Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Comprehensive Review of the Part 32 Uniform System of Accounts	)	WC Docket No. 14-130
	)	
Jurisdictional Separations and Referral to the Federal-State Joint Board	)	CC Docket No. 80-286

RE: "In this document, the Federal Communications Commission (Commission) seeks comment on its proposal to adopt recommendations from the Federal-State Joint Board on Jurisdictional Separations and to amend the Part 36 jurisdictional separations rules accordingly."

COMMENTS BY NEW NETWORKS INSTITUTE & THE IRREGULATORS.

There are basic points we've made in previous filings in these proceedings. But let us be clear-- The FCC should be investigating how their rules have harmed all customers, from creating the "Digital Divide" by making the state 'intra-state' services, like phone service, appear unprofitable, when their own rules, including Part 36, caused massive cross-subsidies that the FCC has never examined.

Verizon NY Revenues and Major Expenses by Category, 2016 (Excerpt)

	Total	Nonregulated	Local Service	Access
Total Operating Revenues	$5,240,782,258	$1,552,967,493	$1,211,751,622	$2,476,063,143
Major Operating Expenses				
Construction & Maintenance	$3,256,244,373	$1,113,045,276	$1,445,636,286	$697,562,811
Marketing	$ 308,034,588	$ 53,273,050	$165,799,314	$88,962,224
Customer Operations	$ 402,504,360	$ 28,387,919	$268,038,623	$106,077,818
Corporate Operations	$1,199,635,597	$ 122,758,995	$722,877,073	$353,999,528
Net Operating Revenues	**$(1,079,606,687)**	**$183,548,944**	**$(2,098,768,683)**	**$835,613,052**

The rules are still in use, whether the FCC decides to admit it or not and this excerpt from the Verizon New York 2016 annual report, published June 2017 details the harms.

We submit our report: **"Verizon New York's 2016 Financial Annual Report: "Follow the Money: Financial Analysis and Implications".**

Moreover:

- The FCC has never examined the impacts of their accounting rules for 18 years.
- This current FCC has claimed it has never examined the rules.
- Part 36, which assigns a percentage of th expenses to each different line of business and service, has become toxic and is allocating the majority, about 60%, of all expenses into Local Service, the "intrastate" category; This means that all "interstate" services have been cross-subsidized, from the Business Data Services (BDS) to the FTTP wires used for FiOS or the wires that go to the cell sites.
- Whether intentional or not, the FCC has made local service appear unprofitable, though it has no data whatsoever to prove this point.
- Every FCC proceeding has failed to examine the issue of these cross-subsidies, from the 'shut off the copper' proceeding, the Business Data Services decision, or even the Net Neutrality proceeding which claims that investment was harmed by Title II', when it is clear that the investments have been cross-subsidized by local rates, as we pointed out in our reports.

Over the last 8 years **New Networks Institute (NNI) and the IRREGULATORS** have uncovered a massive financial accounting shell game where billions of dollars have been charged to local phone customers, making the state utility networks a cash machine to fund all of the other Verizon businesses, including the wireless networks. These cross-subsidies cost customers thousands of dollars extra and diverted billions in construction to roll out the wireless networks instead of upgrading cities, among other harms. In fact, our work helped to initiate these investigations.

Our research has been largely based on Verizon's financial reports, especially the Verizon New York annual reports, which are mandated by the NY Public Service Commission and cover the financials that were included in the FCC's ARMIS reports, based on the FCC's cost accounting rules.

There has been an ongoing investigation that started in 2015 using our research as part of an examination of the cross-subsidies of Verizon New York and the other Verizon subsidiaries, including Verizon Wireless.

In June 2017, Verizon, NY state PSC and some of the parties, agreed work towards a settlement and a proposed settlement was announced in March 2018. While the investigation clearly outlined areas that need immediate attention, this proposed settlement fails to even acknowledge the years of investigations by the State or addresses any of the primary issues. We filed in this proceeding to halt the proposed settlement and continue the investigations.

However, these issues were created via the FCC's toxic accounting rules that need to be repaired and not eliminated with zero analysis or data to do so.

Why is this Critical Now?

FIRST & IMPORTANT: Most people believe there is no state telecommunications utility anymore or that the utility is just the aging copper wires; they are misinformed. All of the wires, including the Fiber-to-the-Premises, ("FTTP") for FiOS, or the wires used for the cell sites for Verizon Wireless, as well the Business Data Services, not to mention the aging copper wires, are ALL part of the state utility infrastructure and have been paid for mainly via the wired customers.

