

PART II: Data Report

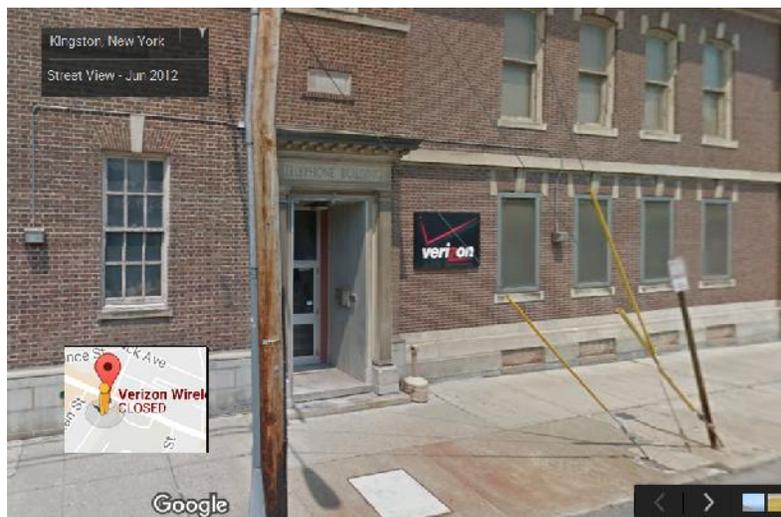
SPECIAL REPORT

HOW MUNICIPALITIES AND THE STATES CAN FUND FIBER OPTIC & WIRELESS BROADBAND NETWORKS

Proving Verizon's Wireline Networks Diverted Capex for Wireless Deployments Instead of Wiring Municipalities, and Charged Local Phone Customers for It.

Two Parts:

- **PART I:** Primary Findings Summary
- **PART II:** Data Report



Abandoned Verizon Central Office, Kingston NY (Source: Google Maps)

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SPECIAL REPORT

HOW MUNICIPALITIES AND THE STATES CAN FUND FIBER OPTIC & WIRELESS BROADBAND NETWORKS

Proving Verizon's Wireline Networks Diverted Capex for Wireless Deployments Instead of Wiring Municipalities, and Charged Local Phone Customers for It.

This report is divided into 2 parts:

- **PART I:** Summary
- **PART II:** Data Report

This special report is excerpted from a larger report.

Report III: Verizon Wireline-Wireless Cross-Subsidies

History

In December, 2015, New Networks Institute launched a new report series called "Fixing Telecom" and published the first two reports. However, this project started in 2010. Most significantly, in May 2014, Public Utility Law Project, PULP, published "It's All Interconnected" written by Bruce Kushnick, with assistance from David Bergmann, Esq. This report and previous work has been used as part of a petition for investigation by the Connect New York Coalition, which was filed with the NY State Public Service Commission in July 2014 and is an open proceeding.

In April 2016, Consumer Federation of America and NNI filed joint comments and reply comments in the special access proceedings at the FCC.

- **"Fixing Telecom", Reports, Filings** <http://newnetworks.com/verizonny/>
- **Joint filings with CFA** <http://newnetworks.com/nnicfacomments/>
- **NNI Expert Team:** <http://newnetworks.com/nniexperts/>

NNI is an independent expert consortium. New Networks Institute (NNI) was established in 1992 and over the last decade has gathered a team of independent experts, auditors and lawyers to work on projects.

Cover Photo (from Google Maps): Abandoned Verizon CO, featured by Daily Freeman, 9/17/2015 <http://www.dailyfreeman.com/article/DF/20150917/NEWS/150919676>

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PART II: Data Report

Sources and Important Points

- **State Annual Reports** — We focus on Verizon NY, the telecommunications state-based utility because New York is the only state that requires a complete annual report that is available to the public. But it has only been posted starting in 2009. Also, it does not account for all revenues or expenses of Verizon NY.
- **SEC-based 4th Quarter Results** — From 2009-2010, Verizon published SEC-based state-based consolidated financials; these do not match the state-based utility information. The data we present about Sprint was only published in these reports for these years.
- **FIOA Requests** — Other states have partial data collected or can be obtained via FIOA requests, but most states stopped collecting primary, basic data that is public.
- **Verizon Press Releases, Investor Transcripts, FCC and State filings, etc.** — were used, including the material presented by Verizon’s state-based utilities and the subsidiaries, including Cellco Partnership.
- **Extensive Interviews** were conducted with Verizon union and executive staff.
- **MISSING** — We know of no state that requires similar annual reports and data from AT&T or CenturyLink.
- **MISSING** — The last available data from the FCC is 2007; the FCC stopped collecting basic information as part of the “Statistics of Common Carriers”, which was started in 1939. It was a summary of the state-based utilities, such as Verizon New York, and was a summary of the FCC’s Automated Reporting Management Information System (ARMIS) data.

