

REPORT 2:

Verizon New York 2017 Annual Report: An Analysis
of Cross-Subsidies and Customer Overcharging

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Introduction

On May 31st, 2018, the Verizon NY 2017 Annual Report was released and it is the financial report for the primary telecommunications utility of New York State. The goal of this report is to examine fundamental revenues, expenses and losses from all of the copper and fiber-based network services that are part of the state utility, as well as focus on the cross-subsidies and systemic overcharging of Verizon NY's "Local Service" category, which are the revenues derived mostly from the basic copper-based phone service known as "POTS", Plain Old Telephone Service.

NNI and the IRREGULATORS have been engaged in a nine-year investigation of Verizon NY and the Verizon state-utilities. In fact, in 2015, an investigation of Verizon New York was started in earnest based, in large part, on our research and methodology.

On July 14th, 2018 there was a settlement that requires Verizon NY to install 32,000 fiber optic lines in underserved areas as well as have the state utility be required to do long needed repairs of the copper networks—that are still in use. We estimate that this settlement is valued at \$300 million to \$1/2 billion in additional spending by Verizon in New York State over time. Unfortunately, the settlement does not fix most of the underlying issues.¹

New York is the only state we know of that requires a full annual report. The FCC stopped publishing any state-based financial information in 2007, including the vital "Statistics of Common Carriers", which started in 1939.

This report series is based on answering fundamental questions: If the Local Service utility networks paid the expenses incurred, how much of the current expenses were overcharged? How much was diverted to fund other lines of business, instead of upgrading the existing utility to a fully fiber optic network? And most importantly, Moreover, it documents how a basic FCC accounting formula has been manipulated to put the majority of all expenses into the Local Service category. Report 1's title:

- **REPORT 1:** Did AT&T, Verizon, CenturyLink & the FCC Intentionally Make the Wired Utility Networks Look Unprofitable—Overcharging America at Least \$½ Trillion? Did They Create America's Digital Divide?

Worse, on July 27th, 2018, the FCC started a new proceeding designed to keep this freeze intact for the next 15 years, through 2033. Read our [FCC-filed comments](#).

- **FINDING: And it is documented through 2018:** Verizon NY 2017 Annual Report Reveals an Estimated \$3.7 Billion in Overcharging of "Local Service"; \$53 Billion Nationwide for the Year 2017."

¹ The State claims that there are still 2.14 million 'voice-only' access lines in service. (Note: This number of copper-based access lines is low for [multiple reasons](#).)

SUMMARY FINDINGS

(Source: Verizon New York 2017 Annual Report, published May 31st, 2018)

Verizon New York is not simply the copper-based local phone lines, commonly known as the “PSTN”, “Public Switched Telephone Networks”, but includes the fiber-to-the-home, “FTTP”, for FiOS, or the “Access Services”, including the “Business Data Services”, (sometimes called “Special Access”), which are the copper and fiber data lines for ATM machines or alarm circuits as well as the wires to the cell sites. There are also “nonregulated” services, a catch-all bucket for FiOS video, VoIP, and other services.

Verizon New York 2017 Annual Report:

- Revenues of almost \$5 billion but had expenses of \$7.6 billion, creating “Net Operating Revenue” losses of \$2.6 billion.
- Local Service had \$1.1 billion in revenues, representing 21.6% of revenues and 1.9 million access lines in service.
- Local Service, alone, lost an alleged \$2.9 billion, creating the total losses for Verizon NY, and then some. This also gave Verizon tax benefits of \$948 million
- Local Service was charged 53% of all expenses and 45-68% of total expenses for specific expense items
- Local Service was charged \$1.8 billion, 61%, in Corporate Operations expense, which is 164% of the Local Service revenues.
- Local Service was charged \$1.2 billion in Construction & Maintenance, yet it spent only an estimated \$75-125 million for maintaining and upgrading the copper networks.

Meanwhile,

- **“Access Services”**, including “Business Data Services”, represented \$2.4 billion in revenues, (47%), but only paid 27% of expenses.
- **“Nonregulated” services** were \$1.5 billion, \$½ billion more than Local Service but paid a fraction of all other costs as compared to Local Service.
- Local Service paid 238% more in Marketing expenses than Nonregulated services, 750% more Customer Operations expenses, 510% more Corporate Operations expense—165% more in overall expenses.

All of these ‘affiliate’ subsidiary companies, or worse, revenues put into the nonregulated category, are supposed to pay for the network usage and construction of the wired networks.

Verizon’s Total Revenue in NY State Are Unknown; Other Revenues, Expenses or Subsidiaries in the State from Other Verizon Services that Rely on these Utility Wires, are Unknown.

There are other revenues of Verizon in New York State which also rely on the use of these utility wired networks, including:

- **CellCo Partners, (D/B/A Verizon Wireless)** with estimated revenues of \$7-8 billion in 2007 in just New York State.
- **Other Subsidiaries:** Verizon Online, Verizon Long Distance or Verizon Business Services among others.
- **“Black Hole Revenues”.** The 2010 Verizon NY financial report had other revenues of over \$2 billion listed, but with no information. This was removed in future financial reports since 2010.

“Corporate Operations” Expense Dumping Is Out of Control.

Corporate Operations expenses is a garbage-pail financial bucket of expenses for everything from executive pay, lawyers and lobbying to the corporate jets and most likely the foundation grant money.

- Verizon NY paid \$3 billion in Corporate Operation expenses overall in 2017.
- Local Service is paying 61% of this expense at \$1.8 billion, making it unprofitable by \$700 million for just this one expense item;
- Local Service revenues were only \$1.1 billion in 2017.

Timeline Examination 2003 to 2017: Revenues, Expenses and Corporate Operations

- From 2003 to 2017, while revenue for Local Service declined 77%, Construction and Maintenance expenses went up 262%, Marketing was up 370% and overall expenses went up 323%.
- However, on a per line basis, the most conspicuous charge is the Corporate Operations expense, which went from \$121.83 being assigned per line to the current 2017 accounting showing that \$930.59 has been charged ‘per line’ for Local Service—a 664% increase.

AT THE CORE: Verizon, AT&T, CenturyLink and the FCC, intentionally manipulated a basic accounting formula to make Local Service appear artificially unprofitable.

The FCC’s cost accounting rules allocates expenses to the different lines of business that all use the same, existing state utility wired networks. In 2001, the FCC “froze” the rules so that they would reflect the division of expenses for the year 2000, 18 years ago. But, in 2000, Local Service was 65% of the revenues and paid 65% of the expenses; by 2018, Local Service is 21.6% of the revenue but pays 45%-68% of the expenses in each category.

And every expense we have just itemized previously, including the Corporate Operations expense, and which we will detail in the rest of this report—are based on this financial accounting manipulation.

Thus, as we will discuss, in 2017, Verizon New York's Local Service category paid \$1.8 billion in Corporate Operations expense, 61% of the total, because the expense allocations have been frozen to reflect the year 2000.

Whether created with intention or not, the freeze has created a mathematical shell game where the Verizon subsidiaries are underpaying for the use of the networks, while the expenses are being diverted and funneled mostly into the wired utility networks; it has allowed for unwarranted Corporate expenses being shoveled into the Local Service expenses, or worse, the wireless networks are not paying for fundamentals like construction expenses. All of these subsidiaries had obligations to pay common costs, which did not happen.

These Reports detail how all of these actions have made Local Service appear to be unprofitable and have been used to create artificial losses and this has been used in a myriad of ways. It also saved billions per year in taxes, was used to raise rates multiple times, and most importantly, made these 'poor' legacy networks a tool to get major policy concessions, or not build out rural areas, among a host of other telco-benefits and customer-harms. It is being used now to 'shut off the copper' and claim that wireless should be a substitute for the wired networks, even though these 5G wireless services require a wire.

Moreover, the FCC will claim that these rules were "forborne" and are no longer applicable. Unfortunately, the FCC has not audited the impact of the rules for 18 years and has recently been 'weed-whacking' to erase the remaining obligations. And while they have been declared a 'burden', it is now clear that they serve a very valuable function.

Zombie Rules: The rules are still in use to set rates, as told by these financial reports of Verizon New York, and the billions of overcharging are clear. We call these "Zombie" rules because, like the walking dead, they are still wreaking havoc.

But, as mentioned, in a ludicrous move, the FCC has, as of this writing, decided to continue this freeze on expense allocations for another 15 years – until 2033.²

"(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."

- **SEE: FCC Big Freeze Comments of New Networks & IRREGULATORS³**

² <https://prodnet.www.neca.org/publicationsdocs/wwwpdf/fcc1899.pdf>

³ <https://ecfsapi.fcc.gov/file/1082805496908/IrregulatorFREEZED3.pdf>

These Rules are Federal and Impacting All State Utilities.

