Before the
Federal Communications Commission
Washington D.C. 20554

In the Matter of	)	
	)	
Jurisdictional Separations and Referral to the Federal-State Joint Board	))	CC Docket No. 80-286

RE: FURTHER NOTICE OF PROPOSED RULEMAKING, FCC 18-99

COMMENTS

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AUGUST 27th, 2018

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Introduction and Executive Summary

In 2001, the FCC's cost accounting rules that are used to determine the allocation of expenses in the state utilities was frozen to be based upon ratios from the year 2000. Known as "separations", this "freeze" was originally meant to be temporary, but has been repeatedly extended. The Commission is now proposing to extend this freeze for an additional 15 years, until 2033. And while it appears that this is only applied to a specific group of smaller, wired-based phone companies (rate of return carriers), the language clearly states that it also applies to "price cap" carriers, i.e., AT&T, Verizon and CenturyLink, even though they were 'forborne' from applying these same rules at the interstate level. They still, however, are applicable in various proceedings, and the result of the freeze is that the accounting of the costs for local and other services are highly distorted. This leads to improper decision-making at various levels. The freeze should not be extended.

New Network Institute and IRREGULATORS

The IRREGULATORS is an independent consortium of senior telecom experts, analysts, forensic auditors, and lawyers who are former senior staffers from the FCC, state advocate and Attorneys General Office experts and lawyers, and former and current telecom consultants. New Networks Institute, was established in 1992 as a market research and consulting firm, and now acts as the managing director.

We have just published a new series of reports, "Digital Divide by Design" based on almost a decade of research, analysis and the actual, financial, annual reports of Verizon New York, including the Verizon NY 2017 Annual Report, published June 2018. Moreover, we present new information that was part of the investigation of Verizon NY by the NY Public Service Commission, that started in 2015, was settled on July 14, 2018. Our research and analysis was used to initiate and throughout the investigation.[1]We concluded:

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[1] http://www.newnetworks.com/digitaldividebydesign

- AT&T, Verizon, CenturyLink & the FCC intentionally made the wired utility networks look unprofitable—overcharging America at least $½ trillion since 2006.
- Whether intentional or not, this created the Digital Divide.
- And it was the FCC's freeze that made the wired networks appear unprofitable and, in large part, caused the Digital Divide.

In fact, the FCC has had 17 years to reform these rules and has done no audits or investigations of how these deformed rules have harmed America. The FCC has been actively erasing all tracks of these accounting rules and any obligations of the companies to supply basic financial information.

No other proposed regulations have been extended for 15 years that we are aware of, and based on the documented harms, the Commission's process needs investigation by the Inspector General's Office and Congress for malfeasance and serious neglect.

The Harms from the Freeze are Many and Extensive

As we discuss herein, using Verizon New York financial annual reports and other data, the freeze caused major losses which lowered tax payments. Verizon showed losses of $23 billion since 2005 with a tax benefit of $10.3 billion. These were used as an excuse to raise rates multiple times, over 95% in multiple states, as well as on all 'add-on services' between 50-and 250%. These losses were not created based on expenses incurred by Local Service but by the cross-subsidies of the interstate services, that are paying a fraction of the expenses, especially the 'common costs', from the wireless and online subsidiaries, as well as the Business Data Services. And it was used as an excuse to not upgrade the rural areas.

One example of just how corrupted the freeze has become. Local Service, basically revenues from the copper-based POTS lines, had revenues of $1.1 billion in 2017 but paid $1.8 billion in Corporate Operations expense, 61% of the total expense assigned to Verizon NY. In 2000, Local Service paid 65% of this expense, but had revenues of 65% of the total. By 2017, Local

Service is 21.6% of the revenues, yet it is assessed 61% based on the year 2000. And in 2017, "Access" services, including Business Data Services, had double the revenues of Local Service but was charged ½ of what Local Service was assessed – all based on the year 2000.

The harms of the malformed accounting rules extend to many current Commission proceedings, and the Commission has ignored all of the previous data and analysis we provided, which is primarily based on the Verizon New York financial reports.[2] Verizon NY is the primary telecommunications utility for New York State, and it is still required by state law to provide the financial and business information that the FCC previously collected as part of the Statistics of Common Carriers and ARMIS, which the FCC stopped publishing in 2007. And, Verizon NY is the only state-based utility we know of that is supplying this primary financial information based on the USOA cost accounting rules. Moreover, the financial results are still in use by the NY Public Service Commission, as described herein.