Companies and Regulators

- Verizon Communications, Inc. is a holding company and controls hundreds of subsidiary companies, which include Verizon Online to AOL. Verizon also has hundreds of investments and partnerships in over 150 countries.
- Verizon Wireless (VW) — At the time, 2009-2012, Verizon had a joint venture with Vodaphone, an international communications company, called “Cellco Partnership”, and it has a D/B/A of “Verizon Wireless”.
- Verizon New York, New Jersey, et al., are state-based utilities.

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- The FCC regulates ‘interstate’ telecommunications and has made broadband and IP interstate. Special access services, renamed “business data services”, are also classified as interstate.
- The NY State Public Service Commission regulates ‘intra-state’ services, which includes local service and the wires.

There have been no audits or investigations by any regulatory body of the affiliate transactions or the lines of business between and among the state based utility.

PART 2: DATA

Proving Verizon’s Wireline Networks Diverted Capex for Wireless Deployments Instead of Wiring Municipalities, and Charged Local Phone Customers for It.

Verizon et al. have claimed that they are now “wireless first” companies. They claim that the next generation of wireless requires a fiber optic, special access wire. And they claim, at the same time, that local service is unprofitable and losing lines, and that the retail wires should be ‘shut off’.

All of this has been a carefully designed, multi-year plan to make the wireline networks appear to be very unprofitable, and use this as an excuse to force wireline customers onto wireless, which has been designed to be artificially very profitable.

This Special Report exposes the fact that local wireline customers have been paying to build the wireless business at the expense of getting cities properly upgraded and maintained—and local phone customers have been charged to build new lines of business, at the detriment of low income families, rural areas, and anyone who uses the wired networks.

At the same time, Verizon’s affiliate companies and other lines of business are getting multiple financial perks and advantages. Verizon Wireless appears to be paying a fraction of what competitors pay for the use of the networks while special access services, (which are the wired services that are used for business services, like ATM machines or by wireless competitors for ‘backhaul’), have excessive profits as much of the expenses have been diverted to be paid for by the local service networks. And most don’t know that these special access networks are really just part of the state utility and use the same underlying physical wires.

There have been no audits or investigations of these cross-subsidies and financial machinations and this Special Report was written to supply enough information to start this process—now.

PART 2: DATA covers:

- 1) **Verizon Wireless Cell Sites Were Charged to the Wireline Capex Budget** — From the statements made by senior management, press releases, to an investigation by the New York Attorney General’s Office, there is no doubt that Verizon Wireless DID NOT and is NOT paying most of the capital expenditures, but has dumped these expenses into the wireline networks.
- 2) **We Know the Number of the Sites, the Estimated Costs of a Verizon Cell Site, and Verizon Wireless and Verizon Wired Capex Expenditures** — Verizon New York, the state wired utility, put in 5,515 cell sites as part of the wireline

capital expenditures from 2010-2012. Based on our cell site cost model, this cost an estimated \$2.8 billion, about 80% of the wireline construction budget.

- 3) **This Is Not Just a Verizon New York Issue — Four States Examined** — From 2010-2012, in just 4 states — Massachusetts, Pennsylvania, New Jersey and New York, Verizon put in 12,811 sites, using the same plan; We estimate just these four Verizon wired state utilities paid about \$5.5 billion dollars in additional capex.
- 4) **Verizon Was Allowed to Classify the Fiber Optics as ‘Title II’ and Part of the State Utility** — In 2005, Verizon was able to convince the state that the fiber optic wires were just an extension of the existing telecommunications, Title II, common carrier networks.
- 5) **Verizon Wireless’s Estimated Construction Expenditures in NY State Do Not Cover the Construction Cost** — We estimate that Verizon Wireless's revenues for NY State were \$6.3 billion in 2010 to \$7.6 billion in 2012. However, Verizon Wireless’s actual construction budget ranged from \$214 million in 2010, to \$249 million in 2012, only 3% of revenues — (and this includes some of the budget for Northern NJ, which Verizon Wireless includes as part of the NYC Metro region).
- 6) **Verizon Wireless’s Affiliate Transaction Payments to VNY are too Small to Cover Construction and are Less than ‘Market Prices’ Other Competitors Pay for Access** — Verizon Wireless (Cellco) payments to Verizon NY couldn’t possibly cover the construction of 2,800 cell sites in 2010, for example. Worse, in 2009, Sprint paid \$119 million and in 2010 paid \$104 million. Sprint paid, on average 286% more than Verizon Wireless for what appears to be the same access service for 2009-2010.
 - We estimate that Verizon Wireless underpaid to Verizon New York, on average, \$249 million per year while Sprint overpaid by \$72 million for 2009-2010.
 - Nationally, Sprint may be overcharged over \$1 billion annually, assuming that AT&T and CenturyLink used the same billing practices, and this would be happening to all of the other competitors using the wireline networks.
- 7) **Local Phone Customers Were Overcharged by Cross-Subsidies to Fund Special Access** — According to Verizon NY’s 2015 Annual Report, Local Service brought in \$1.3 billion and had an EBITDA of -132%. This is in contrast to ‘Access’ services, which was \$2.5 billion and had an EBITDA of 66%.
 - Local Service paid a whopping \$1.47 billion in network expenses, which is in contrast to access services, which is only paying \$716 million, literally ½ of what Local Service paid—i.e., Local Service paid 117% of revenue while Access paid just 29% of revenue.