SECOND: Verizon et al. has been dismantling the state utilities slowly for the last decade with the plan to make the wires private property for personal use (which will block and harm competitors) to be handed over to the wireless company—removing any remaining regulations or obligations. But, the budgets for new builds will still remain in the state wired utility, and the perks of being a utility will be available to the wireless company. At the same time, the pricing for service will move to the wireless per-gig plan to make more money.

As we exposed, using manipulated accounting, Verizon et al. have made local service 'appear' unprofitable, but this has been artificial. The state utility now pays the majority of expenses, including construction, or corporate operations expense for all of the subsidiaries using the wires. And this manipulation means that they had major losses and major tax benefits, got the state to raise rates multiple times, and can complain that they can't afford to upgrade rural areas, or finish or even maintain cities.

Third: Control Over Your Services: Thus, if you use your cell phone, if it is Verizon, it goes to a cell site then to a Verizon wire, most of which are part of the state utility. And at home, Verizon's plan is that your 'high-speed' cable TV will also be wireless, but the fiber optic wire for this service would also be part of the state utility, but unidentified. And competitors, who use these network wires will pay through the nose.

Net Neutrality, privacy, and all other aspects of communications are also in the cross-hairs. Getting rid of Net Neutrality allows the company to have the company's other subsidiaries be the priority, and privacy is to share your information and track you, then sell that information or give it to their subsidiaries.

FOURTH: This Is a Nationwide Problem: This is not just a Verizon NY problem. All of the Verizon, as well as AT&T and CenturyLink holding companies control the state incumbent utilities, and they have used the same accounting and business practices. Verizon NY just happens to be a fully documented model of the issues.

FIFTH: This is the End Game. There are too many moving parts to explain, but once the state utility is confiscated and the wires dismantled, because one company controls not only the infrastructure, but the other critical services using this infrastructure, they get to control the prices of all services, including wireless, or broadband, they can control the speed, and they control who gets upgraded.

What we filed:

FCC Comments: Joint Board & FCC Cost Accounting Rules.

We filed comments and refreshed the record in CC 80-186, WC 14-130 WC 14-139, CC 80-286, CC 96-45, CC 97-21, WC 05-25, WC 10-90, WC 12-353, GN 13-5, GN 15-191, WC RM-11358

On May 24th, 2017 the IRREGULATORS filed comments with the FCC and the Federal-State Joint Board. They asked:

- Re: Federal-State Joint Board on Jurisdictional Separations Seeks to Refresh Record on Issues Related to Jurisdictional Separations, FCC 17J-1
- Re: Federal-State Joint Board on Separations Seeks Comment on Referral for Recommendations of Rule Changes to Part 36 as a Result of Commission Revisions to Part 32 Accounting Rules, FCC 17J-2

- **On April 17th, 2017,** the IRREGULATORS filed comments with the FCC calling for the Agency to do audits and investigations of the FCC's "Big Freeze". The FCC's accounting rules were 'frozen' 16 years ago and they have created massive financial cross-subsidies, making local phone customers pay the majority of expenses for all services, from wireless to Broadband Data Services (BDS).

This is important because it documents that the FCC can not create new public policies without accurate financial data. As we wrote:

> "We refresh this record, again, with 'Fixing Telecom', a report series done as an independent voice, without corporate or political financing, because sometimes the Public should come first."

- Report1: Executive Summary: Verizon's Manipulated Financial Accounting & the FCC's Big "Freeze"
- Report 2: Full Data Report
- Report 3: SPECIAL REPORT: How Municipalities and the States can Fund Fiber Optic Wireline and Wireless Broadband Networks.
- REPORT 4: Data Report Proving Verizon's Wireline Networks Diverted Capex for Wireless Deployments Instead of Wiring Municipalities, and Charged Local Phone Customers for It.
- Report 5: The Hartman Memorandum
- Report 6:The History & Rules of Setting Phone Rates in America— The FCC's 'Big Freeze' & Cross Subsidies

- Report 7: SUMMARY REPORT: Verizon Massachusetts & Boston: Investigate the Wireless-Wireline Bait-n-Switch, January 17th, 2017
- Report 8: **"Verizon New York's 2016 Financial Annual Report: "Follow the Money: Financial Analysis and Implications".**

FILINGS:

- Letter to the FCC for an Investigation of Cross Subsidies as detailed in the Hartman Memorandum

About Us: 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 Telecom consultants. Members of the group have been working together, in different configurations, since 1999.

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April 27th, 2018