This is the proposed amended language of the change. It is written in FCC-speak, but it clearly lays out that the original rule was created in 2001 and required that the accounting of expenses be set to the year 2000 and that it will be extended through this amendment until December 31, 2033.

§ 36.3 Freezing of jurisdictional separations category relationships and/or allocation factors.

(b) Effective July 1, 2001, through December 31, 2033, local exchange carriers subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign costs from the part 32 accounts to the separations categories/sub-categories, as specified herein, based on the percentage relationships of the categorized/sub-categorized costs to their associated part 32 accounts for the twelve month period ending December 31, 2000. If a part 32 account for separations purposes is categorized into more than one category, the percentage relationship among the categories shall be utilized as well. Local exchange carriers that invest in types of telecommunications plant during the period July 1, 2001, through December 31, 2033, for which it had no separations category investment for the twelve month period ending December 31, 2000, shall assign such investment to separations categories in accordance with the separations procedures in effect as of December 31, 2000.

3. In 47 CFR part 36, remove the date "December 31, 2018" and add in its place everywhere it appears the date "December 31, 2033" in the following places:

[2] https://newnetworks.com/ny-related-filings/

Separations Still Matter

While Price Cap ILECs were granted forbearance from separations at the federal level, many states continue to use the frozen relationships for their own purposes. Hence these rules, while theoretically dead, are still having an effect in many jurisdictions. In effect they are **"Zombie Rules"** that the Commission now proposes to extend, disregarding their pernicious effects elsewhere.

Even though interstate rates are no longer prescribed based upon the separated rate base, ILECs routinely claim that local services are "unprofitable", and demand regulatory changes, based upon the frozen allocation of costs to intrastate service categories that are now represent much less than half as large a share of total revenues than they did in 2001. In part this represents a movement away from wired POTS lines. But in part it also represents moves on the part of ILECs to shift their PSTN access lines out of the state-regulated category and into unregulated or lightly-regulated alternatives, including their own wireless affiliates, their own captive CLEC subsidiaries providing so-called "VoIP" services, and so-called “VoIP” services provided by the ILECs but on a claimed unregulated basis. These shift revenues away from the state-regulated jurisdiction even though costs assigned to it are frozen. Thus the unit cost per state-regulated POTS line appears to increase even though the actual costs of providing those services are, if anything, declining.

We have previously filed multiple comments, reply comments, and reports documenting how this freeze works, the history of these cost accounting rules, and we added a new report that walks the reader through the distorted calculations detailing how the majority of expenses for the telecommunications infrastructure are being put in the ‘intrastate’, state-regulated side.

- **REPORT 4:** AT&T, CenturyLink & Verizon’s Motto: The Big Telco Cook Book for Fun and Profit of the Shareholders[3]

[3] http://www.newnetworks.com/digitaldividebydesign

- **Report 5:** The Hartman Memorandum proves that the FCC's own cost allocation rules created massive financial cross subsidies between and among the state-based wired utilities, and the companies' other lines of business, such as special access, or the wireless service.[4]
- **Report 6:** The History & Rules of Setting Phone Rates in America —The FCC's 'Big Freeze' details that the FCC has set basic cost accounting expenses to based on the year 2000 and the FCC has never audited or investigated the impacts for 18 years.[5]

In 2000, the preponderance of consumer Internet access was via modem dial-up. That was near the peak year for residential PSTN line penetration, as many homes had added a second line for that purpose. Intrastate tolls and, in some states, zone call charges were also major sources of jurisdictionally intrastate revenue. Dial-up is now rare. Carriers typically offer toll-free calling plans, reducing toll revenues, and wireless carriers almost always offer nationwide calling, often at no charge. Thus the actual profile of PSTN usage has shifted greatly. But in the intervening years, DSL and other Internet access services have grown substantially. Business Data Services, heavily used for cellular backhaul, have become a major share of ILEC revenues. These are jurisdictionally intrastate.