- 8) **The Majority of the Access Lines Are Not Counted** — Verizon et al claims that they are ‘losing lines’, but they has been able to manipulate the accounting so that the ‘special access’ service lines, or FiOS fiber optic lines or DSL, among other services, are not counted. This has been done to claim that the phone networks are unprofitable. In truth, access lines have had major growth over the last decade.

PART II: Data Report

Discussion

1) Proving Verizon Wireless Cell Sites Were Charged to the Wireline Capex Budget

From the statements made by senior management, the press releases, and an investigation by the New York Attorney General's Office, there is no doubt that Verizon Wireless DID NOT and is NOT paying most of the capital expenditures, but has dumped this expense into the wireline networks.

1.1 Verizon's CFO Said Wireless Expenses are in the Wireline Budget.

Verizon's CFO, Fran Shammo, stated in a 2012 investor meeting that the wireline networks were funding wireless deployments.¹

“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.”

1.2 Verizon's Press Releases: Cell Sites are Part of the Wireline Construction.

Verizon NY's press releases from 2010-2012 also establishes that the wireless cell sites are part of the wired infrastructure expenditures. The Verizon 2010 headline reads:

“Verizon Spent More Than \$1.4 Billion in New York's Landline Telecommunications Infrastructure in 2010.”

This release clearly establishes that for the year 2010, Verizon spent \$1.4 billion on wireline construction in New York State, and part of the focus was FiOS TV. But there were also 2,800 cell sites being put up as part of the wireline network.

“Deployment of fiber-optic links to wireless providers' cell sites throughout New York 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 2,800 of these sites.”

¹ http://www22.verizon.com/investor/DocServlet?doc=goldman_vz_transcript_092012.pdf

1.3 AT&T Said that its Wireless Expenses are in the Wireline Budget.

AT&T is using the same accounting game. Bill Smith, President, Technology Operations, AT&T, at the Wells Fargo 2016 Convergence & Connectivity Symposium, June 21, 2016, made clear that the wireline side of the business has been funding the wireless build outs.²

“I came more from the wire line business and had always a little bit of frustration for me because for many years before I picked up operations in construction and everything for the wireless side of the business, in the wire line world, I was spending a lot of money that was directly supporting the wireless operation, but it showed up as wire line spend. So we’re not that good at allocating those expenditures.”

1.4 The New York State Attorney General’s Office Found that 75% of the Wireline Capex Went to Wireless and FIOS in 2011.

The New York State Attorney General’s Office found that 75% of Verizon NY’s capital expenditures for Local Service had been diverted to fund FiOS and the wireless networks.³

“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.”

2) We Know the Number of the Sites, the Estimated Costs of a Verizon Cell Site, and Verizon Wireless and Verizon Wired Capex Expenditures.

2.1 Verizon New York Put in Over 5,515 Cell Sites from 2010-2012

In a three year period, Verizon New York put in 5,515 cell sites, based on Verizon’s state-based annual press releases, and most, if not all were for Verizon Wireless. (In New York, Verizon stopped disclosing the number of cell sites being constructed post-2012.)

² <http://seekingalpha.com/article/3983460-ts-t-management-presents-wells-fargo-2016-convergence-and-connectivity-symposium-transcript?part=single>

³ <http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId=%7B0E651477-2AFC-4984-909C-1EB30F708BBA%7D>

EXHIBIT 1
Verizon New York's New Cell Sites Paid for by Wireline 2010-2012

	2010	2011	2012	Total
New York	2,800	1,848	867	5,515

Source: Verizon New York, New Networks Institute

2.2 Each Cell Site Build Out Costs Average \$432,000 or More.

Using multiple sources, including information supplied to the FCC in proceedings for the creation of a national first responder wireless network (FirstNet), and various interviews with telco union and executive staff, including independent contractors, we found that the average costs per site came to \$432,000 in 2007-2012.

