NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of a Study on the State of Telecommunications in New York State	**Case 14-C-0370**

COMMENT 3: New Networks Institute

RE: Verizon NY's Response to the Connect NY Coalition Petition

Reply Comments by New Networks Institute

Verizon New York's response to some of the Connect New York Coalition's Petition is embarrassing and just plain wrong.[1]

These are the 3rd set of comments filed by New Networks Institute

Note: The Connect NY Coalition's Petition of July 2014 was based on some of New Networks Institute's report, **"It's All Interconnected",** (published by Public Utility Law Project, PULP, in May 2014), as well as previous New Networks reports. While the group borrowed some of the data, it didn't have the expertise to fully deal with the issues.

"It's All Interconnected" was the 3rd New Networks' report in a series that started in 2009, six+ years ago.[2]

NOTE: New Networks Institute, (NNI) established in 1992, is now a consortium of experts, auditors, analysts and lawyers who have been working on projects in the public interest.

[1] http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={6AA9D40E-0AC7-463A-9B91-AACFDF333FE7}
[2] http://newnetworks.com/verizonsfinancialshellgame/

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Summaries

Comment 1: Related to the NY Public Service Commission's Report "Staff Assessment of Telecommunications Services".[3]

- Originally Published: Huffington Post, August 21st, 2015

- **Verizon & the New York State Public Service ("Captured") Commission**

Summary:

- The State needs to redo the report with actual communications bills. What was presented shows that the State can't do basic research and produce a report with actual accurate data that reflects the actual costs of service, or exposes the deceptive billing practices, made up fees, or massive increases post the promotional price.
- The State needs to audit Verizon's financial books for massive cross-subsidies, as discussed in our other comments.
- The State has been negligent in its own mandate to make sure that prices are fair and reasonable, and has let basic phone customers be 'harvested' over the last decade.

Comment 2: Related the Connect New York Coalition's Petition.[4]

- Originally Published: Huffington Post, August 21st, 2015

- **Did Rate Increases on Verizon NY's Basic Phone Service Pay for the Use of the Corporate Jet by Verizon's CEO?**
- **Billions in "Corporate Operation" expenses are being dumped annually into the state utilities to make "Local Service" look unprofitable.**

Summary:

- The State needs to start immediate audits of the accounting of Verizon New York and address the fact that the NYPSC agreed to multiple rate increases on basic phone service, starting in 2006, based on losses that were not audited and were created by expense items that had nothing to do with local service.
- As this article discussed, Verizon placed about $2.6 billion of Corporate Operations expense into the Verizon New York accounting in just 2014, of which 60% was placed in the Local Service category. This was one of the reasons Verizon New York's Local
- Service showed massive losses. Unfortunately, the State failed to recognize this and simply granted multiple rate increases based on the losses without any rate case or investigation. And it's been going on for over a decade.

[3] http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={20B25546-ACFC-4585-BE04-C361BA42CCE5}

[4] http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={88060763-C380-4492-AD8B-10A3BF858082}

Reply Comments by New Networks Institute

What the State Must Do:

Our information had been supplied to the NY Public Service Commission years ago.

- The State needs to finally investigate the payments by Verizon Wireless to Verizon New York, as compared to AT&T and Sprint (and add T-Mobile), who appear to be paying multiples for network access.

- The State needs to finally investigate Verizon Wireless payments to Verizon New York, as shown in the SEC books, and Verizon New York as compared to the PSC-annual reports. Based on Verizon Wireless's NY revenues, they are 'chump change' and below market prices.

- The State must track the capital expenditures that were dedicated to Verizon Wireless's wires to the cell towers that were never reimbursed or paid for with a monthly charge.

- Verizon claims that many of the services offered to wireless providers are "jurisdictionally interstate" and "beyond the Commission's jurisdiction". Customers paying for the wires to the cell towers opens up a serious can of worms for Verizon. "Cellco", (D/B/A/ Verizon Wireless) is a separate company which had a joint venture with Vodaphone, an International concern, and it was able to divert billions of dollars that were supposed to be used for the capital expenditures of the state utility networks, and instead, was able to get local phone customers to fund this separate company's networks without adequate payments or reimbursements for the build out. This created losses, which were used as an excuse to raise rates further, and the State wrote that the increases were also for 'massive deployment of fiber optics'. This went to connect the cell sites and not to build out the networks that they were paying for.

