedia, a “black hole” is “defined as a region of spacetime from which gravity prevents anything, including light, from escaping.” In other words, the term refers to an unknowable void. http://en.wikipedia.org/wiki/Black_hole

- Verizon’s FiOS TV, phone, Internet and broadband service products ride over a Fiber-to-the-Premises (FTTP) network.
- This FTTP network, as stated in the Verizon New York City FiOS TV franchise, is categorized as a “Title II”, common carriage, telecommunications service, as opposed to a ‘Title VI” (cable TV service) or a “Title I” (“information” service). These “Titles” refer to the Telecommunications Act of 1996 and they are critical as to whether and how the services are regulated.
- This classification of FTTP as a Title II service appears to be in every Verizon FiOS TV cable franchise nationwide.
- “FiOS” is not the fiber optic wire; it is a brand name of a Verizon product that uses the FTTP networks.
- Verizon invokes its powers as a telephone corporation under the NY Transportation Corporations Law to install fiber optic wire over private property, or use the public rights-of-way.
- While VNY’s SEC-Report showed billions more revenues in 2009 and 2010 compared to the PSC-Annual reports, the capital expenditures are almost identical; i.e., in 2010, the SEC books had $2.2 billion in additional revenues but no additional construction budget.

How Many Can Get FiOS? How Much is Still Copper?

- Verizon claimed that at the end of 2013, it had 3.7 million ‘premises’ covered in New York and parts of Connecticut. VNY’s territory covers approximately 9 million residential housing units and businesses; this means that in New York State, VNY has ‘passed’ 40% of the potential customers.
- Verizon’s New York City cable franchise covers 3.4 million residential customers and Verizon claims that it is on track to complete the cable franchise requirement of 100% households passed by the required deadline of July 2014.
- Verizon’s Corporate “take up rate” for FiOS service ranges from 35%-40% nationwide for their high-speed Internet service and their cable TV service. If so, this means that VNY has, at most, 1.5 million FiOS customers in New York State and therefore the majority of the VNY customers are probably still copper-based.
- On November, 27, 2013, Verizon New York claimed that it was in 183 municipalities in NY State and that there were no plans for expansion.[4] Verizon NY covers 90% of the State’s 996 municipalities and therefore only 20% of the State’s towns and cities are getting upgraded.

[4] http://wamc.org/post/mayor-elect-city-leaders-call-verizon-fios-albany

Missing Data

- VNY claims that the company is “losing” lines. From 2009-2012, the company claims it lost 48% of its POTS access lines.
- However, for the year 2007, the FCC’s data showed that one category, POTS services, (sometimes referred to as “switched access lines”) constituted only 15% of the VNY total lines in service. Other lines, commonly called ‘special access’ lines, were increasing, not decreasing.
- There is no accounting of the total number of lines in service — copper or fiber — in the State of New York. This would include all business lines, special access lines, lines with DSL or FiOS or any other type of circuit.
- Moreover, it is unclear whether copper-based lines that have DSL over them (or some other business lines with additional services), or wholesale-lines where the wire is leased to a competitive company, are included in the access line accounting.

Claimed Financial Losses in VNY Reports to NYPSC

PSC-Annual reports indicate VNY has been losing money every year since 2004 and Verizon NY appears to have paid no state or Federal income taxes. Over the last five years, 2009 to 2013, Verizon New York PSC-Annual reports showed VNY lost $11 billion dollars and had a $5 billion income tax benefit, with an average loss from 2009-2013 of over $2.1 billion a year and an income tax benefit to its corporate parent of $1 billion annually.

Expenses Paid by VNY to or for the Benefit of Verizon Communication’s (the Holding Company) Affiliates

- The losses reported by VNY in its PSC-Annual reports can be attributed to several factors, including the affiliates’ dealings with VNY.
- The SEC-Report for the years 2009 and 2010 indicate that a holding company affiliate, Verizon Services,[5] which provides legal, regulatory, public relations, lobbying and other services, charged Verizon New York $3.7 billion.[6]
- Are expenses for the benefit of Verizon Wireless charged to VNY wireline services? According to Verizon Executive Vice President and Chief Financial Officer Fran Shammo, Verizon Wireless’ “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”.[7]

[5] See Appendix 3
[6] http://www.verizon.com/investor/DocServlet?doc=otc_ny_4q_2010.pdf
[7] 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

Allocation of Non-Regulated Service and Access Revenues

- VNY’s non-regulated revenues increased 144% from 2009 through 2012, from $507 million to $1.084 billion. This category historically was for optional services, such as voice mail and inside wire maintenance. This rapid growth may be from the migration of customers off of POTS copper wires and onto FiOS phone and other services, such as wireless or cable VOIP. But it is not clear cut at all and there is no specific information about these large increases in VNY revenues from telephone customers for non-regulated services provided over the same lines installed to provide regulated phone service, the costs of which are apparently allocated to the regulated side.