EXHIBIT 2
Average Accounting Per Wireless Cell Site, 2007-2012

	Cost Per Site
Average	\$431,980

Source: Verizon, FCC, New Networks Institute

This information was created and published in 2010, and the capacity required and speed needed has dramatically changed since then. According to a former Verizon executive, the cell sites (and the associated fiber optic deployment) could cost upwards of one million dollars each.

2.3 Verizon NY Could Have Spent an Estimated \$2.8 Billion, in Just NY State, and in Just Three Years, on 5,515 Cell Site Deployments.

The following are hard facts and educated estimates based on Verizon New York's wireline construction budgets and Verizon press releases.

Verizon New York put in 5,515 cell sites as part of the wireline capital expenditures from 2010-2012. Based on our cell site cost model, Verizon New York spent \$2.8 billion on these deployments. "Verizon NY Capex" are the actual capital expenditures, based on Verizon New York's Annual Reports. When comparing this, it would appear that Verizon New York, the wired utility, had about 80% of the construction budget diverted to fund these wireless buildouts over this three year period.

We note there is some discrepancy between Verizon's press releases and the information that appears in the annual reports. The differences are \$200 to \$400 million annually above the financial reports. This would be the case in 2010, where the estimates of the capex to build the tower was more than the state annual report supplied capex.

EXHIBIT 3
Verizon Wireless Expenses to Build Cell Sites, and VNY Wireline Capex, 2010-2012

	2010	2011	2012	3-Year Total
Cell Sites	2,800	1,848	867	5,515
Cell Construction Est.	\$1,439,200,000	\$949,872,000	\$445,638,000	\$2,834,710,000
Verizon NY Capex	\$1,203,000,000	\$1,137,000,000	\$1,141,000,000	\$3,481,000,000
Cell Const. as % of Verizon NY Capex	120%	84%	39%	81%

Source: Verizon New York, New Networks Institute

Also, it is clear that the company decided to completely shift gears to do the build out of the cell sites, and went whole hog in 2010, then reducing the number year by year.

There Are Multiple Problems with this Financial Shell Game.

3) This Is Not Just a Verizon New York Issue — Four States Examined

From 2010-2012, in just 4 states — Massachusetts, Pennsylvania, New Jersey and New York, Verizon put in 12,811 sites, using the same plan; i.e. taking the existing construction budgets that are supposed to be for maintenance and upgrades of the state utility, and using it to roll out a new wireless network, which started in earnest in 2010.

EXHIBIT 4
Verizon's New Cell Sites, Four States, In the Wireline Capex Budgets, 2010-2012
(‘Italics’ are Estimates)

	2010	2011	2012	Total
New York	2,800	1,848	867	5,515
New Jersey	1,660	1,100	310	3,070
Massachusetts	<i>1,092</i>	815	358	2,265
Pennsylvania	881	<i>581</i>	498	1,960
Total	6,433	4,344	2,033	12,811

Source: Verizon New York, New Networks Institute

For just this three year period, it would appear that Verizon put in 12,811 cell sites (or upgrades) at a cost of an estimated \$5.5 billion dollars. (Obviously, the totals per year would also be estimates if one of the data points is based on an estimate.)

Verizon was vague about the deployments in New York and other states, starting in 2013; but in at least two states where Verizon was able to erase the obligations to do fiber to the home, Pennsylvania and New Jersey, the company appears to have used the wireline budgets to put in more cell sites. In just New Jersey, in just 2014, Verizon put in 579 new cell sites.

Verizon New Jersey's press release, April 23rd, 2015

“Building the Networks of the Future: Verizon Invested More Than \$547 Million in New Jersey’s Wireline Telecom Infrastructure in 2014.”

“Verizon’s Major 2014 Wireline Infrastructure Programs

- Placement of fiber-optic cable to 579 new cell towers to deliver 4G LTE wireless service across the state.”

4) Verizon NY Charged Local Phone Customers for the Deployment of Fiber Optic Networks.

First and foremost, all NY local phone customers were charged multiple rate increases for “massive deployment of fiber optics” and ‘losses’. Customers were not supposed to be charged for putting in fiber optic wires for the wireless company.