- Is it legal to charge local utility phone customers for the development of interstate services?

- Verizon's financial discrepancies between financial books, the "Black Hole" Revenues, which Verizon claims are accounting differences, needs immediate investigation.

1) **Verizon NY Claims that the $2.2 Billion Mismatch between Financials is Explained by Accounting Differences — We Call It "Black Hole" Revenues.**

Verizon's Response Oct, 23rd 2015

> "In support of its contentions that Verizon's financial filings 'at best present conflicting data', the Coalition alleges that 'in 2010, Verizon New York's SEC Report [i.e., a report prepared for the benefit of the company's bondholders] had revenues of $7.2 billion, but the [company's annual report to the Commission] only showed about $4.98 billion, a difference of $2.24 billion. Fundamental policies cannot be based on such uncertain financial data." In fact, this alleged discrepancy is based on the different approaches to accounting for revenues that are used in the two reports, as explained in Schedule 2b of Verizon's Annual Report to the Commission for 2010, which reconciles the figures in the bondholder report and the Annual Report.
>
> "Far from being an unexplained discrepancy that creates 'uncertain financial data,' this difference was the fully-disclosed result of certain differences in accounting treatment."

2) Background

Verizon NY has/had multiple financial filing requirements for different government state and federal agencies. And they do have different accounting requirements. But when New Networks compared Verizon NY's financial information from multiple sources, a glaring problem came up:

We had three primary sources of financial information:

- Verizon NY's SEC-filed state-based quarterly reports, (which stopped being published in 2010). ("Bondholder" info)
- Verizon New York's Annual Report to the NY State Public Service Commission (NYPSC), which started being public in 2009-2014, and one year, 2003, is currently public.
- Verizon NY's filings with the FCC, which were part of the FCC's "Statistics of Common Carriers", based on "ARMIS" data, (which stopped being published at the end of 2007. The first report was published in 1939.)

When comparing these various sources, it became clear that the revenues simply didn't match. We found that Verizon NY's SEC-filed 2010 4th Quarter report had $2.24 billion in extra revenues as compared to the Verizon NYPSC-filed annual reports filed with the State. In 2009, this discrepancy was $2.67 billion.

Note: We used the 2009-2010 timeframe because they are the only overlapping years where we have multiple financial books.

3) Verizon NY's Response Nor Their Explanation Addressed the $2.24 Billion Mismatch (Financial "Black Hole").

Verizon New York's Response claims that it explains the mismatches, etc., in "Schedule 2b of Verizon NY's 2010 Annual Report".

In ***"It's All Interconnected",*** we used Schedule 2B of the Verizon NY Annual Report data from 2009 and 2010. This is a snapshot from the actual 2009 document.

EXHIBIT

Annual Report of VERIZON NEW YORK INC.

For the period ending DECEMBER 31, 2009

Income Statement	$(M) Annual Report to Bondholders	Annual Report To The PSC	Difference
Operating Revenues	7,840	5,176	2,664
Operating Expenses	8,534	6,293	2,242
Net Operating Revenues	(695)	(1,117)	422

In 2009, there was a $2.67 billion difference in the financial books, which Verizon claims is from differences in accounting and that Schedule 2b will make everything clear.

NOTE: We included the full Schedule 2B info in Appendix 1.

This is Verizon's obfuscation of the truth. Schedule 2b offers no such explanation. There are no descriptions on Schedule 2b or any explanation of anything dealing with the accounting — and there are no 'accounting' differences, except that the SEC – Bondholders report had $2.664 billion difference. Meanwhile, the PSC-filed Annual Report lost $1.1 billion while the 'Bondholder' financials only lost $695 million.

And we can say this because we already tracked this extra revenue and other financial red flags in the previous reports.

From "*It's All Interconnected*" (and Enhanced for this Response).

4) "Black Hole" Revenues and "LD Consolidation": Comparing PSC-Annual to SEC-Report

Comparing the SEC-Report with the PSC-Annual report, there is a major difference in revenues, the bulk of which is something labeled "LD Consolidation". In 2009, LD Consolidation was $2.587 billion in revenues and the related expenses are $1.732 billion—LD Consolidation showed a profit margin of approximately 33%.