- **In 2007, the Last FCC Data Shows that the Expense Allocations Were Almost Identical in Every State.** While we focus on New York, the accounting rules are federal and in the last data presented by the FCC, every telephone company appears to have had the same percentage of payments for construction that ended up in the ‘utility’ Local Service category.
- On average, every state utility in 2007 was putting over 72% of the Corporate Operations expense into Local Service, where the Access category was only paying 28%, on average.

This discussion is continued in Report 2.

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EXECUTIVE FINDINGS

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Estimated Overcharging & Recalibration of the Local Service (Intrastate) Category

FINDING: If Local Service (mainly the basic copper-based phone service) paid just the expenses it incurred, then

- Local Service category of the Verizon New York 2017 financials had an estimated \$3.7 billion in extra expenses added to the wired, intrastate financials.
- Local Service is profitable if it paid just the expenses it incurred.
- **Nationwide Overcharged:** We estimate that Local Service was overcharged approximately \$53 billion for 2017.
- **Nationwide Overcharged:** We estimate that Local Service was overcharged over \$633 billion from 2006-2017.

NOTE: All of these expenses are the cross-subsidies of some other line of business or expense area that are exploiting the state utility. And this is being accomplished by the FCC’s deformed accounting formula as the expenses throughout the financials were directly set to resemble the year 2000.

- **Losses and Tax Benefits:** Verizon New York has allegedly lost \$23 billion since 2006 and had tax benefits \$10.3 billion.
- **Nationwide Overcharged:** Nationwide, making the state utility networks unprofitable may have created over \$330 billion in tax losses, and over \$149 billion in tax benefits.

“Unjust and Unreasonable Rates”: As we discuss in the next reports, prices are now “unjust and unreasonable”, even for basic phone service.

Local Phone Charges Never Decreased in 30+ Years.

- From 1980-2017, based on actual Verizon NY residential phone bills, Local Service, including related taxes, fees, went up 730%,

Customers Were “Harvested”; Overcharging

Starting in 2005, Verizon received multiple rate increases for “massive deployment of fiber optics” and “losses”. The losses are artificial and the construction budgets were diverted to the wireless business, claiming rural areas were ‘unprofitable’.

- In 2006-2009, Verizon NY was granted multiple rate increases of 84%, and some add-on services were 50-250% increases.
- In 2017, Local Service revenues per line per month appear to be around \$57.95, if we add the FCC Line Charge (which is an “access” charge). This is not all of the revenues; ‘inside wire maintenance’ is not booked to the Local Service category.
- Overcharging: We estimate Verizon NY local phone customers were overcharged \$2,765.00 per line from 2006-2017.
- Tracking the basic service rate increases, we estimate that local phone customers paid an additional \$356.00 in just 2017 or \$2765.00 from 2006-2017.
- We estimate that the overcharging from these rate increases comes to about \$6.4 billion in New York from 2006-2017. And this revenue is for basic service and inside wire only, and the taxes applied.
- Nationwide, multiple states we examined had increases of over 100% to basic rates since 2006. No state has examined the rate increases or done an ‘audit’ of the accounting. We expect the same overcharging is occurring nationwide.
- AT&T California had increases of 143% for flat rate local service and 273% for measured local service, from 2004-2017.
- **Nationwide**, this would come to an estimated \$91 billion in overcharging from rate increases since 2006.

Recalibrating the Expenses: 2 Models.

- **Methodology 1: Local Service Vs Expenses Based on Revenues:** What would happen if the Zombie rules were fixed to match the year 2000 approach where the expenses track with the revenues? In 2017, Local Service paid \$4 billion in expenses. Had the expenses been based on allocating expenses based on revenue, which the original rules used as a guide in 2000, and then Local Service should have paid \$1.6 billion and was overcharged \$2.4 billion in just NY and in just 2017. However, this leaves many of the fundamental cross-subsidies and would not get the subsidiaries to pay market prices for services.
- **Methodology 2: Getting to Cost-Causers; Local Service was Overcharged \$3.7 Billion in 2017—Local Service Is Profitable.** If we remove the excess expenses that were not directly generated by Local Service, like Corporate Operations or the actual construction costs, Local Service is profitable.

Using Methodology 2 to Calculate Basic Rates Using “Cost Causers”, “Incremental Pricing”, Discussed Below.

- In 2017, local customers should have paid \$522 less in NY.
- Nationwide this is an overcharge of an estimated \$14 billion in 2017.
- Nationwide this is an overcharge of \$170 billion since 2006.

FCC Claims that Maintaining a Copper Line Costs Only \$45-\$50 a Year.

According to the FCC, it only costs \$45-50 per home passed per year to maintain the copper networks.⁴ But just to make a point that the data of the FCC is suspect, AT&T, in their 2009 IP Transition filing revealed almost identical numbers from 2003 to 2009.⁵

“According to one estimate, the average per-line cost of maintaining the legacy network has risen from \$43 per year in 2003 to \$52 per year today.”

As we discuss, this would make the customer overcharging for basic rate utility services were overcharging \$19 billion in 2017. Nationwide, from 2006-2017 a whopping \$415 billion of expenses was added to Local Service, “intrastate” services.

IMPORTANT: Access Line Accounting Manipulation and Deception.

- **REPORT 5:** Bell Access Line Accounting Manipulation 1984-2018. This has been filed in multiple FCC proceedings and it is a shocking summary of how AT&T et al., the FCC and USTelecom, the association for wired incumbents have manipulated the accounting of access lines for public policy influence

In order to maneuver public opinion about the copper networks being unprofitable, Verizon et al., with the FCC, have created a fictional accounting of lines in service, that started with the removal of the FCC’s Statistics of Common Carriers’ state data in 2007.

Verizon is hiding access lines in plain sight:

- Verizon New York had about \$1 billion in “Local Service”, and showed only 1.9 million access lines in service at the end of 2017. However, this is only based on a subset of total access lines in service and the ‘intrastate’ local service revenues.
- Verizon NY, and all of the other phone companies, only supply the copper-based, voice service access lines in their state and federal filings.
- The Verizon NY 2017 Annual Report had \$4 billion from the nonregulated and access revenue buckets but had ZERO lines listed. Thus, there could be 4-10 times more lines than reported. And based on increases in revenues for nonregulated and access services over the last decade, there would be ‘increases’ in actual lines in service, (some fiber, some copper), not overall decreases.

⁴ <https://bit.ly/2sD0ArL>

⁵

This distortion of access line accounting is critical at this time as it carries across almost every FCC proceeding, as discussed.

For example, the FCC quotes AT&T discussing the ‘loss’ of lines.

“Retail POTS subscriptions have declined to the point that less than 17% of households purchase switched-access voice service from an ILEC, and these services will only continue to decline.”

Notice that the quote only references “voice” lines, “household”(residential) lines, “switched” lines. This one sentence shows the deception in clear detail. This is missing the data lines, the business lines, and the VoIP and information services that are using these identical lines.

I.e.; the information supplied by the FCC, AT&T and similar quotes from the USTelecom association, are all designed to distort the public policy, as they claim that the loss of lines proves that the networks are unprofitable.

16 REPORTS DOCUMENTING THE FINDINGS⁶

RELEASED:

- **REPORT 1:** Did AT&T, Verizon, CenturyLink & the FCC Intentionally Make the Wired Utility Networks Look Unprofitable—Overcharging America at Least \$½ Trillion? Did They Create the Digital Divide?
- **REPORT 2:** Verizon New York 2017 Annual Report: An Analysis of Cross-Subsidies and Customer Overcharging
- **REPORT 3:** FILED: Bell Access Line Accounting Manipulation 1984-2018
- **REPORT 4:** AT&T, CenturyLink & Verizon’s Motto: The Big Telco Cook Book for Fun and Profit of the Shareholders
- **REPORT 5. CEO to Investor Transcripts:** The AT&T-Verizon-FCC Wireline Bait-and-Switch with Wireless: Because it Makes the Companies More Money.

TO BE RELEASED

- **REPORT 6: The Book of Numbers** – This supplies a full accounting of the overcharging, pricing and cross-subsidy models and recalculations.
- **REPORT 7: The Book of Violations**
- **REPORT 8:** Wireline state utilities have been overcharged billions to fund the wireless network build outs.

⁶ <https://newnetworks.com/digitaldividebydesign/>

1) **Verizon NY Is the Primary NY State Telecommunications Utility**

Verizon NY is the state telecommunications utility and was “incorporated in New York State on June 18, 1896 under the Transportation Corporation Law”. According to Verizon, these are all “telecommunications” exchange services, as opposed to “information services”, such as the Internet service or cable TV service.

Verizon NY 2010 SEC Report states:

“We currently provide three basic types of telecommunications services:

- **“Exchange telecommunication service** is the transmission of telecommunications among customers located within a local calling area within a LATA. Examples of exchange telecommunications services include switched local residential and business services, local private line voice and data services and Centrex services. We also provide toll services within and outside both LATA (intraLATA and interLATA long distance).
- **“Exchange access service** links a customer’s premises and the transmission facilities of other telecommunications carriers, generally interLATA carriers. Examples of exchange access services include switched access and special access services.
- “We also provide fiber-to-the-premises services, operated under the FiOS service mark (FiOS TV), for residential and small business subscribers in certain areas.”