4.1 Verizon Was Allowed to Classify the Fiber Optics as ‘Title II’ and Part of the State Utility.

In 2005, Verizon was able to convince the state that the fiber optic wires were just an extension of the existing, Title II, common carrier, telecommunications networks. The following excerpt is from a cable franchise application for the Town of New Castle, New York, but it is common in many of the Verizon NY applications.⁴

On June 15, 2005, the New York Public Service Commission (“NY PSC”) “declared that Verizon NY’s FTTP upgrade is authorized under its existing state telephone rights because the upgrade furthers the deployment of telecommunications and broadband services, and is consistent with state and federal law and in the public interest.” The NY PSC determined that, unlike a company seeking to build an unfranchised cable television system, Verizon NY already has the necessary authority to use the rights-of-way to provide telecommunications service over its existing network. See Declaratory Ruling on Verizon Communication, Inc.’s Built-Out of its Fiber to the Premises Network, NY Public Service Commission, Case 05-M-0520/05-M-0247, June 15, 2005 at 4.

As more fully described in Exhibit 1, Verizon NY maintains that it is constructing its FTTP network pursuant to its authority as a common carrier under Title II of the Communications Act of 1934, as amended, and Section 27 of the New York Transportation Corporations Law. For this reason and others, certain terms and conditions may differ between the incumbent cable provider’s franchise and Verizon NY’s franchise.

⁴ <http://mynewcastle.org/wp-content/uploads/2016/04/Verizon-application.pdf>

4.2 Verizon New York was Granted Multiple Rate Increases for “Massive Deployment of Fiber Optics” and ‘Losses’.

In New York State, this change to classify FiOS as a Title II network was accompanied by new deregulation that gave Verizon the ability to charge local phone customers for the fiber optic upgrades. However, Verizon had financial losses that were also used as an excuse to raise Verizon’s local phone rates.

In June 2009, the NYPSC granted Verizon NY its third rate increase since 2006 for residential phone customers. The NYPSC press release explains the rate increase were due to “massive deployment of fiber optics” and because VNY was “in need of financial relief” due to claimed major losses:⁵

“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).

The NYPSC Order also indicates the Commission granted the rate request because VNY was claiming 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%.”

NOTE: Each state is different; however, it appears that every Verizon state granted deregulation multiple times in the name of broadband, starting in the 1990’s, and many

⁵ 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. NY State Public Service Commission, June 18th, 2009
[https://www3.dps.ny.gov/pscweb/WebFileRoom.nsf/Web/B849A020314983A3852575D900530827/\\$File/pr09054.pdf](https://www3.dps.ny.gov/pscweb/WebFileRoom.nsf/Web/B849A020314983A3852575D900530827/$File/pr09054.pdf)

added more deregulatory freedom after Verizon's FiOS deployment was announced in 2004.

5) **Verizon Wireless's Estimated Construction Expenditures in NY State Do Not Cover the Construction Cost.**

One question that arises: Why didn't the wireless company, Cellco Partnership, pay for the capital expenditures? Verizon Wireless put out releases about what it was doing in New York (and other states).

EXHIBIT 5 The Secret: Verizon Wireless Didn't Pay for Capex, 2010-2012

	2010	2011	2012
Wireless NY Subscribers	8,917,200	9,413,500	9,823,000
Wireless Revenue NY`	\$6,340,700,000	\$7,015,400,000	\$7,586,800,000
Capex	\$214,000,000	\$158,000,000	\$249,000,000
Capex compared to Revenues	3.38%	2.25%	3.28%

Source: Verizon New York, New Networks Institute

We estimate that Verizon Wireless's revenues for NY State were \$6.3 billion in 2010 to \$7.6 billion in 2012, and that there were between 8.9 to 9.8 million subscribers.⁶ However, Verizon Wireless's actual construction budget was miniscule, ranging from \$214 million in 2010, to \$249 million in 2012, which hovers close to 3% of revenues—and this includes some of the budget for Northern New Jersey, which Verizon Wireless has as part of the New York City Metro region.

Moreover, comparing the wireline capex estimated for the wireless buildout to the wireless capex, the wireless expenditures are a fraction of what the wireline side spent.

6) **Verizon Wireless Affiliate Transaction Payments to Verizon NY are too Small to Cover Construction and are Less than 'Market Prices' Other Competitors Pay for Access.**

6.1 **Verizon Wireless Payments to Verizon NY Don't Cover Cell Site Costs.**

⁶ In previous reports we estimated Verizon Wireless in NY to have 7% of Verizon's national subscriber and revenues, which was based on FCC data pertaining to Verizon NY as a percentage of all access lines, minutes of use and other telecom related aggregated accounting. The FCC stopped publishing this information in 2007. However, we now use 10% of the national Verizon Wireless revenues and subscribers because incumbent wireline companies that offer wireless appear to have a larger market share in their incumbent territories than the national averages would suggest—i.e., we weighted this data slightly for Verizon New York. However, the difference could be much larger and our weighting, without other data, we consider to be conservative.