We called LD Consolidation "Black Hole" revenues because there is no information about this line item in either the SEC or PSC reports.

This next exhibit supplies the actual snapshot of the footnote in Schedule 2B, which doesn't explain anything about this financial mismatch.

EXHIBIT
Excerpt from Verizon NY PSC Filed Annual Report with LD Consolidation, 2009

Revenues

1) Annual Report to PSC	5,176
Empire City Subway Co. (Ltd) accounts	10
→ LD consolidation	2,587
Uncollectibles Included in Exp (see #2)	67
Annual Report to Bondholders	7,840

Expenses

2) Annual Report to PSC (Done)	6,293
Empire City Subway Co. (Ltd) accounts	(17)
Reclass Affilate MKUP from Non Oper to Oper Exp (See #3)	15
Uncollectibles Included in Exp (see #1)	67
Other Costs of sales/Service (See #3)	1
(G)/L on Sale of Oper Assets (See #3)	(38)
Other State and Local Tax (See #3)	472
Other G&A Expense (See #3)	8
Gross Receipts Tax (See #3)	4
→ LD consolidation	1,732
Annual Report to Bondholders	8,534

EXHIBIT
Verizon New York Revenues and Expenses and "LD Consolidation", 2009
(In the Millions)

Revenues	$7,840
Expenses	$8,534
LD Consolidation Revenues	$2,587
LD Consolidation Expenses	$1,732
Difference	$855
Margin	33%

5) "LD Consolidation" Most Likely Represents the Affiliate Transactions or the Subsidiaries Bought in 2008 or Both.

In 2008, Verizon New York bought or merged with Verizon Long Distance, Verizon Enterprise Solutions and Verizon Advanced Data Info (VADI).

In the Verizon NY PSC-Annual 2009, this is included.

- "Verizon Long Distance LLC — Provides long distance services to the consumer market — 100%"
- "Verizon Enterprise Solutions LLC — Provides long distance services to the business market — 100%"

  "Note: The last two items (LD and Enterprise Solutions) were acquired on 12/31/2008."

However, the 2010 SEC-Report explains this in a different way and also mentions a company called Verizon Advanced Data Info, "VADI".

> "In December 2008, Verizon long distance, a provider of regional toll and long distance services, merged with Verizon New York.
>
> "On September 28th, 2008, the equity interest of Verizon Advanced Data Info (VADI) a provider of new exchange access services and a wholly owned subsidiary of Verizon was merged into Verizon New York."

NOTE: In 2014, Verizon merged VES, Verizon Enterprise Solutions LLC, with Verizon Long Distance; the name Verizon Enterprise Solutions went to another subsidiary that used to be called "Verizon Business".

NOTE 2: Verizon New York's Annual Report, that is filed with the State, is wrong. According to the report, VES LLC is still in the report as a separate long distance company.

EXHIBIT
Verizon Long Distance and Verizon Enterprise Solutions, 2014
Source: Verizon NY Annual Report, 2014

Verizon Long Distance LLC	Provides long distance services to the consumer market	100%
Verizon Enterprise Solutions LLC	Provides long distance services to the business market	100%

Conclusion:

- There is no explanation of "LD Consolidation".
- There is no discussion of the $2.7 billion in 2009 or $2.2 billion extra revenues in 2010.
- The long distance company is the only difference in the two books — and it is doubtful it has $2.6 billion in revenues.
- Verizon New York's Response didn't mention the separate subsidiaries that were added; they claim this is just an 'accounting' issue.
- There are other revenues that are clearly not in the regulated books that are in the Black Hole accounting.

6) Verizon Claims there are No Issues with their Wireless Access Fees as Compared to AT&T and Sprint — This Needs Immediate Audits.

Verizon Response:

> "For example, in assessing AT&T's total payments to Verizon in 2009 and 2010, which it claim to be 'approximately $500 million', the Coalition apparently relies on a statement in a 2010 financial report that "[w]e [*i.e.*, Verizon] 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."