However, there are many issues with this definition because Verizon NY has submitted a description of their Nonregulated revenues that contradicts that they are only offering “exchange services”. This was part of an interrogatory question that was part of the Verizon NY investigation by the NY Public Service Commission.⁸

(b) The major components of nonregulated revenue are Fios video, inside wire installation and maintenance, certain VoIP revenues, and other miscellaneous nonregulated revenues. See CONFIDENTIAL exhibit DPS-14(12)(A).pdf. The Company does not budget revenues at an individual service level for specific states, and thus cannot provide a projection of nonregulated revenue growth in New York State.

Thus, Verizon NY is not simply the copper-based voice phone service lines, which most people are led to believe, but include both the copper-based wires as well as fiber optics, including the fiber-to-the-premises, FTTP, used for FiOS, or the wires to the cell sites. Ironically, the fiber wires are “Title II” and part of the existing state utility. (This fact is in direct contradiction to the FCC’s claim that broadband is an ‘information’ service.)

⁸ <http://documents.dps.ny.gov/public/MatterManagement/CaseMaster.aspx?MatterCaseNo=16-C-0122&submit=Search>

Verizon New York also owns 100% of Empire City Subway which “builds, maintains and operates underground subways, conduits and ducts in the boroughs of Bronx and Manhattan, City of New York in which it leases space primarily for companies in the telecommunications business”, and 100% of Verizon Long Distance.

Verizon NY’s financial books also include payments to and from the other Verizon subsidiaries, (known as “affiliate transactions”) but it does not include the affiliate companies’ revenues from Verizon Wireless or Verizon Business, etc.; just the payments to and from the state utility by these ‘subsidiaries’.

2) **Verizon’s Total Revenues and Expenses in New York are Unknown**

Verizon New York, the state utility, and Verizon’s revenues in the State of New York, are unknown, but most of the expenses appear diverted into Local Service. We estimate that in New York, Verizon brought in \$14-18 billion in just 2017. from the state utility as well as all the subsidiaries, etc.

- **“Black Hole Revenues”:** Until 2010, Verizon New York’s financial annual reports included over \$2 billion in what we dubbed “Black Hole Revenue”, which appeared to be revenues in other lines of business that were not itemized and there were no separate expenses. We have no reason to believe that these Black Hole Revenues have been removed from Verizon New York. Moreover, these revenues were not listed as part of the FCC’s financial reporting for Verizon NY.
- **Cellco Partners, (D/B/A Verizon Wireless)** is a separate subsidiary with revenues estimated to be \$6-\$7 billion, based on the number of subscribers. However, there is no separate financial reporting that we know of.
- **Verizon Online, Verizon Business, Verizon Long Distance** and hundreds of other Verizon subsidiaries operating in NY use the existing state wireline networks but there are no financial reports, except for the ‘affiliate transaction’ payments.

3) **The State Utilities Are All of the Wires, Copper and Fiber – and “Title II”.**

Verizon’s fiber to the home, FTTP, is part of the state telecommunications utility and the existing networks, and they are “Title II”, common carrier networks based on the Communications Act of 1934, as stated in thousands of franchise documents in all of the Verizon states. This is how Verizon has been able to charge for the installation of the fiber optic wires, including the wires for their wireless networks, to local phone customers.⁹

LEGAL AUTHORITY TO CONSTRUCT FIBER TO THE PREMISES

Verizon New York Inc. (“Verizon”), as a common carrier under Title II of the Communications Act of 1934 (the “Act”), constructed its *Fiber To The Premises* (FTTP) network as an upgrade to its existing telecommunications network.

⁹ <http://newnetworks.com/wp-content/uploads/FCCFoIStitleII.pdf>

4) **Verizon New York Revenues & Expenses by Lines of Business**

There are three major areas of revenues in the Verizon NY financial reports:

- **“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 that are 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.

5) **Differences between “Intrastate” Vs “Interstate” Classifications Are Critical.**

The distinction between what has been classified as “intrastate” vs “interstate” is critical. Even though the actual ‘traffic’ and usage may be ‘in-state’, such as a local call or more importantly when the internet service that goes to Netflix remains within the city or state, or it can be “interstate”, where the traffic is supposedly crossing state lines—all of this has become a financial play-toy.

In this case, the majority of expenses have been diverted so that they are remaining in the state utility “in-state” (“intrastate”). And, at the same time, there has been a plan to reclassify the utility lines so that they are now considered ‘interstate’ and are under federal jurisdiction and therefore controlled by the FCC.

Believe it or not, it is how the line is used that makes it ‘interstate’ or ‘intrastate’ or an ‘information’ service.

But it is used for political advantages and regulatory advantages. For example, AT&T’s U-verse is a ‘copper-to-the-home’ service where the access lines, which is part of the state utility, has been removed from the accounting to now be an ‘information’ service, lowering the overall access line accounting, and how the lines are treated for expenses, tax purposes, etc.

6) **Discussion: Verizon New York Revenues, Expenses & Losses, 2017**

We will be referring to the next two exhibits in the rest of this discussion.

Exhibit 1
Verizon NY Revenues and Major Expenses by Category, 2017 (Excerpt)

	Total	Nonregulated	Local Service	Access
Total Operating Revenues	\$ 4,986,070,423	\$1,546,034,819	\$ 1,077,961,833	\$ 2,362,073,771
Operating Expenses				
Construction & Maintenance	\$ 2,884,216,108	\$1,122,471,378	\$1,165,566,908	\$596,177,822
Marketing	\$321,094,164	\$ 51,658,380	\$172,875,774	96,560,010
Customer Operations Services	\$322,848,684	\$ 24,393,957	\$218,383,636	\$80,071,091
Corporate Operations	\$2,917,904,192	\$ 297,290,586	\$1,768,187,616	\$852,425,990
Depreciation & Amortization	\$1,034,501,863	\$ 50,047,572	\$650,204,998	\$334,249,293
Total Operating Expenses	\$7,578,159,192	\$1,545,861,873	\$4,022,050,865	\$2,010,246,453
Net Operating Revenues	\$(2,592,088,769)	\$172,946	\$(2,944,089,032)	\$351,827,317

Exhibit 2
Verizon New York, Percentages of Revenues & Expenses by Category, 2017

	Nonregulated	Local Service	Access
Total Operating Revenues	31.01%	21.62%	47.37%
Operating Expenses			
Construct and Maintenance	39%	40%	21%
Marketing	16%	54%	30%
Customer Operations	8%	68%	25%
Corporate Operations	10%	61%	29%
Depreciation & Amortization	5%	63%	32%
Total Operating Expenses	20%	53%	27%

7) Verizon NY Showed \$2.6 Billion in Losses in 2017.

Verizon NY had revenues of almost \$5 billion but had expenses of \$7.6 billion, creating “Net Operating Revenue” losses of \$2.6 billion. Local Service represented all of the losses with \$2.9 billion. This also gave Verizon tax benefits, discussed elsewhere.

This next excerpt details the “Total Operating Revenues” and expenses and the “Net Operating Revenues” (losses).

Exhibit 3
Summary Verizon New York Revenues and Expenses, 2017

\	Total	Nonregulated	Local Service	Access
Total Operating Revenues	\$4,986,070,423	\$1,546,034,819	\$1,077,961,833	\$2,362,073,771
Total Operating Expenses	\$7,578,159,192	\$1,545,861,873	\$4,022,050,865	\$2,010,246,453
Net Operating Revenues	\$(2,592,088,769)	\$172,946	\$(2,944,089,032)	\$351,827,317

8) Manipulation of the Financial Accounting Created Massive Cross-Subsidies.

Local Service is funding all of these other lines of business, which are classified as ‘interstate’ or ‘nonregulated’ in various ways. The price of local phone service should be in steep decline as it did not generate most of the expenses charged to Local Service. Using Exhibits 1 & 2:

Verizon New York Local Service, 2017

- **Local Service** brought in only \$1.1 billion, 21.62% of the Verizon NY revenues, but had \$4 billion in expenses.
- **Local Service** paid \$1.8 billion in “Corporate Operations” expenses, 61% of the total; these charges are for lawyers, executive pay, and even the corporate jets.
- **Local Service** paid 53% of all expenses.
- **Local Service** is paying 68% of all “Customer Operations” and 54% of “Marketing and Advertising”.
- **Local Service**, however, was not the cost-causer, i.e., these expenses are not created by offering local copper-based phone service or related ‘intrastate’ services’ but clearly are cross-subsidies of the other lines of business, and to repeat, most of which are ‘interstate’ services.