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The following are the actual payments by Verizon Wireless (Cellco) to Verizon NY, which are itemized as part of the ‘affiliate transactions’ through 2015. These payments are for special access services to use the networks and couldn’t possibly cover the construction of 2,800 cell sites in 2010, for example. And while there was a slight increase from 2009 to 2010, there is little to indicate that this was part of a massive new construction plan.⁷

EXHIBIT 6
Cellco Payments to Verizon New York, 2009-2010
(In the Millions)

	2009	2010	2011	2012	2013	2014	2015
Cellco Payments	\$78	\$95	\$27	\$29	\$83	\$79	\$60

Source: Verizon New York, New Networks Institute

6.2 Cellco Payments to Verizon NY – Underpaying as Compared to Sprint

In 2009 and 2010, Verizon New York’s SEC reports listed payments by Sprint for 2009-2010, (2010 was the last year the SEC-reports were published or public), for use of the networks, known as ‘Access fees’.

Note: Caveats abound with this data; accuracy would demand audits.

In 2009, Sprint paid \$119 million and in 2010 paid \$104 million. Compared to Verizon and the number of estimated subscribers for these years, Sprint paid, on average, 286% more than Verizon Wireless for what appears to be the same access service.

EXHIBIT 7
Comparing the Estimated Payments to Verizon NY by Verizon Cellco and Sprint, 2009-2010

Payment to VNY	2009	2010	Avg
Verizon Cellco	\$78,000,000	\$95,000,000	\$ 86,500,000
Sprint	\$119,000,000	\$104,000,000	\$ 111,500,000
Per Subscriber			
Verizon	\$12.50	\$14.42	\$ 13.46
Sprint	\$42.55	\$33.37	\$ 37.96
Sprint Vs VZ	341%	231%	286%

Source: Verizon New York, New Networks Institute

⁷ Note: The SEC state reports stopped being made available in 2010; this was the last year that Verizon itemized payments from Sprint to Verizon NY. The payments for 2011 and 2012 were from the Verizon NY Annual Report and we assume there were other payments that would make the totals for these years reflect closer to what was paid in 2010 and 2013.

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This next exhibit highlights what Verizon should have paid, as an average of the two years, if Verizon paid the fees Sprint was being charged, and conversely we calculated what Sprint should have paid if they were being billed at the same rate as Verizon.

Verizon underpaid on average \$249 million per year while Sprint overpaid by \$72 million.

Nationally, Sprint was overcharged about \$1.02 billion annually, assuming that AT&T and CenturyLink used the same billing practices.

EXHIBIT 8
Verizon Wireless and Sprint Under and Overpayments, 2009-2010

	2009	2010	Average
Verizon Should Pay	\$372,461,425	\$297,566,964	\$335,014,195
Sprint Should Pay	\$34,958,875	\$44,938,488	\$39,948,682
Verizon Underpaid	\$294,461,425	\$202,566,964	\$248,514,195
Sprint Overpaid	\$84,041,125	\$59,061,512	\$71,551,319
Nationwide			
Sprint Overpaid	\$1,200,587,500	\$843,735,886	\$1,022,161,693

Source: Verizon New York, New Networks Institute

7) **Local Phone Customers Were Overcharged by Cross-Subsidies to Fund Special Access.**

It is impossible to parse out the moving parts of the cross-subsidies that made Local Service appear unprofitable, which was then used to make the claims that the networks should not be upgraded, that the copper networks should be shut off, and that there should be a shift—to have customers force-marched onto wireless services. But the most recent data—released in June 2016, the 2015 Verizon NY Annual Report, gives us an indication of just how out of whack and deceptive this entire cross-subsidy scheme really is.

In New York alone:

- Verizon Wireless underpaid capex expenses for wireless networks as well as underpaid access fees, which would show up as an underpayment of expenses in the Verizon NY accounting, thus lowering the revenue of Verizon NY.
- At the same time, the expenses would have to show up somewhere for the capex; in this case some/much of it appears to be directly charged to the local service customer.
- But special access services itself also was able to manipulate the accounting so that the expenses would not be charged to this line of business.

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- However, as we know, the excess profits of special access were also caused by competing companies being overcharged, like Sprint, for the use of the networks. Small business end users are also paying inflated rates.

And while the details of the flows of money mentioned above would have to be audited, we know for certain one thing – Local Service became the financial garbage pail for expenses that have nothing to do with offering Local Service. Based on how large these financial cross-subsidies are, they stick out as being very wrong.

This is a detail from the 2015 Verizon New York Annual Report filed with the NY State Public Service Commission.