Intrastate business thus represents much less than half of total ILEC revenues, and virtually no investment is being made in that area. Allocating costs to the intrastate jurisdiction based on 2000's numbers is almost as absurd as allocating costs to the trivial amount of remaining operator services based on 1940's levels. Yet states, who are still bound to the supposedly-forborne separations, are basing policy and in some cases rate-making proceedings on these obsolete numbers. This is bad accounting. This is bad policy.

Reducing the interstate share of the revenue requirement was, in 2000, arguably a beneficial move. Prior to that, carriers recovered an excessive share of revenues from toll charges, artificially distorting incentives to use the PSTN versus alternatives. The separations process

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[4] http://newnetworks.com/hartmanmemorandum/

[5] http://newnetworks.com/hartmanhistory/

did not simply allocate costs based on revenues; it used complex means, such as the Subscriber Plant Factor, to create in effect a cross-subsidy from tolls, in order to lower local rates. But that was a battle from ages past[6]. With national number portability on the horizon, domestic tolls are themselves almost as dated as the cord switchboard. Revenues have moved to other interstate services; there is no risk that reducing the intrastate share of costs will spike a return to pre-2000 interstate calling rates.

The current freeze should be ended as soon as practical for all carriers. This does not however mean that the entire study process needs to be restarted. The Commission or Federal-State Joint Board should undertake a study to arrive at a more accurate representative set of numbers, which would become a new benchmark for state and federal use, for all price cap carriers as well as for rate of return carriers who do not perform their own studies. This type of study should then be automatically reviewed every three to five years, to track changes in technology and markets. An even simpler method would be to reset the separations percentages based upon the actual percentages of revenue generated in each jurisdiction.

The Other Solution: The Rules have been Removed. Time to Start Incremental Pricing & Separation of the Affiliates from being Cross-Subsidized.

the FCC has erased most of the accounting rules – and the result has been that prices are now unjust and unreasonable, and there are massive financial cross-subsidies violating basic laws, such as section 254K which prohibits the cross-subsidies of local service and the other subsidiaries, or Section 272, where the company can not give financial and other advantages to their own interstate (long distance) affiliates. But with the removal of the accounting rules the states are now free to set the rates using ‘incremental’ pricing and immediately lower rates and remove the cross-subsidies that had been artificially created over the last decade.

[6] Specifically, *Smith v. Illinois Bell*, 1929

This also means that all Business Data Services have been overcharged, and the FCC Subscriber Line charge should be removed immediately. In fact, the network infrastructure is then highly profitable, especially when the subsidiaries are paying market prices to use these utility networks.

ANNEX

1) An Example of Making Local Service Unprofitable on Purpose

Question:

- *How, exactly, did Verizon NY's Local Service get charged $1.8 billion for "Corporations Operations" expense in just 2017, making it unprofitable?*

The Verizon New York 2017 Annual Report, published June 2018, shows the massive financial cross-subsidies that occurred from this ludicrous freeze.

- **SEE: REPORT 2**: Verizon New York 2017 Annual Report: An Analysis of Cross-Subsidies and Customer Overcharging[7]

Verizon New York has three primary financial revenue classifications.

- **"Local Service"** — covers mostly the regular copper-based phone lines, commonly known as "POTS", Plain Old Telephone Service, and are "intrastate" services (in-state).
- **"Access"** — are categorized as "interstate" services and 84% are "Business Data Services" (BDS). Also called "Special Access" services, these are business lines used for ATM machines or the wires to cell sites, including services to competitors. These wires use the identical networks used for Local Service and can be copper or fiber.
- **"Nonregulated"** — are items that were previously or never regulated before and it can include DSL or parts of FiOS or VoIP and they, too, are part of and use the state utility wires.

Verizon NY Revenues and Major Expenses by Category, 2017 (Excerpt)

	Total	Nonregulated	Local Service	Access
Operating Revenues	$4,986,070,423	$1,546,034,819	$1,077,961,833	$2,362,073,771
		31.0%	21.6%	47.4%
Corporate Operations	$2,917,904,192	$297,290,586	**$1,768,187,616**	$852,425,990
		10.2%	**60.6%**	**29.2%**

In 2017, Verizon New York had approximately $5 billion in revenues, with Local Service representing about 22%; Access was 47% and Nonregulated services brought in 31% of revenues.