Access Service

- Access (including Special Access) had revenues of \$2.4 billion, 47% of Verizon NY’s total revenues, but paid a fraction of the expenses.
- Access services only paid 29% of Corporation Operations; 27% of all expenses.
- Based on revenues, then, Access was more than double the revenues but paid ½ of what Local Service paid.
- Note: Special Access services accounted for \$2 billion of the revenues.

9) Comparing Verizon NY Expenses Charged to Nonregulated vs Local Service

Just how out of whack the expense allocations are can best be seen by the Nonregulated category vs Local Service.

Exhibit 4
Comparing Verizon NY Expenses for Nonregulated vs Local Service, 2017

	Nonregulated	Local Service	Compare
Total Operating Revenues	31.01%	21.62%	30%+ revenues
Operating Expenses			
Marketing	16%	54%	238%
Customer Operations	8%	68%	750%
Corporate Operations	10%	61%	510%
Total Operating Expenses	20%	53%	165%

- **“Nonregulated”** revenues were \$1.5 billion, \$½ billion more than Local Service but paid a fraction of all other costs as compared to Local Service.
- While Nonregulated was 30% of revenues as compared to 21.6% for Local Service, (and is about 30% more revenue than Local Service), Local Service paid 238% more in Marketing expenses, 750% more Customer Operations, 510% more Corporate Operations expense and 165% in overall expenses.

Verizon’s Corporate Operations Expense Exposes the FCC’s Accounting Scandal.

10) Verizon NY Paid \$3 Billion in Corporate Operation Expenses in 2017

In this next exhibit, Verizon NY shows \$3 billion in related payments to Verizon’s Corporate Operations groups. These are most of the corporate charges, from executive pay, the corporate jets, lawyers, lobbyists, and most likely most of the foundation grant money. Why should Verizon New York being paying all of these expenses?

Exhibit 5
Verizon NY Payments to Verizon’s Subsidiaries for “Corporate Operations”, 2017

Vz Corporate Services Corp	Purchased from Affiliates	\$141,302,955
Vz Corporate Services Group	Purchased from Affiliates	\$168,367,558
Vz Corporate Resources Group	Purchased from Affiliates	\$159,878,905
Vz Services Corp	Purchased from Affiliates	\$2,519,229,891
Vz Services Organization Inc	Purchased from Affiliates	\$19,872,388
		\$3,008,651,696

(NOTE: There is no accompanying text to explain what each of these entities are doing or why the total does not equal the summary in other parts of the annual report.)

11) Local Service Paid 61% of Corporate Operations Expense in 2017.

Next, Local Service is paying 61% of this expense at \$1.8 billion, making it unprofitable by \$700 million for just this one expense item as Local Service revenues were only \$1.1 billion in 2017.

Exhibit 6
Verizon NY’s Corporate Operations Expense by Lines of Business, 2017

	Total	Nonregulated	Local Service	Access
Corporate Operations	\$2,917,904,192	\$297,290,586	\$1,768,187,616	\$852,425,990
Percent of the Total		10.2%	60.6%	29.2%

Of course, this is ludicrous on any level of discussion.

TIMELINE 2003 to 2017: CORPORATE OPERATIONS EXPENSE**12) Corporate Operations Expenses Demonstrates the FCC's Freeze and Zombie Rules in Practice, 2003-2017**

How were these numbers generated? They are based on the FCC's corrupted cost accounting rules that are still in use.

In a previous report we had this example. In 2003, Local Service was 65% of revenues and paid 65% of expenses. By 2014, Local Service was only 27.6% of revenues but still paid a whopping 60.4% of Corporate Operations.

Exhibit 7**Verizon NY Local Service Corporate Operations Expense, 2003-2014**

	Corporate Expenses	Revenues
2003	65.00%	65.3%
2009	60.70%	49.0%
2010	60.80%	44.1%
2011	60.80%	39.4%
2012	60.70%	34.9%
2014	60.40%	27.6%

Sources: Verizon NY, New Networks Institute

And in 2017, Local Service is only 21.6% of revenues, but the FCC's freeze has Local Service being charged 60.6% of Corporate Operations expense.

This pattern of declining revenues for Local Service, yet the expenses are 'frozen' to the year 2000, is identical year after year. And there is one explanation – the FCC and states failed to examine and fix these overcharges.

But every part of these expenses were manipulated in multiple ways.

13) Corporate Operations Up a Billion Dollars Since 2003.

Local Service is paying 61% of the total of \$2.9 billion in Corporate Operations, \$1.8 billion, which is 164% of Local Service revenues, and this is just for 2017. Just to close this loop; while revenues for Local Service went down 77%, Corporate Operations expense went up \$1 billion overall and about \$½ billion just for Local Service.

NOTE: Verizon has varying amounts of the total Corporate Operations expenses in their report. (We are just quoting what is there.)

Exhibit 8
Verizon New York 2003 and 2017 Corporate Operations Expenses

PAID Item	2003		2017	
	Total	Local	Total	Local
Marketing	\$ 290,555,549	\$ 198,277,000	\$ 321,094,164	\$ 172,875,774
Customer Operations Services	\$ 671,706,370	\$ 466,339,000	\$ 322,848,684	\$ 218,383,636
Corporate Operations	\$ 1,921,045,187	\$ 1,249,051,000	\$ 2,917,904,192	\$ 1,768,187,616

If a company is losing billions of dollars annually, one would think that there would be an effort to stop this corporation expense dumping. Or, one would think that the regulators would notice the multi-billion losses that are used to avoid state and federal taxes or that the expenses have nothing to do with the state utility.

14) Comparing Verizon NY Corporate Operations Cost Per Line, 2003 to 2017.

This compares the Verizon New York 2003 Annual Report revenues, expenses, and Corporate Operations expense with the Verizon NY 2017 Report and examines the ‘per-line’ revenues and expenses.

Local Service revenues went from \$4.7 billion, 65% of revenues, in 2003, to 21.6% of revenues \$1.1 billion in 2017. And the number of access lines reported went from 10.3 million to 1.9 million, (though, as we point out elsewhere, the accounting of access lines is also manipulated).

Exhibit 9
Verizon New York 2003 Financials and Business Compared to 2017

	2003	2017	Difference
Local Revenues	\$ 4,666,839,000	\$1,077,961,833	-77%
% of Total	65.3%	21.6%	
Access Lines	10,252,109	1,900,063	-81%
Revenue	\$455.21	\$567.33	25%
Construction & Maintenance	\$169.24	\$613.44	262%
Marketing	\$ 19.34	\$ 90.98	370%
Customer Operations Services	\$ 45.49	\$114.93	153%
Corporate Operations	\$121.83	\$930.59	664%
(without depreciation)	\$362.52	\$1,774.60	390%
Expenses	\$500.66	\$ 2,116.80	323%

From 2003 to 2017, while revenue for Local Service declined 77%, Construction and Maintenance expenses went up 262%, Marketing was up 370% and overall expenses went up 323%.

However, the most conspicuous charge is the Corporate Operations expense, which went from \$121.83 being assigned per line to the current 2017 accounting showing that \$930.59 has been charged ‘per line’ for Local Service—a 664% increase.

Exhibit 10
Calculating the “Corporate Operations Expense” Per Line
Applied to Verizon NY Local Service Category

	2003	2017	Change
Corporate Operations	\$121.83	\$930.59	664%

“Marketing” expenses also had a 370% increase based on expenses-per-line while construction is also up 262%.

But, finally, if we stare at the revenue and expense per line we see that while revenue was \$567.33 for Local Service in 2017, the expense per line was \$1,775, not counting the depreciation expense.

THESE RULES ARE FEDERAL, IMPACTING ALL STATE UTILITIES.

15) In 2007, the Last FCC Data Shows that the Expense Allocations Were Almost Identical in Every State.

While we focus on New York, the accounting rules are federal and in the last data presented by the FCC, as you can see, every telephone company appears to have had the same percentage of payments for construction that ended up in the ‘utility’ Local Service category, with an average of 71% of the expenses for “plant” (construction) paid by Local service and only 29% paid by the Access services. At this time, Local Service was still paying more revenues, but the amount of difference in the construction expenses was already out of whack.