EXHIBIT 9

Verizon New York Local Service and Access Revenues and Expenses, 2015

Operating Revenues	Local Service	Access Service
(Special Access)		\$2,008,589,749
Total Operating Revenues	\$1,314,760,587	\$2,508,453,620
Operating Expenses		
Plant Specific & Non-Specific	\$1,470,969,502	\$716,168,027
Subtotal	\$1,731,367,648	\$843,549,033
EBITDA	-132%	66%

Sources: Verizon New York 2015 Annual Report, New Networks Institute

‘Local Service’ are over the ‘copper’-based “POTS”, “Plain Old Telephone Service”, lines. Verizon has stated it is no longer upgrading and maintaining these retail copper lines.

According to Verizon NY’s 2015 Annual Report, Local Service brought in \$1.3 billion and had an EBITDA of -132%. This is in contrast to ‘Access’ fees, which was \$2.5 billion revenue and had an EBITDA of 66%.

One would say that Local Service was losing money until one examines the network costs (“Plant Specific and Non-Plant Specific”) and noticed that, combined, Local Service paid a whopping \$1.47 billion, which is in contrast to access services, which only paid \$716 million, literally ½ of what Local Service paid. Local Service paid 117% in network expenses of revenue while access paid just 29% of revenue. But it gets worse since Special Access was \$2.5 billion and Local Service was \$1.3 billion in revenues for 2015.

How can Local Service be paying the majority of network expenses? And how can access services have a 66% EBITDA for mostly copper-based services while the same exact wires used for local service have massive losses?

7.1 The “\$200 Million Dollar” Kicker

In September 2015, the CWA filed letters in multiple states to investigate Verizon’s claim that it spent \$200 million in the last seven years on the copper networks.⁸

“The Communications Workers of America (CWA) today announced it is filing letters with telephone regulators in six states and Washington, DC calling on them to open investigations into the deterioration of Verizon’s copper landline networks. In July [2015], Verizon admitted in a letter to the FCC that it had only spent \$200 million over the last seven years to maintain its copper landline network in eleven states and the District of Columbia.”

While Verizon claims that this admission was taken out of context, the data presented clearly shows that Verizon’s ‘copper networks’ have been funding other lines of business, and not for the maintenance and repair of the copper networks.

8.0 Access Line Accounting Manipulation

Verizon NY has claimed massive access line losses. However, Verizon’s accounting is supplying only one class of service — copper-based, phone lines that are used mostly for Local Service, voice phone calling, commonly known as “POTS”, “Plain Old Telephone Service”.

Verizon’s goal has been to seriously exaggerate the size of the loss of lines as it makes their case that the networks are being abandoned and unprofitable and therefore should be shut off or they should be able to get more rate increases. And while many believe that a ‘landline’ is just the copper-based service/wire, truth be told, since the 1990’s, all wires, including fiber wires, are ‘landlines’ or in the industry are called ‘access lines’.

USTA Quotes Verizon New York’s Access Line Accounting, 2015

“When you look at the numbers in New York, in 2000, the incumbent (Verizon New York) had over 11 million access lines. Today they have 2.9 million access lines.”⁹

These numbers are provided by Verizon New York as quoted by the phone industry association and lobby — the United States Telecommunications Association, USTA.

⁸ http://district1.cwa-union.org/news/entry/cwa_calls_for_regulators_to_investigate_verizons_refusal_to_invest_in_landl-d1

⁹ <http://isoc-ny.org/misc/2015-07-15-mayer-saunders.mp4>

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8.1 Most Lines Are Not Counted

This next exhibit is from the FCC’s “*Statistic of Common Carriers*” report for the year 2007. Verizon NY had a total of 46.8 million access lines in just NY State, in 2007. The access lines USTA quotes could fall under the 4.7 million “Main Access Lines” (or it could include some of the other ‘switched access’ categories), but it is mostly the voice, “switched”, copper-based phone lines, which only constitute a fraction of the actual lines in service in the year 2007. (This was the last year the FCC published data about special access lines.)

NOTE: Terms like “switched”, “non-switched”, “special access” or “business data services” are very complicated to understand and there are multiple caveats, too technical to discuss here. But at the bottom of all of this is — there are copper and fiber optic wires and the accounting is manipulated based on how the line is used — but they are all ‘access lines’.