NOTE: There is an additional $8-$10 billion in revenues going to Verizon in New York State. We estimate that Wireless is $7-$8 billion, and other areas, Verizon Online, Verizon Business and "Black Hole" revenues which we detailed elsewhere, are all missing. However, they all use

[7] https://newnetworks.com/digitaldividebydesign/

the existing state utility and it is clear that much of the cross-subsidies are used to fund these other lines of business.

2) Local Service Charged $1.8 Billion, 61%, for Corporate Operations in 2017

In 2017, Local Service paid $1.8 billion, 61% of the total of Corporate Operations expense, while Access, which is more than double the revenue, paid ½ the expense, and nonregulated paid only 10%.

How is this remotely possible? And why doesn't this violate every 'just and reasonable' statute? The price of basic service was set based on 'losses', and this was a major cause of these losses.

Thus, this one expense item, which is a corporate expense garbage pail that includes everything from executive pay, lawyers, lobbying and PR, to the corporate jets – made Local Service appear unprofitable, while the other lines of business are paying a fraction of this expense.

The Freeze at Work: The calculation that assigned "61%" of the Corporate Operations expenses to Local Service is based on expense allocations used in the year 2000, literally, when Local Service was 65% of the revenues. By 2017, Local Service only brought in $1.1 billion, (only 21.6% of the total) so this one expense created losses; the Corporate Operations expense is 164% of the Local Service revenue.

Let us be very clear. This "freeze", which we will explain, we now believe was an intentional act created by the FCC, but under the direction of AT&T, Verizon and CenturyLink, and it was designed to make the telecommunications state utilities appear unprofitable by having the majority of all expenses be put into "Local Service", the category for the wired basic phone service revenues and expenses.

At the same time, all of the other services that also use the existing state based utility infrastructure:

- Paid a fraction of the common costs to use the networks,
- Paid below market prices to use the networks, and
- Were able to use the existing state utilities as a cash machine for all of the other lines of business.

3) 17 Years and They Couldn't Come Up with a 'Comprehensive Plan of Reform'?

It defies credibility that if the FCC wanted to actually reform separations that they could not have come up with anything other than extending the "short term" freeze for over 18 years.

The FCC has never audited the financials to see the impacts their rules have had, even though the prices and expenses to provide All of these 'interstate' services are being cross-subsidized by intrastate budgets – and local phone customers.

How ridiculous is this? The FCC writes that since 2001 the Commission had seven separate extensions without examining the financials and adjusting them properly.

> "13. The Commission has extended the separations freeze seven times, with the most recent extension set to expire on December 31, 2018."

Moreover, the FCC writes that it did not have the time for the Joint Board to develop recommendations to do something.

> "In the *2001 Separations Freeze Order,* in light of statutory, technological, and marketplace changes in the provision of telecommunications services, the Commission froze the jurisdictional separations rules to allow time for the Federal-State Joint Board on Jurisdictional Separations (Joint Board) to develop recommendations on comprehensive separations reform. The Commission has repeatedly extended the separations freeze over the past 17 years, and with the current freeze extension set to expire on December 31, 2018, we take up this issue once more."

4) Timeline

Here are a few quotes taken from the seven different 'extensions', demonstrating that this was nothing more than a cover up—as it now appears that there was intention to keep the freeze in place. We particularly like their mantra "**until comprehensive reform could be completed".**

- **2000:** "On July 21, 2000, the Joint Board issued its 2000 Separations Recommended Decision, recommending that, **until comprehensive reform could be achieved,** the Commission should freeze the expenses.
- **2001:** "The Commission ordered that the freeze would be in effect for a five-year period beginning July 1, 2001, or until the Commission completed **comprehensive separations reform, whichever came first.**
- **2006:** "On May 16, 2006, in the "2006 Separations Freeze Extension and Further Notice", the Commission extended the freeze for three years or **until comprehensive reform could be completed,** whichever came first. The Commission concluded that extending the freeze would provide stability to LECs pending further Commission action to reform the... rules, and that **more time was needed to study comprehensive reform.** The freeze was subsequently extended by one year in 2009, 2010, and 2011 and by two years in 2012."
- **2010:** "March 30, 2010, the State Members of the Joint Board released a proposal for interim and comprehensive separations reform... On September 24, 2010, the Joint

Board held a meeting with consumer groups, industry representatives, and state regulators to **discuss interim and comprehensive reform...**"