Exhibit 11
America’s Incumbent Utilities Plant Expenses for Local and Access, 2007

America's Incumbent Utilities "Plant" Expenses by "Local" and "Access" 2007

	Separations	Local	Access	Special	Local	Access
AT&T-Illinois Bell	\$ 604,351	\$ 463,353	\$ 140,998	\$ 14,584	77%	23%
AT&T-Southwestern - Kansas	\$ 112,609	\$ 78,898	\$ 33,711	\$ 8,406	70%	30%
AT&T-Ohio Bell	\$ 353,721	\$ 263,754	\$ 89,970	\$ 14,483	75%	25%
AT&T-Pacific Bell - California	\$ 1,420,468	\$ 1,048,823	\$ 371,645	\$ 77,101	74%	26%
AT&T-BellSouth-Tennessee	\$ 218,630	\$ 159,707	\$ 58,923	\$ 10,592	73%	27%
AT&T-Southwestern - Texas	\$ 1,031,852	\$ 727,170	\$ 304,682	\$ 82,392	70%	30%
Centurylink-Qwest-Colorado	\$ 283,038	\$ 205,190	\$ 77,849	\$ 17,774	72%	28%
Centurylink-Qwest-Oregon	\$ 99,437	\$ 70,590	\$ 28,847	\$ 5,762	71%	29%
Verizon-GTE California	\$ 339,022	\$ 257,581	\$ 81,441	\$ 17,346	76%	24%
Verizon Florida LLC	\$ 224,390	\$ 164,737	\$ 59,653	\$ 11,211	73%	27%
Verizon-Maryland	\$ 327,536	\$ 230,318	\$ 97,218	\$ 26,159	70%	30%
Verizon N.E. - Massachusetts	\$ 560,168	\$ 354,851	\$ 205,317	\$ 96,452	63%	37%
Verizon New Jersey	\$ 594,220	\$ 413,030	\$ 181,189	\$ 45,529	70%	30%
Verizon New York Telephone	\$ 1,709,210	\$ 1,157,099	\$ 612,112	\$ 286,106	65%	35%
Verizon Pennsylvania	\$ 524,473	\$ 372,537	\$ 151,936	\$ 37,063	71%	29%
Verizon Washington D.C.	\$ 70,795	\$ 45,217	\$ 25,578	\$ 9,715	64%	36%
Total "Plant Specific" Costs	\$ 8,533,923	\$ 6,012,855	\$ 2,521,069	\$ 761,335	71%	29%

Sources: FCC ARMIS, 2007, New Networks Institute

But, as is clear from this second exhibit, which is also based on the last FCC data in 2007, Corporate Operations expenses are allocations using a federal accounting rule and thus they are almost identical in every state.

Thus, on average, every state utility in 2007 was putting over 72% of the Corporate Operations expense into Local Service, where Access was only paying 28%, on average.

And going down the list, it is sorted by the size of the financial dumping of Corporate Operations expense as a percentage of how much is being put into Local Service or Access Service (or the subset “special access”). Verizon NY put 66% of this expense into Local Service while AT&T California put 75%. However, it also varies, by state, or the total amount being dumped.

(NOTE: There are variations in the different sources of the telco financial information so that they state-based utility filings and the FCC’s data and the state-based SEC filed reports can have differences in the size of the expense, even in the same document.)

Exhibit 12

America's Utility Dumping of Corporate Operations Expense into Local Service, 2007						
	Separations	Local	Access	Special	Local	Access
Verizon-GTE California	\$ 258,859	\$ 203,080	\$ 55,780	\$ 11,261	78%	22%
AT&T-Illinois Bell	\$ 248,908	\$ 193,626	\$ 55,283	\$ 6,847	78%	22%
AT&T-Ohio Bell	\$ 180,067	\$ 136,166	\$ 43,901	\$ 7,572	76%	24%
AT&T-Pacific Bell - California	\$ 743,215	\$ 559,141	\$ 184,074	\$ 40,975	75%	25%
Verizon Florida LLC	\$ 162,990	\$ 122,508	\$ 40,482	\$ 8,393	75%	25%
Centurylink-Qwest-Colorado	\$ 131,869	\$ 97,716	\$ 34,153	\$ 6,649	74%	26%
AT&T-BellSouth-Tennessee	\$ 110,541	\$ 81,025	\$ 29,515	\$ 5,167	73%	27%
Verizon-Maryland	\$ 239,740	\$ 173,268	\$ 66,472	\$ 18,848	72%	28%
Verizon Pennsylvania	\$ 422,168	\$ 303,753	\$ 118,415	\$ 30,877	72%	28%
AT&T-Southwestern - Texas	\$ 484,584	\$ 348,590	\$ 135,994	\$ 38,072	72%	28%
Verizon New Jersey	\$ 425,805	\$ 303,828	\$ 121,977	\$ 32,832	71%	29%
Centurylink-Qwest-Oregon	\$ 58,678	\$ 41,835	\$ 16,842	\$ 3,126	71%	29%
AT&T-Southwestern - Kansas	\$ 55,097	\$ 39,030	\$ 16,067	\$ 3,714	71%	29%
Verizon New York Telephone	\$ 1,092,744	\$ 740,543	\$ 352,201	\$ 180,833	68%	32%
Verizon NE - Massachusetts	\$ 326,090	\$ 216,948	\$ 109,142	\$ 48,820	67%	33%
Verizon Washington D.C.	\$ 67,115	\$ 43,884	\$ 23,231	\$ 9,458	65%	35%
Special Access is a Subset of the Total Access				Average	72%	28%
Special vs Total -- % of Special Compared to Total Access.						

FCC ARMIS 2007, New Networks Institute

OVERCHARGING ON BASIC PHONE SERVICE

There are multiple reasons we do these analyses – as they are not simply about overcharging on basic POTS service, but more importantly about the future of communications in America.

16) Verizon New York Basic Service Rate Increases, 1980-2017

In 1980, basic phone service came with a package that included the wire in the home, unlimited local phone service (or with an ‘allowance’ for calls), free directory assistance calls, (or with a large allowance) – and even the phone. Via deregulation, every

component part was increased, the allowances removed and what was part of the bundle was allowed to keep increasing.

This exhibit is a complete model of Verizon NY local POTS costs to residential customers in New York City since 1980, which keeps the ‘inside wire’ fee and the credit for directory calls and local measured service calls. (described elsewhere.) (Note: In surveys, about 50% of those paying for ‘inside wire maintenance’ either don’t know it is on the bill or claim they never ordered it.)

Based on actual bills, the basic local phone service went up 730%. Since 2005, at the start of rate increases in Verizon New York, local phone service went up 84% for just the basic service, while other items went up 50%-250%.

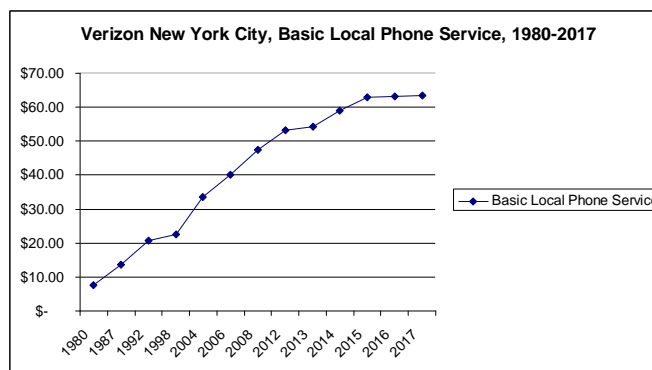
Exhibit 13

Verizon New York Basic Phone Service Pricing, 1980-2017															
	1980	1987	1992	1998	2004	2006	2008	2012	2013	2014	2015	2016	2017	Increase	Since 2004
Untimed Message	\$0.01	\$7.14	\$0.00	\$0.00	\$0.01	\$9.05	\$13.05	\$15.80	\$15.80	\$15.80	\$15.80	\$15.80	\$15.80	162%	84%
Wire Maintenance	\$1.24	\$0.95	\$1.51	\$1.49	\$3.45	\$1.40	\$5.99	\$7.99	\$9.99	\$9.99	\$10.99	\$11.99	\$11.99	067%	248%
FCC Line Charge	0	\$2.00	\$3.50	\$3.50	\$6.38	\$6.40	\$6.42	\$8.87	\$8.87	\$8.87	\$8.87	\$8.87	\$8.87	244%	8%
E911	0		\$0.35	\$0.35	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	188%	0%
DA @ 3 calls (6 free)	(\$0.30)	\$0.92	\$1.50	\$1.50	\$2.01	\$4.39	\$4.42	\$5.97	\$5.97	\$6.75	\$7.35	\$7.35	\$7.35	2550%	182%
Call Allowance	(\$4.00)	\$0.90	\$5.09	\$5.09	\$5.47	\$7.20	\$7.90	\$7.90	\$7.90	\$7.90	\$7.90	\$7.90	\$7.90	298%	44%
Universal Service	0				\$0.62	\$0.74	\$0.73	\$1.11	\$1.15	\$1.20	\$1.21	\$1.19	\$1.25	102%	79%
Surcharges				\$1.50	\$1.67	\$1.06	\$2.46	\$3.02	\$3.02	\$3.02	\$4.30	\$4.45	\$4.45	105%	81%
Total Before State-	\$8.08	\$12.21	\$18.63	\$20.17	\$30.24	\$35.92	\$42.77	\$48.64	\$48.55	\$52.72	\$55.48	\$58.55	\$58.81	711%	54%
State, Local, Federal	\$0.65	\$1.37	\$2.10	\$2.27	\$3.40	\$4.18	\$4.81	\$6.61	\$5.75	\$6.25	\$6.57	\$6.70	\$6.71	932%	94%
Total	\$7.63	\$13.58	\$20.73	\$22.44	\$33.64	\$40.10	\$47.58	\$53.25	\$54.30	\$58.97	\$62.05	\$63.25	\$63.32	730%	94%
Increases:		60%	144%	165%	297%	426%	524%	588%	612%	673%	713%	729%	730%		94%

17) Prices Never Declined. There Never Was Any Direct Competition—Customers Were Harvested.