Verizon Wireless and the Ties to VNY

- Through 2013, Verizon Wireless had a joint venture with the British firm, Vodaphone, called “Cellco”, that was doing business as Verizon Wireless, with Verizon Communications owning the majority at 55% and in control of the company’s deployment of services. Verizon Wireless bought out Vodaphone in 2014, but has been and continues to be ostensibly a stand-alone company competing, like other wireless providers, with VNY’s wireline business.
- All “wireless” services are eventually connected to wires, from the cell towers to hot spots: a “wireless” call is picked up at these spots at the ends of the transmission, but in the middle, the traffic normally travels over special access wires.
- Verizon Wireless’s connection to VNY’s networks:
    - Wireline facilities are built for the benefit of Verizon Wireless (and other wireless companies) yet appear to be part of the VNY wireline construction budgets.
    - Verizon Wireless appears to be paying a fraction of what other wireless competitors, such as Sprint, would pay for ‘special access’ fees, based on the SEC-Report for 2009 and 2010.
    - VNY appears to be transferring wireline customers to Verizon Wireless without any compensation, when VNY claims that repairing the copper wires is ‘uneconomical’.
    - Verizon Wireless has marketing, advertising and other benefits from the wireline company and there are no clear payments or royalties from the wireless company to VNY.

Special Access and Access Fees

- Special access services use dedicated internal networks that handle wireline and wireless broadband, Internet and video traffic for Verizon NY, Verizon affiliates and other companies.
- VNY special access revenues eclipsed 'local service revenues', but have been paying only 1/3 of the network expenses at least after 2009 (the years data was available).
- The FCC's data on special access, which ended in 2007, only examined the 'regulated' special access services found in the PSC-Annual reports.
- Additional 'financial buckets' of special access revenues may be in the SEC-Report but are 'black hole revenues'.
- There are no additional construction budgets or payments for these additional special access services 'buckets' in the SEC-Report for 2009-2010.
- We estimate that special access revenues on the regulated side, nationwide, was $23 billion; however, the non-regulated revenues that are in these 'additional buckets' could bring the total over $40 billion in 2013.

Time Warner and Comcast Cable Issues

- In 1995, the FCC created the "Social Contract" — an Order to grant the cable companies financial assistance for upgrades of the cable plant for new services, as well as fixing quality-of-service issues. Time Warner[8] and Comcast[9], among others, could charge basic cable subscribers up to $5 a month extra on cable bills. The Social Contract was supposed to expire in the year 2000. After 2000, there was no oversight or investigations and the companies never lowered their rates to remove this extra federally-added charge on customers' bills.
- In the Social Contract, the companies also committed to bring the high-speed Internet to schools in their franchise areas. Schools were all supposed to be given free cable modem service, a free cable modem, and would even get the inside wiring at cost.
- By the end of 2013, this means cable customers nationwide paid about $61 billion from 1996-2013. However, $49 billion of this was charged since 2000. Without audits, it is impossible to tell the exact amount. On average, customers paid about $60 a year or about $771 extra since 2000.[10]
- According to Time Warner's 2012 Annual Report, high-speed Internet services' average cost to the customer was $44.07, and the voice service, (which is Internet-based) cost $34.06 to offer. However, since these costs are incremental, the costs to

[8] http://www.newnetworks.com/Social%20Contract%20fcc95478.doc
[9] http://transition.fcc.gov/Bureaus/Cable/News_Releases/1997/nrcb7021.txt
[10] For the calculations for the Social Contract, see Section XIII

the company were $1.34 a month to offer the high-speed service, and only $9.46 to offer the voice service, which sells for $34 including long distance and calling features.

- In a Time Warner Triple Play bundle offered in New York City in 2012, with an advertised price of $99.00, after one year the actual price was 56% higher. The ‘cable set-top box’ was not included in the advertised price and was $9.99, while the Internet modem, also a separate fee, was $5.99 in 2012, it had a rate increase of 140%.