- **2011:** "In addition, in 2011, the Commission comprehensively reformed the universal service and intercarrier compensation systems and proposed additional reforms. The Joint Board is considering the impact of the reforms proposed by the USF/ICC Transformation Order and any subsequent changes on its analysis of the various approaches to separations reform."
- **2014-2017:** "On March 27, 2014, the Commission sought comment on extending the freeze once more. We extend through June 30, 2017.... We conclude that extending the freeze will provide stability to carriers that must comply with the Commission's jurisdictional separations rules **while the Joint Board continues its analysis of the jurisdictional separations process.**"

The Impacts are NOT Trivial, but are Responsible for Major Financial and Economic Harms to America.

5) Zombie Rules: Like the Walking Dead, the Deformed Rules are Still in Use.

Like the Walking Dead, Zombie rules are rules that have supposedly been forborne and not in use, yet, these malformed accounting rules are still in use in multiple ways. So, any commenter that claims that they should be extended needs to go back and examine their harms.

We will discuss some of various harms caused by these rules, using Verizon New York as a reference. This includes:

- The rules that have made Local Service artificially unprofitable.
- They created artificial losses that were used to not pay taxes and get tax benefits.
- They have placed the majority of the expenses into Local Service, cross-subsidizing the other lines of business by inexcusably paying their expenses and common costs.
- The cross-subsidies were identified in the investigation of Verizon NY, independently corroborating our analysis.
- The fake losses were used to increase the basic POTS phone service rates.
- Local Service in NY has gone up 84% since 2005 from these rate increases.

IMPORTANT: This is happening in every state: New York is the only state that still requires the full financial accounting that we are aware of. As we documented, the accounting based on the federal manipulation of the accounting was identical in all of the state utilities in 2007, the last published FCC data.

6) The Rules Caused Massive Losses, which Were Used for Multiple Rates Increases

Verizon NY was granted multiple rate increases of 84%, starting in 2005, based on artificial losses. This is from the NY State Department of Public Service, June 2009.[8] Notice that the Order specifically states that Verizon needs financial relief, meaning rate increases, because of the 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%."

Thus, these apparent losses are directly tied to the price of service—which is not supposed to be the case under 'price caps'. And these losses were all artificial as they have nothing to do with offering phone service. But, local phone customers—seniors, low income families, rural areas—all paid rate increases that were 'unjust and unreasonable'.

We note that the FCC did state that some states are using the "separations results" for calculating state-based Universal service.[9]

> "States also use separations results to determine the amount of intrastate universal service support and to calculate regulatory fees, and some states perform rate-of-return ratemaking using intrastate costs."

7) Massive Losses – $23 Billion in NY since 2006; $10.3 Billion in Tax Benefits.

As we discuss in the other reports, Verizon NY showed losses of $2.6 billion in just 2017, with Local Service showing losses of $2.9 billion. In fact, since 2006, Verizon New York lost $23 billion and had a $10.3 billion tax benefit.

And the majority of the losses were created by using the freeze.

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[8] 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 Department of Public Service , June 18, 2009

[9] NPRM. In paragraph 11:

8) NY State Relied on FCC Cost Accounting Rules, the USOA information 2017.

While the FCC and Verizon et al. claim that the financial information of these cost accounting rules are not in use, the NYPSC believed that the USOA, "Uniform System of Accounts" are critical and they were used in the investigation of Verizon NY, which ended in a settlement in July 2018.[10]

> "12 Q. Did the Company comply with the Commission's request?
> A. Partially. The Company filed Exhibit K, with two subsequent corrections. That exhibit does not, however, provide detailed capital and operational expenditure budgets as requested.
>
> The information provided includes lump sum amounts for capital (metallic-cable) and expense, by year, which total to the amounts referenced on page of the Company's testimony, 6 billion and $8.5 billion, respectively. There are no references to schedules from previously filed Annual Reports to the Commission **nor is there any reference to Uniform System of Accounts (USOA) account coding,** making it extremely difficult to validate the accuracy of such figures.
>
> "Q. Did you request clarification?
> **A. Yes, IRsDPS-14(09) and 14(10) each requested the Commission USOA account number and label in support of the Company's testimony** on
> that "the company's capital investments related to the copper network have totaled more than $1.7 billion from 2004 through 2015, and expenses related to that network have totaled almost $8.5 billion over the same period."
>
> "Q. Why is this a problem?
> "A. Verizon's responses undermine the accuracy of its claims regarding the amounts spent maintaining the Company's copper network. Not being able to account for $842 million of capital investments undermines its assertion that its investment in its copper network is sufficient as also indicated.. Perhaps even more important, is the lack of any clarity regarding what impact its combined $8.5 billion of operational and $1.6 billion of capital expenditures on the copper network had on service quality, let alone the $9.5 billion of capital expenditures the Company claims to have invested in New York since 2008"