Using a series of actual phone bills, it is clear that there is no competition as the price of basic local phone service from the state utility always went up. Prices are supposed to go down when there are competitors.

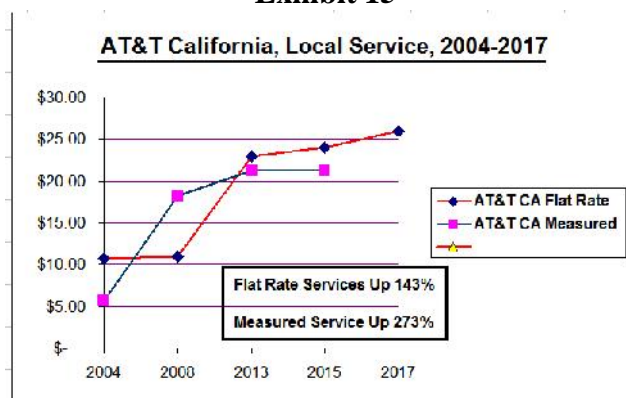
Exhibit 14



All of the other states we examined had rate increases, most of them over 100% since 2004. This next chart shows the increases that occurred in AT&T California, which is only using the ‘basic rate’. Since 2004, local flat rate service went up 143%, while the cost of measured service went up 273%.

(See **REPORT 9: AT&T California state utility phone service went up 143% from 2008-2017. Ancillary services went up 60%-525%.**)

Exhibit 15



Again, prices are supposed to go down when there is competition. This proves that there has been no competition that was effective to lower rates, regardless of the hype.

“Harvesting” is when a company wants to get rid of customers and continues to raise rates until they leave or are gouged. The US state utilities have been harvesting customers. Had they wanted to keep the customer they would have lowered the rates. This proves that customers have been harvested.

18) Verizon NY Rate Increases, 2006-2017 for “Massive Deployment of Fiber Optics” and Losses

Starting in 2006, Verizon New York was granted multiple rate increases – 84% by 2009 on basic service, as well as increases on all other add-on services.

These increases were based on “massive deployment of fiber optics” and losses. As we discuss in other reports, the massive deployment was originally for FiOS FTTP deployment, but was transferred to the wireless construction in 2010. The losses were artificial and had nothing to do with Local Service.

This is from the NY State Department of Public Service, June 2009.¹⁰ Notice that the Order specifically states that Verizon needs financial relief, meaning rate increases, because of the losses.

¹⁰ 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

“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 losses are directly tied to the price of service—which is not supposed to be the case under ‘price caps’.

19) A Major Collection of Rate Increases Per Year, 2013

This is a list of the rate increases and changes in service for just the year 2013. Some of these expenses are not part of “Local Service” and their revenues go into separate financial buckets of the separate subsidiaries. And the expenses most likely ended up being tied to Local Service, however. Without audits it is impossible to figure it all out.

Exhibit 16

Verizon New York 2013 Rate Increases and Change to Service

	A	B	C
	Description of Changes	Service	Effective Date
1	Individual Case Billing Addendum	Local/Toll	1/16/2013
2	Residential Packages - Flexibly Priced Rate Change	Local/Toll	1/19/2013
3	CustoPAK Rate Change	Local/Toll	1/19/2013
4	Limited Service Offerings Revisions	Local/Toll	1/25/2013
5	Grandfathering of Frame Relay and ATM Cell Relay Services	Local/Toll	2/15/2013
6	Individual Case Billing Addendum	Local/Toll	2/15/2013
7	Foreign Exchange Line Rate Change	Local/Toll	3/6/2013
8	Implementation of Charge for Blocking of *69 and Busy Redial for Business Customers	Local/Toll	3/16/2013
9	Grandfathering of Verizon Regional Value Fixed Price Bundle	Local/Toll	3/16/2013
10	Rate Increase for Business Services and Features	Local/Toll	3/16/2013
11	Verizon Credit Plan Promotion	Local/Toll	3/17/2013
12	Eliminate Quarterly Update for Unbundled TC Reciprocal Compensation Charge	Local/Toll	4/5/2013
13	Withdrawal of Busy Line Verification and Interrupt Service	Local/Toll	4/6/2013
14	Withdrawal of Operator Passthrough and Busy Line Verification and Intercept Service	Local/Toll	4/14/2013
15	Individual Case Billing Addendum	Local/Toll	4/22/2013
16	Individual Case Billing Addendum	Local/Toll	5/16/2013
17	Wireless Service as Sole Offering	Local/Toll	5/18/2013
18	UltraForward Revisions and Rate Increase	Local/Toll	5/18/2013
19	Grandfathering and Price Increase of ISDN Basic Service for Business Customers	Local/Toll	5/18/2013
20	Individual Case Billing Addendum	Local/Toll	6/7/2013
21	Private Switch/Automatic Location Identification Service Rate Change	Local/Toll	6/10/2013
22	SLIC Network Solutions Concurrence	Local/Toll	6/14/2013
23	Rate Increase for Business Service Connection Charges	Local/Toll	6/18/2013
24	Business Direct Bill Credit Changes	Local/Toll	6/21/2013
25	Surcharge for State Universal Service Fund	Local/Toll	7/1/2013
26	Intrastate Access Service Rate Reductions	Access	7/1/2013
27	Withdrawal of Regional Value Bundle Discount Plan	Local/Toll	7/5/2013
28	Rate Increase for Regional Essentials and Regional Value	Local/Toll	7/20/2013
29	Rate Increase for Caller ID - Number Only	Local/Toll	7/20/2013
30	Individual Case Billing Addendum	Local/Toll	7/22/2013
31	Withdrawal of Foreign Exchange Service - 24 month term	Local/Toll	8/5/2013
32	Rate Increase for Business Individual Message and Trunk	Local/Toll	8/5/2013
33	Individual Case Billing Addendum	Local/Toll	8/8/2013
34	Limited Service Offerings Revisions	Local/Toll	8/10/2013
35	Electronic Notifications of Suspension and Termination	Local/Toll	8/17/2013
36	Individual Case Billing Addendum	Local/Toll	9/10/2013
37	Rate Increase for Unlimited Local Usage for Business	Local/Toll	9/21/2013
38	Rate Increase for Residential Package	Local/Toll	9/21/2013
39	Rate Increase for Unlimited Local and Toll Usage for Business	Local/Toll	9/21/2013
40	Verizon Credit Plan Promotion	Local/Toll	9/22/2013
41	Individual Case Billing Addendum	Local/Toll	10/23/2013
42	Modification of Calculation of the Unbundled TC Reciprocal Compensation Charge	Local/Toll	10/31/2013
43	Quarterly Revision to the Unbundled TC Reciprocal Compensation Charge	Local/Toll	11/2/2013
44	Limited Service Offerings Revisions	Local/Toll	11/12/2013
45	Rate Increase for Residential Services	Local/Toll	11/16/2013
46	Grandfathering of Verizon Call Assistant	Local/Toll	11/21/2013
47	Individual Case Billing Addendum	Local/Toll	11/22/2013
48	Local Directory Assistance - Residential and National Directory Assistance Increase	Local/Toll	12/3/2013
49			

CALCULATING BASIC OVERCHARGING RATE INCREASES

What follows are estimates based Verizon New York's annual reports, actual residential and business phone bills, but the without full audits and discovery, it is impossible to know the details. In our FCC FREEZE comments, we specifically quote the NY State Accounting Panel which stated that they did not receive specific enough details to answer basic questions about the construction budgets for the copper-based services vs the fiber optic based services.¹¹

REPORT 6: The Book of Numbers is a full report supplying more details about these summaries presented below of customer overcharging and basic cross-subsidies. It also includes models for overcharging of the FCC Line Charge, Special Access (Business Data Services), wireless phone service, as well as some of the 'opportunity costs' associated with creating the Digital Divide, such as a lack of broadband competition in America. And it also starts the discussion of the overcharging of the government, as the companies were given billions in state and federal high-cost funds, Universal Service funds, as well as state-based broadband grants or add-on fees.

20) Verizon New York Local Phone Service Basics, 2017

Using the Verizon New York current revenues for Local Service, as well as the FCC Line Charge, (which is booked in "access" fees), as well as the number of access lines, the basic revenue per line per month appears to be around \$57.95 if we add the FCC Line Charge. But, this does not include the taxes, fees, surcharges and other components of that were part of Local Service historically.

CAVEATS: However, in writing this report, we uncovered that the FCC Line Charge's revenues had increases in multiple ways and the accounting of lines added only some types of business lines and left out one-line business accounts for some reason).

