

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554**

In the Matter of

Modernization of Payphone Compensation Rules	)	WC Docket No. 17-141
	)	
Implementation of the Pay Telephone	)	CC Docket No. 96-128
Reclassification and Compensation Provisions of	)	
the Telecommunications Act of 1996	)	
	)	
2016 Biennial Review of Telecommunications	)	WC Docket No. 16-132
Regulations	)	

**COMMENTS OF VERIZON<sup>1</sup>**

Verizon supports the Commission's proposal to eliminate burdensome administrative processes associated with payphone call tracking and compensation. Payphone usage has declined precipitously, and that decline is irreversible. There is no valid reason to require companies to continue to expend resources on the audit and reporting requirements the Commission adopted in 2003, when payphones were far more useful and necessary. Notably, the Commission does not propose, and Verizon does not seek, changes to the compensation system itself. Verizon asks the Commission only to eliminate the unnecessary audit, reporting, and certification requirements.

A unique compensation system governs how Payphone Service Providers are compensated for coinless calls, like toll-free calls, where the caller at the payphone does not pay for the call. Congress directed that Payphone Service Providers be fairly compensated, and the Commission in 1996 adopted rules to govern compensation for these calls. In general, when a caller makes a coinless call at a payphone, the carrier to

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<sup>1</sup> The Verizon companies participating in this filing are the regulated, wholly owned subsidiaries of Verizon Communications Inc.

whom the call is routed is known as the Completing Carrier. The Commission's rules require Completing Carriers to develop a per-call tracking mechanism, to ensure that those Payphone Service Providers are compensated for those calls. Completing Carriers are responsible under the rules for tracking each compensable call and remitting per-call compensation to the Payphone Service Providers. That compensation is paid quarterly.

The rules also include several administrative requirements. Among other things, the chief financial officer of the Completing Carrier has to certify the accuracy of each quarterly payment. And annually each Completing Carrier must engage an independent auditing firm, which files an audit report verifying ongoing compliance with the compensation rules.

Although payphones once were widely used—including when the Commission adopted the compensation, audit, and reporting rules—the widespread adoption of mobile telephones has resulted in a precipitous decline in payphone usage. As a result, these administrative requirements no longer produce a benefit commensurate with their burden.

At the end of December 2002 the Commission estimated there were 141.8 million mobile telephone subscribers, translating to a nationwide penetration rate of roughly 49%.<sup>2</sup> Fueled in part by the introduction of smartphones, mobile wireless services have since become a “ubiquitous part of Americans’ daily lives.”<sup>3</sup> By the end of 2015 the

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<sup>2</sup> *Implementation of Section 600(b) of the Omnibus Budget Reconciliation Act of 1993; Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services*, Eighth Report, 18 FCC Rcd 14,783, ¶ 59 (2003).

<sup>3</sup> *Implementation of Section 600(b) of the Omnibus Budget Reconciliation Act of 1993; Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, Including Commercial Mobile Services*, Nineteenth Report, 31 FCC Rcd 10,534, ¶ 1 (2016).

Commission estimated there were 374 million mobile wireless subscriptions,<sup>4</sup> and the number of connected devices exceed the total population of the United States.<sup>5</sup>

Largely because of that explosive growth in wireless subscriptions and services, payphone usage has followed the opposite trajectory. The Commission notes that while in 1999 there were 2.1 million payphones in service, there are now fewer than 100,000.<sup>6</sup> And Verizon’s experience with payphone compensation similarly demonstrates that decline. Verizon experienced a 98.5% decrease in payphone calls and compensation payments between the third quarter of 2004 and the fourth quarter of 2016. And there is no reason to think payphones will make a comeback or somehow reverse this trend.

Nevertheless, while payphone usage today is just a tiny fraction of what it had been, the payphone compensation compliance obligations—including the annual audit of the payphone call tracking system and related certification requirements—have not changed and have become increasingly burdensome. To meet the annual July 1 deadline, Verizon as a Completing Carrier begins the audit process approximately three months earlier. In addition to the costs of engaging a third-party auditor—which Sprint and others have recently described as “disproportionate” and “exorbitant”<sup>7</sup>—Verizon must dedicate internal resources to the audit, contributing to the burden.

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<sup>4</sup> *Id.*, ¶ 12.

<sup>5</sup> *Id.* ¶ 45.

<sup>6</sup> *Modernization of Payphone Compensation Rules; et al.*, Notice of Proposed Rulemaking, 32 FCC Rcd 5397, ¶ 7 (2017) (“*NPRM*”).

<sup>7</sup> Sprint Petition for Waiver, *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-128, at 3 (filed Apr. 7, 2017); Ex Parte Letter from B. Lynn Follansbee, USTelecom, to Marlene Dortch, FCC, CC Docket No. 96-128, at 2 (Apr. 21, 2017).

The burden of complying with the requirements, meanwhile, yields no meaningful benefit. Verizon, for example, has made no material changes to its payphone call tracking system since it was developed. The audit therefore perennially evaluates the same system. And year after year, the audit has produced the same results. Verizon has experienced no adverse findings since the audits began.

The audit process also is unnecessary to ensure compliance with the underlying payphone compensation requirements. Most Completing Carriers, including Verizon, use clearinghouses to process payphone compensation. Whenever there is a question or dispute about payphone compensation, Verizon works with its clearinghouse as well as the Payphone Service Providers to investigate and resolve the issue. We agree with ITTA that the clearinghouses have effective investigation and dispute resolution processes.<sup>8</sup> These processes, much more so than the audit process, ensure Payphone Service Providers are compensated for compensable calls.

The audit therefore has become an unnecessary and costly waste of time and resources. Whatever purpose it may once have served, it no longer produces a benefit. The Commission should, as it proposes, eliminate the audit requirement and the associated reporting requirement.<sup>9</sup>

The Commission should also eliminate the requirement that the chief financial officer of each Completing Carrier certify the accuracy of each quarterly payphone compensation payment.<sup>10</sup> Requiring certifications from senior executives creates burdens on companies. Before those senior executives can execute sworn statements attesting to

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<sup>8</sup> See *NPRM*, ¶ 10.

<sup>9</sup> See *id.* ¶ 12.

<sup>10</sup> See 47 C.F.R. 64.1320(a)(3).

the accuracy of the payment amounts, they must obtain rollup attestations and other assurances from employees with the organization, each of which requires time and resources that could be spent on other activities. With payphone usage and the number of payphones declining so precipitously, quarterly CFO-level certification is unnecessary.

If the Commission determines that some level of certification is required to ensure accurate payphone compensation, it should allow a responsible executive to certify in lieu of the CFO. And it should only require that certification annually, instead of quarterly. The Commission could also decide to use that certification to replace the audit requirement, as Sprint and Cincinnati Bell have suggested.

While the payphone business is in a state of inevitable and irreversible decline, and while Verizon supports eliminating the burdensome audit and certification requirements associated with the payphone compensation system, we emphasize that we are not seeking to change the payphone compensation system itself. Congress has directed that Payphone Service Providers be fairly compensated for all completed calls from their payphones. The Commission in 1996 adopted rules by which Completing Carriers compensate Payphone Service Providers for coinless calls, and Verizon is not asking the Commission to change them. We ask only that the Commission eliminate the unnecessary and burdensome audit and certification requirements associated with this system.

Respectfully submitted,

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