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[10] CASE 16-C-0122 – Proceeding on Motion of the Commission to Consider the Adequacy of Verizon New York Inc.'s Retail Service Quality Processes and Programs, Order Adopting Terms Of Joint Proposal, State Of New York Public Service Commission, July 12, 2018 CASE 16-C-0122 ACCOUNTING PANEL

9) Verizon NY's Local Service Is a 'Regulated Service', as Told By the Recent Settlement Agreement.[11]

The Verizon New York Settlement of July 2018 made it clear that local POTS phone service is a regulated, intrastate service, controlled by the state commission.

> "The (NYPSC) Commission noted that this investigation would necessarily include an examination as to the state of the copper system and whether Verizon's investment in its network has been sufficient to provide adequate levels of service to **consumers of regulated services."**
>
> "The (NYPSC) Commission stated that it was initiating this proceeding to investigate the Company's service quality processes and programs **pertaining to all its regulated customers to determine if modification** of Verizon's revised SQIP was warranted. The Commission concluded that the seeming failure of Verizon's wireline telephone service to meet long-standing Commission service quality objectives, despite the existence of competition, necessitated such an inquiry. Absent further fiber deployment, the Commission found that its service quality oversight of Verizon had reached another turning point, and that the underlying premise for the continuation of Verizon's service quality focus on Core customers had been called into question. were leaving Verizon's networks."

10) Cross-Subsidies Were Found in the Verizon NY Investigation, Independently Corroborating Our Findings.

Consultant for the investigation, March, 2017[12]

> "There are strong indications that Verizon New York, and its parent Verizon Communications, engage in practices which misallocate expenses and revenues to the detriment of the regulated New York operations. I recommend the Commission direct Verizon to submit detailed information on these interaffiliate transactions and allocations, and that, in a separate proceeding, the PSC examine Verizon's cost allocation methodologies."

In testimony, one of the consultants stated that Local Service was bringing in ¼ of the revenues yet paid double the proportion of the expenses.

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[11] CASE 16-C-0122 – Proceeding on Motion of the Commission to Consider the Adequacy of Verizon New York Inc.'s Retail Service Quality Processes and Programs, Order Adopting Terms Of Joint Proposal, State Of New York Public Service Commission, July 12, 2018

[12]

> "While the regulated New York State (Local Service) segment had approximately one-quarter of total Verizon New York revenues, it had about *double* that proportion in operating expenses. On the other hand, both the Non-regulated and Other (Access) segments reported smaller percentages of operating expenses than their shares of operating revenues."

11) The Manipulation of Access Lines Is a Cancer to the Public Interest

We have previously filed and written about a failure of the FCC, the phone companies and their associations to supply basic information about the number of access lines in America. And we have filed a separate report in the USTelecom proceeding detailing just how corrupt the accounting of copper and fiber optic based lines has become.

Take this quote, that has been used and variations re-quoted by AT&T et al., USTelecom and the FCC.

> "In residential markets, only 11 percent of U.S. households are projected to have an ILEC switched voice line by the end of this year."

There is an ethical failure here; a clear-cut attempt to use deceptive, twisted statistics to influence public policy for AT&T, Verizon, CenturyLink, and their trade associations, including USTelecom. This is not in the public interest.

- First, this quote is hiding the business lines
- Second, claims that these lines are only for voice calling, when we demonstrated that the majority new POTS lines since 1993 was from the additional second line used for the internet, and provided by independent Internet Service Providers, ISPs
- Third, this is hiding all of the copper-based and fiber optic 'interstate' lines; the business lines, the Business Data Service Lines; AT&T's U-Verse, the VoIP lines, the alarm circuits, DSL, competitive lines, etc.
- Fourth, in the last FCC "Statistics of Common Carriers" in 2007, the 'intrastate' lines were only 15-20% of the total 'access lines' in service.
- Fifth; worse, none of these lines are under the FCC's jurisdiction as they are all intrastate lines and part of the state utility!