Exhibit 17**Basic Current Revenues for Verizon NY Local Service and Nationwide.**

Current Local Service With FCC Line Charge		
	NY Local	Nationwide
Access Lines	1,900,063	27,143,757
Revenues	\$ 1,077,961,833	\$ 15,399,454,757
FCC Subscriber Line	\$ 243,351,319	\$ 3,476,447,411
Total without -Annual	\$ 567.33	
Without FCC-Monthly	\$ 47.28	
Total with FCC	\$ 1,321,313,152	\$ 18,875,902,168
Annual	\$ 695.40	
Monthly	\$ 57.95	

¹¹ <https://ecfsapi.fcc.gov/file/1082805496908/IrregulatorFREEZED3.pdf>

In New York, Verizon had 1.9 million lines in 2017, and the revenues for Local Service were about \$1.1 billion, with the FCC Line Charge adding \$243 million. This would mean that the total, with just these charges, and no taxes or ancillary service was \$695.40 annual costs, \$57.95 a month. (This includes POTS business lines).

Nationwide, we estimate that there are 27 million basic lines still in service. And the revenues for these lines and the FCC Line Charge, nationwide, is about \$18.9 billion.

However, according the USTelecom, they projected that there was 35 million access lines—which would increase the nationwide overages by at least 25%

21) Harvesting Customers: \$2,765.00 in Overcharging Per Line, 2006-2017

This analysis Tracking the basic rate increases and using just “basic” service, (which includes the FCC Subscriber Line Charge) we estimate that local phone customers paid an additional \$356.00 in just 2017.

This model did a financial analysis per year of basic Verizon New York phone service starting in 2006 and then examined all of the increases, by year, using actual bills. This would be Basic Service and ‘inside wire maintenance’ (as a substitute for 1 or more add on services) as well as the basic taxes and surcharges applied. As we discuss elsewhere, many of these taxes are ‘pass-throughs’ that were placed on Verizon, but they can pass them on to the customer—and thus they act as direct revenue to the company.

Exhibit 18

Verizon NY Overcharging Basic Service, 2006-2017					
	2006	2010	2015	2017	Total
Monthly \$	6.46	\$ 13.94	\$ 28.41	\$ 29.68	\$ 230.34
Annual \$	77.52	\$167.28	\$ 340.98	\$356.16	\$2,764.07

This supplies the yearly excess revenues (and taxes paid) where we estimate that this comes to about \$6.4 billion from 2006-2017. And this revenue is for basic service and inside wire only, and the taxes applied.

Exhibit 19

Verizon NY Overcharging Basic Service, Excess Revenues, Taxes Paid) 2006-2017

	2006	2010	2015	2017	Total
Overcharge	\$253,931,280	\$583,873,440	\$506,388,595	\$423,213,952	\$6,364,700,374

Without the taxes, the excess revenues were \$5.4 billion.

The problem with these increases are: prices should have been in steep decline as the core expenses, like the maintenance of the copper wires, was almost non-existent and all

of the basic expenses, like marketing and advertising stopped. When is the last time you saw and advertisement for basic POTS?

Moreover, these rate increases were tied to artificial losses and the construction of a fiber optic wire, FiOS, which never made it to the majority of the state.

- **Nationwide, this comes to an estimated \$91 billion in overcharging from local rate increases since 2006.**

22) Methodology 1: Local Service Vs Expenses Based on Revenues

We present two models to show what would happen if the Zombie rules were fixed to match the year 2000 approach where the expenses track with the revenues.

In 2017, Verizon NY's Local Service paid \$4 billion in expenses. Had the expenses been based on allocating expenses based on revenue, which the original rules used as a guide in 2000, then Local Service should have paid \$1.6 billion and was overcharged \$2.4 billion in just NY, and in just 2017.

Exhibit 20
Methodology 1: Verizon NY Local Service Vs Expenses Based on Revenues, 2017

Based on 21.62%		Paid	Should have Paid	Overcharge
Operating Expenses				
Construct & Maintenance	\$	1,165,566,908	\$ 623,567,523	\$ 541,999,385
Marketing	\$	172,875,774	\$ 69,420,558	\$ 103,455,216
Customer Operations	\$	218,383,636	\$ 69,799,885	\$ 148,583,751
Corporate Operations	\$	1,768,187,616	\$ 630,850,886	\$ 1,137,336,730
Depreciation & Amortization	\$	650,204,998	\$ 223,659,303	\$ 426,545,695
Total Operating Expenses	\$	4,022,050,805	\$ 1,638,398,017	\$ 2,383,652,848
Paid	\$	4,022,050,805		
Should Have Paid	\$	1,638,398,017		
Overcharge	\$	2,383,652,848		
Revenue	\$	1,077,961,833		
Expenses	\$	1,638,398,017		
Profits	\$	(560,436,184)		

Simply put, Local Service had 21.62% of the revenues and should have paid 21.62% of the expenses for Verizon New York. This means that instead of paying \$1.2 billion in construction and maintenance, it would have paid \$624 million – and overcharge of \$542 million for just this one line item, and just for 2017. And similarly, each line item of expense would be reduced to match the revenues brought in.

Instead, the numbers are being generated by a set of deformed FCC accounting rules that were 'frozen' to reflect the year 2000 – and neither the FCC nor state audited the books to find out the actual costs of offering service.

This methodology, however, is flawed for at least six reasons;

- First, it leaves outrageous expenses being charged to Local Service, such as Marketing, which are not being generated by the copper networks, but via the flawed FCC's forbearance rules.
- Second, this model still has Local Service footing the bill for construction, etc., that it does not get to use but is used by another subsidiary.
- Third, it does not fix the fact that the other lines of business are not paying market prices or their fair share of the common costs of the utility.
- Fourth, the Corporate Operations expense is just out of control and requires serious investigation. Most of these expenses would never be allowable under previous regulatory frameworks.
- Fifth, a free market company that is hemorrhaging billions of losses annually would never be so frivolous in expenses like 'corporate jets' or hundreds of millions in expenses not directly related to the line of business.

Sixth, dealing with underpayments and financial advantages of the subsidiaries would also be an imperative as there have been billions of cross-subsidies between the wireline and wireless services, where the construction was placed in the Local Service budgets.

And this discussion would include "pay-backs". I.e., Local Service customers were not supposed to have funded multiple lines of business, and these subsidiaries should be liable for those excess charges – especially if they had directly added to the phone costs sped by customers.

23) Methodology 2: Getting to Cost-Causers; Local Service was Overcharged \$3.7 Billion in 2017—Local Service Is Profitable based on "Incremental Pricing".

This next chart uses a series of estimates that attempts to get close to the actual cost-causers or what is closer to 'just and reasonable' rates.

Exhibit 21
Methodology 2: If Verizon NY Local Service Paid Expenses based on Actual Costs & Removed Cross-Subsidies, 2017

Based on Actual Expenditure Estimates			
	Paid	Should have Paid	Overcharge
Construct & Maintain	\$ 1,165,566,908	\$ 125,000,000	\$ 1,040,566,908
Marketing	\$ 172,875,174	\$ 5,000,000	\$ 167,875,174
Customer Operations	\$ 218,383,636	\$ 50,000,000	\$ 168,383,636
Corporate Operations	\$ 1,768,187,616	\$ 50,000,000	\$ 1,718,187,616
Depreciation & Amortization	\$ 650,204,998	\$ 100,000,000	\$ 550,204,998
Total Operating Expenses	\$ 4,022,050,865	\$ 330,000,000	\$ 3,692,050,865
Paid	\$ 4,022,050,865		
Should have paid	\$ 330,000,000		
Overcharge	\$ 3,692,050,865		
Revenue	\$ 1,077,961,833		
Expenses	\$ 330,000,000		
Profits	\$ 747,961,833		

- In actuality, Verizon New York only spent an estimated \$75-\$125 million in 2017 on the copper-based POTS construction and maintenance budget and the rest went to pay for other lines of business. (We used the high number in this calculation.)
- There was no Marketing or advertising for “POTS” service, and, at best, the Corporate Operations expense should never have been charged to a business when the other lines of business, from FiOS to special access, are creating all these costs and the company is losing a claimed \$2.6 billion in just one year.
- Moreover, wireless service, online service and other non-utility services are clearly being subsidized by Local Service, as told by these financials and other documentation in the 2017 financial report.
- In fact, Local Service is profitable if it was charged based on actual expenses.

24) **Recalculation of Local Service Expenses**

- **Question:** If Local Service expenses were based on actual costs, what would happen to the profits and more importantly, what should the costs of service be.
- **Answer:** Local Service is profitable if it is charged the expenses it incurred. Of the \$1.1 billion in revenues (not counting the FCC Line Charge), we estimate that the actual expenses are only \$330 million with a profit of \$748 million.