First, is Verizon really saying that Verizon, 'we', did not generate this 2010 SEC financial report filing?

Here is an actual snapshot from the Verizon New York 2010 SEC filed 4th quarter report showing AT&T paid $237 million in 2010 and $279 million in 2009 for "network access and billing and collection" services.

EXHIBIT

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of trade receivables. 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.

Verizon New York's Response also adds:

> "The Coalition's use of the numbers ignores the fact that (unlike Verizon Wireless) both Sprint and, to a much greater extent, AT&T, have substantial wireline as well as wireless operations in New York, so that these numbers have no necessary connection to the volume of *wireless* business conducted by either company or to the cost of services used by their wireless operations."

Unlike the Connect NY Coalition report***, It's All Interconnected*** already addressed this issue in a series of caveats we listed, which included that some of AT&T and Sprint's payments could be from long distance service and that Verizon supplied zero explanation about this data.

We wrote in May 2014:

- There is no detailed data on payments by Sprint/Nextel or AT&T to Verizon New York.
- **It is unclear exactly what is covered in these payments. For example, AT&T could be paying for connecting their long distance service.**

Thus, New Networks didn't ignore any facts. What we excerpted here and documented in our reports is that, on face value, Verizon New York's own SEC-based report detailed what AT&T and Sprint paid Verizon New York for access and billing & collections. And Verizon does not provide any information to any specific allocation of money to any business activity, from either AT&T or Sprint.

7) Verizon Wireless's Payments to Verizon NY are Chump Change.

Here are the payments to Verizon NY by Verizon Wireless (Cellco), as told by the 2010 Verizon NY PSC Annual Report and Verizon's SEC-report.

Verizon New York, the entity that is the state network, received $8 million, total, for the use of the network in 2009 and $27 million in 2010. But there is a large difference in the Verizon's SEC reports, which showed $74 million and $90 million for 2009, 2010 respectively.

EXHIBIT

Verizon Cellco – AKA Verizon Wireless, Payments to Verizon NY, 2009 and 2010

New York PSC		**2009**	**2010**
Cellco Partnership	Provided to Affiliates	$13.8	$ 30
Cellco Partnership	Purchased from Affiliates	$ 6.2	$4
		$ 8	$ 27
New York SEC		**2009**	**2010**
Cellco Partnership	Provided to Affiliates	$78	$ 95
Cellco Partnership	Purchased from Affiliates	$ 4	$5
		$74	$ 90

And these payments are for 'billing and collections' and network access services, which is the identical description in the paragraph about AT&T's payments. Excerpted from Verizon NY's SEC 2010 report:

> "Verizon Wireless: 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." [5]

But, here's the problem for Verizon:

- **NOTE:** We are forced to use 2009 and 2010 as the data for 2011-2014 is not available, as the SEC reports stopped in 2010.
- Verizon Wireless ("Cellco") payments are 'chump change' and can't possibly cover the access fee costs at market prices like the other competitors.
- Verizon claims that the differences in the books is about 'accounting', but examining these revenues shows that Verizon NY's state-based network side is receiving a fraction of the total payments; thus the difference is the SEC side has more revenues that are part of the "black hole" revenue—and there is no 'explanation' of this discrepancy.
- The construction costs for the wires to the cell towers, which are part of the wireline construction budget, are nowhere to be found.

8) Construction Payments by Verizon Wireless are NO WHERE TO BE FOUND.

In ***It's All Interconnected***, NNI quoted Fran Shammo, CFO of Verizon Communications, who specifically said that the wires to the cell towers were part of the wired network expenses.

[5] Verizon New York, for the year ending December 31, 2010, page 21

Verizon's CFO, Fran Shammo stated in an investor meeting that the wireless networks were funding the wired deployments.[6]

> "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."

The New York State Attorney General's Office also found that 75% of the capital expenditures for local service had been diverted to fund FiOS and the wireless networks.[7]

> "Verizon New York's claim of making over a 'billion dollars' in 2011 capital investments to its landline network is misleading.-' In fact, roughly three-quarters of the money was invested in providing transport facilities to serve wireless cell sites and its FiOS offering. Wireless carriers, including Verizon's affiliate Verizon Wireless, directly compete with landline telephone service and the company's FiOS is primarily a video and Internet broadband offering… Therefore, only a fraction of the company's capital program is dedicated to supporting and upgrading its landline telephone service."