EXHIBIT 10

Verizon New York Access Lines, 2006-2007

	2007	2006	
Switched Access Lines in Service:			
Main Access Lines	4,658,451	5,116,406	
PBX & Centrex Trunks	460,379	463,709	
Centrex Extensions	999,354	963,213	
Other Switched Access Lines	1,064,404	1,417,158	
Total Switched Access Lines	7,182,588	7,960,486	
Central Office Switches Excluding Remote Switches	301	301	
Remote Switches	300	299	
Central Office Switches	601	600	
Basic Rate ISDN Control Channels	62,486	67,019	
Primary Rate ISDN Control Channels	14,952	14,442	
Access Lines in Service by Customer:			
Business Switched Access Lines:	Single Line	145,466	151,497
	Multiline/Other Than Payphone	2,677,605	2,799,836
	Payphone Lines	88,614	99,305
Residential Switched Access Lines:	Lifeline	263,473	276,013
	Non-Lifeline/Primary	3,584,790	4,137,632
	Non-Lifeline - Non-Primary	422,640	496,203
Total Switched Access Lines	7,182,588	7,960,486	
Special Access Lines (Non-Switched):	Analog (4kHz or Equiv)	25,765	27,279
	Digital (64kbps or Equiv)	39,615,573	35,005,428
Total Access Lines (Switched and Special)	46,823,926	42,993,193	
Local Private Lines	595,918	592,305	

FCC Statistics of Common Carriers, for the Year Ending December, 31, 2007

8.2 FCC’s Special Access investigation

In 2015, the FCC found that special access was a \$40 billion market in 2013, (the FCC increased the total to \$45 billion in 2016), and started an investigation, which included

Verizon.¹⁰ According to the FCC, 60% of this \$40 billion is for “usually copper”-based services that rely on the existing technology, (TDM).

“TDM-based business data services... **are the dedicated (usually copper)** circuits that many business and other institutional users continue to rely on for their data and other communications needs... Despite the growth of newer technologies, preliminary analysis of the Commission’s special access data collection shows that revenues from such TDM services continue to make up in the range of sixty percent of the roughly \$40 billion annual special access market.” (Emphasis added.)

In the Verizon New York financial accounting, special access revenues would fall under “access fee and special access” financial bucket.

However, this brings up a question — how many copper lines are in service today? According to this last accounting by the FCC, it would appear that one thing is true — since 2007 special access lines had to have major gains, as by 2015 ‘access services’ were by far the largest revenue producer.

Moreover, special access is just one of many types of access lines in service that are not part of Verizon’s published accounting of “access lines”. FiOS fiber optic lines, DSL lines, or business services, such as Ethernet, are not included. Thus, Verizon’s use of just the ‘POTS’ phone line accounting as the only information supplied about lines in service, seriously manipulates this information.

8.3 Verizon NY Access Lines, POTS & Special Access, 2007-2015

In a separate report we examine the access line accounting and special access service revenues, expenses and profits, using the Verizon New York information.

By 2015, according to Verizon New York’s 2015 annual report, there were only 2.4 million access lines, but if special access lines tracked with the revenues, there would be over 71 million total lines – a 79% increase in lines since 2007, in just New York State.

Conversely, Verizon’s regular phone service lines were only 18.1% of the total lines according to the FCC, in 2007. By 2015, POTS would be only 3.4% of the total lines. (Note: Revenues for 2015 and POTS access lines are from the Verizon NY annual report.)

¹⁰ http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db1016/DA-15-1194A1.pdf

EXHIBIT 11

Verizon NY Access Lines, POTS & Special Access, Based on FCC, 2007-2015

	2007	2015	Change
Special Access Revenues	\$1,121,174,000	\$2,008,589,749	79%
Special Access Lines	39,615,000	71,307,000	79%
POTS Access Lines	7,182,588	2,427,828	-66%
Percent of Total	18.1%	3.4%	

Sources: Verizon New York, FCC, New Networks Institute

Moreover, this shows a massive increase of lines, including the special access TDM lines that ‘usually’ rely on the copper networks; (these would be part of the 60% of total special access revenues that are ‘usually copper’).

NOTE: Access Line Accounting Anomalies. There are many caveats about the accounting of special access lines and ‘circuits’, which is the current term for access service lines. A ‘circuit’ can be a collection of lines, tied together. Conversely, the FCC’s access line accounting used ‘access line equivalents’ which were based on a line representing/mimicking the capacity of a regular phone line. There has been no attempt by the FCC to correlate the 2007 access line accounting with the current special access data collection or even market information.

In the FCC’s current data collection, there has been no accounting by the FCC of special access lines in service. There has been no accounting by any filer pertaining to the number of access lines in service. However, every incumbent every phone company has submitted statements that they are dealing with a massive loss of lines.

Ironically, every company also claims that their new fixed wireless services require fiber optic wires to be installed. And Verizon has filed claiming that these wires are ‘Title II’ and part of the state utility telecommunications networks. And yet, these lines are not accounted for—anywhere.