Exhibit 22
Local Service is Profitable, 2017

Local Service Is Profitable			
	Local Service	Nationwide	Nationwide 2006-2017
Revenues	\$ 1,077,961,000	\$ 15,399,442,857	
estimated expenses	\$ 330,000,000	\$ 4,714,285,714	
Profit	\$ 747,961,000	\$ 10,685,157,143	

This analysis is focused on one thing—Local Service was paying artificial expenses created by the FCC’s accounting rule distortions – and should never have paid most the expenses.

As we pointed out, in 2017, Verizon NY “Local Service” had losses of \$2.9 billion. This is because Local Service was charged \$1.8 billion in Corporate Operations and \$1.2 billion in Construction and Maintenance, and \$172 million in Advertising and Marketing.

25) **Reconstructing the Price of Service**

We estimated that Verizon NY local basic service should have been about \$14.50 with all charges and that the current overcharge is over \$43 a month. – And the more customers that use the networks, the lower the costs to each customer.

This means that in 2017, local customers should have paid \$522 less. Nationwide, this is an overcharge of \$14 billion in 2017, about \$170 billion since 2006.

Exhibit 23**Verizon NY-Basic Service Adjusted Expenses, 2017, Nationwide, 2006-2017**

Verizon New York-Basic Service Adjusted Expenses			
	Local Service	Nationwide	Nationwide 2006-2017
Annual Total should pay	\$ 173.68		
Monthly total	\$ 14.47		
Overcharge annual	\$ 521.72		
Monthly	\$ 43.48		
Overcharge	\$ 991,269,341	\$ 14,160,990,589	\$ 169,931,887,070

26) Do the Copper Networks Really Cost \$4.00-\$5.00 a Month to Maintain?**AT&T and the FCC's Claims: Someone Is Not Telling The Truth.**

According to the FCC, it only costs \$45-50 per home passed per year to maintain the copper networks. In this comical statement, the FCC claims that if Verizon retired the copper networks as planned, they company could save \$171 million to \$190 million.¹²

“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.”

If this FCC statement is true, then Local Service in New York State only costs \$95,000,000 a year because it only shows 1.9 million lines. Assuming this was the ‘maintenance’ budget for these lines, the implications are staggering.

But it gets stranger. In 2009, AT&T quotes another study in its “IP Transition” filing to kill off the copper. This should make everyone question what it actually costs to offer the copper-based service.

AT&T 2009:¹³

“According to one estimate, the average per-line cost of maintaining the legacy network has risen from \$43 per year in 2003 to \$52 per year today.”

¹² <https://bit.ly/2sD0ArL>

¹³ https://www.discovery.org/tech/2010/01/29/while_the_fcc_considers_whethe/

Besides AT&T not quoting their own data, since 2003 the expense to offer “local service” hasn’t changed. If this is true, then why was Verizon NY’s Local Service charged \$1.2 billion in construction and maintenance when there wasn’t any major expense?

27) Massive Manipulation of the Accounting of Access Lines

- **SEE REPORT 3: Bell Access Lines and Access Line Manipulation 1984-2018** We created a separate report on access line accounting manipulation, which has been filed in multiple FCC proceedings.

28) Missing: Whole Classes of Service

Verizon New York provides no discussion of all of the lines in service. Based on our investigations, we believe that the following classes of service are missing in this accounting:

- All services based on IP-based services, even though they use utility wires.
- All FiOS lines, including FiOS voice service or other fiber-optic-based voice services that are substituting/replacing the copper wires.
- All competitor lines that are rented from Verizon NY.
- All DSL lines.
- All special access lines (also known as “Business Data Services”) had almost \$2 billion dollars of revenues in 2017 but shows no access lines.
- All other Verizon subsidiaries’ lines.

29) Missing: Verizon New York Access Lines for \$4 Billion.

Based purely on total revenues of Verizon NY—Local Service had 1.9 million lines and \$1.1 billion in revenues at the end of 2017. However, Verizon NY had approximately \$5 billion in revenues, yet \$4 billion shows zero access lines. All things being equal, this \$4 billion of revenues could have approximately 7-8 million lines in service that are not being counted, which could mean that Verizon NY actually has a total of 9-10 million access lines. In fact, since Special Access and Nonregulated revenues keep increasing; thus, access lines, especially the lines provided for wireless, are increasing and not decreasing; a fact that no regulator has examined.

30) Deceptive Practices; Access Line Manipulation has been Used to Manipulate Public Policies.

Conclusion: Deceptive Practices Need Investigation

The FCC has been using the telco supplied lines at face value to ‘shut off the copper’ and get rid of regulations, not to mention block competitors from using the networks.

For example, the FCC quotes AT&T discussing the ‘loss’ of lines.

“Retail POTS subscriptions have declined to the point that less than 17% of households purchase switched-access voice service from an ILEC, and these services will only continue to decline.”

The FCC also quotes AT&T reply comment, WC Docket No. 17-84, July 2017

“About 65% of American households now receive all or almost all telephone calls on cell phones, while only about 14% of American households still rely on legacy TDM landlines. More than half of all American households (50.8%) have now abandoned land-line voice service entirely.”

The base of these quotes is total obfuscation to make it appear that there have been major losses of access lines and so the companies should be able to ‘shut off the copper’.

Manipulations Galore:

- **Notice the words/terms:** “retail”, “POTS”, “households”, “switched access”, “voice service”, “ILEC”, “legacy”, and “TDM”.
- **To Sum Up:** The FCC is only discussing residential (household), basic “POTS”, Plain Old Telephone Service, lines offered by the “ILEC”; i.e., the existing incumbent telecommunications utility; Verizon, AT&T or CenturyLink, mostly. These are existing copper “legacy” lines, also called “switched access”, or TDM”.
- The FCC is only discussing state-based utility ‘intrastate’ lines, not the total lines.
- These are basic POTS, plain old telephone service, copper lines.
- These are only voice lines, leaving out the data lines.
- These are only ‘households’, meaning residential services only.
- This leaves out all business lines.
- This leaves out all copper based lines that have been declared “interstate”, even if they are part of the state utility.
- “Special Access” lines, (renamed by the FCC “Business Data Service”) lines have been left out. This includes the wires to ATM machines or other data services, including the wires to cell sites and hot spots.
- This leaves out all fiber optic lines, such as FiOS’ FTTP lines.
- Leaves out all copper-based POTS lines that are now used for AT&T’s U-Verse.

This means that the majority of access lines, even copper lines, were never counted in the FCC’s ‘shut off the copper’ proceeding. This means that the FCC is only counting “Intrastate” lines, but the FCC has no jurisdiction over these lines. And this also means that the FCC has manipulated the accounting to leave out all “Information” service, all “VOIP” lines and all “Interstate” lines—even though they are using the wires of the state utility.

We bring this up because all policies now must be seen through a lense that includes the FCC, even state issues, and visa versa.

Conversely, the Verizon New York 2017 Annual Report provides proof that the FCC's data is seriously flawed and that Verizon has played the FCC and the states' regulatory framework to benefit the company and not customers.

**DIGITAL DIVIDE BY DESIGN:
16 REPORTS DOCUMENTING THE FINDINGS¹⁴**

RELEASED:

- **REPORT 1:** Did AT&T, Verizon, CenturyLink & the FCC Intentionally Make the Wired Utility Networks Look Unprofitable—Overcharging America at Least \$½ Trillion? Did They Create the Digital Divide?
- **REPORT 2:** Verizon New York 2017 Annual Report: An Analysis of Cross-Subsidies and Customer Overcharging
- **REPORT 3:** FILED: Bell Access Line Accounting Manipulation 1984-2018
- **REPORT 4:** AT&T, CenturyLink & Verizon's Motto: The Big Telco Cook Book for Fun and Profit of the Shareholders
- **REPORT 5. CEO to Investor Transcripts:** The AT&T-Verizon-FCC Wireline Bait-and-Switch with Wireless: Because it Makes the Companies More Money.

TO BE RELEASED

- **REPORT 6:** The Book of Numbers
- **REPORT 7:** The Book of Violations
- **REPORT 8:** Wireline state utilities have been overcharged billions to fund the wireless network build outs.
- **REPORT 9:** AT&T California state utility phone service went up 138% from 2008-2016. Ancillary services went up 60%-525%.
- **REPORT 10:** Verizon New Jersey Local Service Increases, 1982-2014 — 440%
- **REPORT 11:** Verizon New York Basic Phone Service Went Up Over 730% Since 1980. Since 2005, customers were Overcharged over \$2,500.00 per line.
- **REPORT 12:** NJ Ratepayer Advocate's analysis of Verizon NJ's failure to deploy fiber optics 1993-1997 and the harms of "Price Caps" and "Incentive" regulations.
- **REPORT 13:** A Case Study: Verizon NJ Opportunity \$15 Billion Failure
- **REPORT 14:** Case Study: Verizon Massachusetts: A Broadband Failure
- **REPORT 15:** Case Study: AT&T California's Fiber Optic Failure
- **REPORT 16:** The Verizon New York Settlement July, 2018

¹⁴ <https://newnetworks.com/digitaldividebydesign/>