Verizon's Response is Gibberish: "Alleged Subsidization of Wireless Companies"

> "The Coalition falsely asserts that "wireless costs are being paid by [Verizon's] wireline customers." … But the "costs" that the Coalition is referring to here are *wireline* costs — specifically, the cost of landline facilities that are provided on a wholesale basis to wireless providers, and used by them for functions such as backhaul. Such costs are no different from the costs that Verizon incurs in providing other wholesale — and, for that matter, retail — services to other groups of customers. Verizon incurs capital costs and expenses in order to create and maintain a wireline network that can be used by a wide variety of customers with widely varying needs. Customers with a need for a particular service pay the charges associated with that service, thus helping Verizon to recover the capital and operating costs of its network. There is no reason why CMRS providers should be treated differently in this respect than any other class of wholesale or retail customers, or why the costs incurred in serving that

[6] 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

[7] http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={E46EDB40-99B2-4664-8BE4-A9646D09BBBF}

one specific class of customers should uniquely be regarded as 'subsidies'."

There are so many disingenuous things about this reply that it is hard to know where to start.

- The wireline budget that is supposed to be used to deploy FiOS and maintain the networks were diverted to fund Verizon's wires to the cell towers.
- Verizon Wireless's investors did NOT pay for the wires to the cell towers and based on the amount of money in the affiliate transaction information, Verizon never paid the fees that would cover the construction expenses—i.e., there are not enough payments to cover the 'wholesale' use of the networks.
- Verizon New York is losing billions a year. No company would run a business where they made no money on building out a network for a non-paying client.
- Verizon is the sole 'client'; it is not 'carriers' but Verizon Wireless's cell towers.
- The building of this network for free is juxtaposed to Verizon New York not building out the cities with fiber optics and left them uncompleted or not even started, not to mention the deterioration of quality of service and maintenance of the copper-based networks.

9) Verizon Construction Expenditures are Identical for SEC and PSC Books.[8]

This is the Verizon New York capital expenditures for the year 2009. And what it shows is that the construction expenditures were the same in both sets of books, (except for the $10 million for "Empire City Subway").

EXHIBIT

Annual Report of VERIZON NEW YORK INC. For the period ending DECEMBER 31, 2009

Page 6

1. GENERAL INFORMATION (continued)	Annual Report to Bondholders	Annual Report to PSC	Difference	
Cash Flows from Investing Activities				
Capital expenditures	(1,315)	(1,305)	(10)	(11)

11) Annual Report to PSC	(1,305)
Empire City Subway Co. (Ltd.) accounts	(10)
Annual Report to Bondholders	(1,315)

There is "Black Hole" revenue of $2.7 billion in one year difference in the financial books—**but the construction budgets were identical**. This means that whatever is generating the $2.7 billion in revenue – is paying no construction expenses. Conversely, the "Local Service" line of business is paying a disproportionate amount of these expenses.

[8] Verizon New York Annual Report to the NY State PSC, for the year ending December 31, 2009.

10) Customers Paid for the Construction of These Networks

The State Justified Residential POTS Rate Increases by Fiber Optic Expenses and Claimed Financial Losses.

In June 2009, the NYPSC granted VNY a rate increase for residential POTS customers. The NYPSC press release explains the rate increase was due to "massive deployment of fiber optics" and because VNY was "in need of financial relief" due to major losses:

> "'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).[9]

The NYPSC Order also indicates the Commission granted the rate request because VNY was experiencing major financial losses.

> "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%." [10]

The Order granting the rate increase noted that 2008 was also problematic:

> "Verizon recently submitted its 2008 Annual Report showing that its earnings continue to be depressed. Specifically for 2008, the company

[9] NYPSC Press Release: 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, 6/19/09 http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={3C0D0FC7-606A-4CD3-B360-EA19179D2008}

[10] NY PSC, CASE 09-C-0327 *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}

> 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."[11] (Emphasis added.)

This was but one of a series of increase requests that started in 2006, as acknowledged by the PSC.