In the other FCC proceedings, including the USTelecom Petition for Forbearance, which designs on getting rid of all obligations to offer interconnection, or another FCC proceeding to 'shut off the copper' – all of the copper, regardless of whether they are switched or a special access line, the fundamental question then is not some distorted quote that only supplies a fraction of the total lines, but the total copper and fiber optic lines in service—i.e.; the actual physical wires in use, regardless of this cloistered, narrow-band definition of voice, residential switched, intrastate access lines that are part of the state utility.

Sixth, based on revenues, 80% of the lines in service are now hidden. In the Verizon NY 2017 Annual Report we find just how deceptive all of this telco-FCC accounting really is:

- In 2017, Verizon NY reported total revenues of almost $5 billion of which $1.1 billion was generated by "Local Service"; and the company claimed that there were 1,900,000 access lines—which were accounted for in the Local Service revenue category.
- Thus, (with caveats) the average customer is paying a whopping $57.95 a month.
- At the same time, an additional $4 billion in other revenues are being generated by the Business Data Services, the VoIP services, DSL, FiOS, etc., and there are **zero access lines supplied**.

Seventh, according to the FCC, it only costs $45-50 per home passed per year to maintain and keep the copper networks in this comical statement, the FCC claims that if Verizon retired the copper networks as planned, the company could save $171 million to $190 million.[13]

> "The record shows that the burdens caused by delays in copper retirements resulting from expansive notice obligations can be quite significant, including costs associated with the ongoing need to maintain various parallel computer systems and retain dedicated engineering staff. Indeed, record evidence suggests savings of $45-$50 per home passed per year achieved by retiring copper facilities. Couple that with Verizon's statement that it has filed to retire copper facilities at 3.8 million locations, and it appears that Verizon's copper retirements alone may result in between $171 million and $190 million in cost savings that could be put to use in deploying next-generation networks."

Eighth, comparing the FCC's statement with actual revenues and the number of lines, what is amazing is how ridiculous this statement is. First, besides no acknowledgement that these wires are part of a state utility, the average customer in New York is paying almost $58.00 for basic phone service. According to this, it should be about $4.00 a month—an overcharging of $54 per line per month.

[13] https://bit.ly/2sD0ArL

Annual and Monthly Overcharge of Copper-Based Phone Customers, 2017

	Monthly	Annual
Verizon NY	$ 57.95	$695.40
FCC Claims (average)	$ 3.96	$ 47.50
Overcharge	$ 53.99	$647.90
Mark Up	1364%	
Overcharge 2017		$ 1,231,010,000
Nationwide, 2017		$22,676,500,000

And the 'savings'? If the FCC actually had an investigation of the $1.8 billion in Corporate Operations expenses added to make Local Service unprofitable on the books, the FCC should be investigating and concerned that the actual 'burden' is on customers and not the companies.

Based on the FCC's supplied numbers, Local Service customers were overcharged $1.2 billion in Verizon NY in just 2017. Nationwide, this comes to about $23 billion in customer overcharging of basic phone copper-based phone service.

Finally, the FCC granted the previous forbearance to Verizon et al. based on prices being "just and reasonable" and that the decision was in the public interest. According to the FCC, forbearance is required under specific conditions:

> "The Commission is required to forbear from any statutory provision or regulation if it determines that (1) enforcement of the regulation is not necessary to ensure that charges and practices are just, reasonable, and not unjustly or unreasonably discriminatory; (2) enforcement of the regulation is not necessary to protect consumers; and (3) forbearance is consistent with the public interest."

Insult to Injury

Thus, even though there are massive financial cross-subsidies, rate increases, massive financial losses that save billions in taxes, and no end in site, seventeen years later and the FCC couldn't get its act together to examine the rules—and yet it insults our intelligence with this ludicrous conclusion – that the freeze should be extended for another 15 years.

> "Because we expect that the benefits of further extending the jurisdictional separations freeze likely outweigh the costs of allowing it to end, in this Further Notice of Proposed Rulemaking (*Further Notice*), we propose to extend the freeze for 15 years and invite comment on this proposal."