The bottom line is – The construction budgets used for the wireless networks were diverted from the wireline networks and these rate increases for "massive deployment of fiber optics" were NOT intended to be used for the wires to the cell towers. Moreover, the losses that were incurred were, in a large part, because Verizon's affiliate companies, including Verizon Wireless, never paid market prices for service and were able to use the state construction budgets, which also helped to create the losses.

The State never audited Verizon NY for affiliate transactions. The State never audited these rate increases or did a rate case, nor was there ever an audit of the wireless company's lack of payments for the construction of these wireless networks.

Verizon's footnote claims that the State can't look at Verizon's books and charges because they are 'interstate'.

> "Additionally, many of the services offered to wireless providers are jurisdictionally interstate. The appropriateness of Verizon's charges for such services raises issues beyond the Commission's jurisdiction."

Customers paying for the wires to the cell towers, then, opens up a serious can of worms for Verizon. Cellco is a separate company, (D/B/A/ Verizon Wireless) which had a joint venture with Vodaphone, an international concern, and was able to divert billions of dollars that were supposed to be used for the capital expenditures of the state utility networks. Instead, Cellco was able to get local phone customers to fund this separate company's networks without adequate payments or reimbursements for the build out. This created losses, which was used as an excuse to raise rates further, and the 'massive deployment of fiber optics' went to the cell towers and not to build out the networks that they were paying for.

Is it legal to charge local phone customers for the development of interstate services?

[11] The losses presented differ from the SEC filings. There is a match of sorts with the losses discussed by the NYPSC and VNY's SEC 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 loss for 2008 quoted by the State is close to SEC filing. (Verizon NY's original filing to the NYPSC for 2008 does not appear to be available online.)

Verizon must be audited to see the actual flows of money or the lack of payments for the construction of the company's ability to get the wireline networks to fund the wireless buildout of Cellco.

Harmed Customers: Verizon Wireless is NOT the state utility and charging local phone customers to build these networks – including low income families, or customers that will never get upgraded to FiOS because the construction budgets were diverted, is unconscionable.

Anti-Competitive: No other wireless or wireline provider is able to use utility customers as defacto investors or has a sweetheart deal to pay less than market prices.

Customers as Defacto Investors: Verizon's affiliates have made the utility customers defacto investors through multiple rate increases to pay for the development of other lines of business.

APPENDIX 1
Verizon New York Annual Report, 2010, Schedule 2B

Annual Report of VERIZON NEW YORK INC. For the period ending DECEMBER 31, 2010				
	2. GENERAL INFORMATION (continued)			
ITEM 6 (Continued)	$(M)			
Income Statement	Annual Report to Bondholders	Annual Report To The PSC	Difference	
Operating Revenues	7,221	4,982	2,239	(1)
Operating Expenses	9,100	7,240	1,860	(2)
Net Operating Revenues	(1,879)	(2,257)	378	
Other income and Expense	7	141	(134)	(3)
Interest Expense	328	341	(13)	(4)
Income before Taxes, Extraordinary items &	(2,200)	(2,458)	258	
Provision for Income Taxes	(716)	(974)	258	(5)
Income before Extraordinary Items & Cumulative effect of changes in Accounting Principles	(1,484)	(1,484)	-	
Extraordinary Items & Cumulative effect of changes in Accounting Principles, net of taxes	-			
Jurisdictional & Non Regulated Income Items	-			
Net Income	(1,484)	(1,484)	-	
1. Annual Report to PSC			4,982	
Empire City Subway Co. (Ltd) accounts			10	
LD consolidation			2,175	
Uncollectibles Included in Exp (see #2)			54	
Annual Report to Bondholders			7,221	
2. Annual Report to PSC (Done)			7,240	
Empire City Subway Co. (Ltd) accounts			(15)	
Reclass Affilate Charges from Non Oper to Oper Exp (See #3)			15	
Uncollectibles Included in Exp (See #1)			54	
Other Costs of sales/Service (See #3)			(13)	
(G)/L on Sale of Oper Assets (See #3)			(54)	
Other State and Local Tax (See #3)			442	
Other G&A Expense (See #3)			8	
Gross Receipts Tax (See #3)			4	
LD consolidation			1,419	
Annual Report to Bondholders			9,100	