New Report:

Verizon NY 2017 Annual Report: Summary & Analysis. Halt the Proposed Settlement & Continue the Investigations.

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TABLE OF CONTENTS

EXHIBITS

EXECUTIVE SUMMARY

- How did Verizon New York, the state utility, lose $2.6 billion dollars in 2017?
- Why was "Local Service" charged $1.8 billion for Corporate Operations expense, which are payments for executive pay, lawyers, lobbyists and the corporate jets?
- **What are the FCC-State "Zombie" Rules?**
- And how do the findings about Verizon New York impact all wireline and wireless customers in all states, as well as all proceedings at the FCC?

On May 31st, 2018, the Verizon NY 2017 Annual Report was released. While Verizon hides the fact that there still are state utilities, it also doesn't mention that it includes both the copper-based phone wires as well as the fiber optic wires for Verizon's FiOS and Verizon Wireless services, and all of the other Verizon subsidiaries in the State.

New Networks Institute (NNI) and the IRREGULATORS created this new report as a summary and analysis which is part of our series on Verizon NY's financial and business activities that started in 2012.

Why this Matters: On March 2nd, 2018 a settlement was proposed between Verizon NY, the state-telecommunications utility, and the NY Public Service Commission (NYPSC) and parties to end an investigation that started in 2016, but was, in part, based on our research. This investigation had two parts:

- **Part 1:** Verizon has left the copper-based utility networks to deteriorate and there has been a lack of upgrades to broadband or maintenance of the existing networks.
- **Part II:** There has been massive financial shell game between the state utility, Verizon NY and the other Verizon subsidiaries, especially Verizon Wireless.

While there are some basic fixes to the neglected infrastructure, Part II has been eliminated from this proposed settlement.

We filed to halt this settlement and now request new investigations based on the findings and our analysis of the Verizon NY 2017 Annual Report. These findings impact All communications customers in NY, but unfortunately these financial machinations have occurred in every state and also are directly related to the FCC's current proceedings.

A Massive Financial Shell Game, with the Help of the FCC.

Verizon New York, and all of the state utilities of Verizon, have manipulated the accounting so that they can make all of the existing copper wires look unprofitable, and at the same time divert billions to fund Verizon's other lines of business. These cross-subsidies are based on the FCC's Cost Accounting Rules which have become distorted and now dump the majority of all expenses into the Local Service; this is because the rules were set to reflect how expenses were allocated in the year 2000—18 years ago. However, they have turned into Zombie rules—where these accounting rules were essentially erased a decade ago but are still in use, leaving a trail of customer harms that have occurred

This has happened on a massive scale and in every state, as far as we can tell. Every FCC proceeding decision or those that are progress are impacted by the findings—And the customers have been harmed with overcharging, harms to competition, harms to broadband deployment, the creation of the Digital Divide, -- a very long list of impacts in multiple ways.

- Other Related Reports and Filings:
- https://newnetworks.com/ny-related-filings/
- More about the Proposed Settlement: https://bit.ly/2HWj7sU

We will focus on the flows of money, using the Verizon NY 2017 Annual Report and cover the implications and specific harms in a upcoming report.

Verizon's Revenues and Expenses Are Divided into Three Primary Areas.

- **"Local Service" —** are mostly the regular copper-based phone lines, commonly known as "POTS", Plain Old Telephone Service, and are 'intrastate' services.
- **"Access" —** are mainly "Business Data Services" (BDS) also called "Special Access" services, and are business lines used for ATM machines or the wires to cell sites, including services to competitors.
- **"Nonregulated" —** are items that were previously or never regulated and it can include DSL or parts of FiOS, and they, too, are part of and use the state utility wires.

Follow the Money

- **Revenues & Expenses: Verizon NY Claimed $2.6 Billion in Losses in 2017.**

At the end of 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 multiple tax benefits, not to mention multiple political benefits in public policies, deregulation, etc.

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**

And, as we pointed out elsewhere, Verizon NY didn't pay most taxes: Verizon NY showed losses of $15.7 billion from 2010–2016, with a tax benefit of $7.2 billion dollars.

This exhibit supplies the percentages of the revenues and expenses paid by these three categories, which will be detailed in this report. For example, Local Service brought in 21.6% of the revenues but is paying 53% of all expenses, and 61% of "Corporate Operations" expenses, explained below (see the report for full details). I.e.; Local Service has become the cash machine for these other lines of business and is losing billions by having expenses charged to Local Service that should never have been allowed.

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%
Total Operating Expenses	**20%**	**53%**	**27%**

Manipulation of the Financial Accounting Created Massive Cross-Subsidies

Local Service has been funding/cross-subsidizing all of these other lines of business.

- **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, which are the charges for lawyers, executive pay, etc.
- **Local Service** paid 53% of all expenses.
- **Local Service** is paying the 68% of all "Customer Operations" and 54% of "Marketing and Advertising".

In other words, Verizon New York's Local Service, as compared to revenues, paid 164% in Corporate Operations, 108% in construction and 373% in total expenses compared to the Local Service revenues.

Access Service

- **Access** (including "Special Access") had revenues of $2.4 billion, 47% of Verizon NY total revenues but paid a fraction of the expenses.
- **Access** paid only 29% of Corporation Operations and 27% of all expenses. I.e.; Access was more than double the revenues but paid ½ of what Local Service paid.
- Note: BDS was almost $2 billion of the revenues, 84% of Access.

Nonregulated

- **"Nonregulated"** revenues were $1.5 billion, $½ billion more than Local Service but paid a fraction of almost all 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), Local Service paid 238% more in

Marketing expenses, 750% more Customer Operations, 510% more Corporate Operations expense and 165% in overall expenses.

These Cross Subsidies are Created by the FCC Cost Accounting Rules

- The rules that place the expenses into each line of business are based on the year 2000 and the FCC hasn't examined the rules for 17 years, when they were 'frozen' in 2001.

Zombie Rules Are Now in Place.

- Like the walking dead, the idea that there are rules that were supposedly 'erased' a decade ago but are still in use and no regulator has bothered to examine these massive financial cross-subsidies is an obvious red flag.
- The rules were 'forborne' starting around 2007, meaning that there are no longer enforced. Yet, it appears that New York and every other states, as well as the incumbent utility companies, appear to still use them -- creating these subsidies.

Corporate Operations Expense: and the FCC's Freeze & Zombie Rules, 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 revenues. And in 2017, Local Service is only 21.6% of revenues, but the FCC freeze has Local Service being charged 60.6% of Corporate Operations expense.
- This pattern of declining revenues for Local Service while 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.

Verizon Wireless Free Ride ("Cellco Partners") and Verizon NY

- In 2016, we estimated that Verizon's wireless networks in New York State generated $6.5-$7.5 billion in revenue.
- The Verizon NY 2017 Report shows that "Cellco Partners" (Verizon Wireless is a D/B/A), only paid $106 million to Verizon NY for use of the networks. Moreover, it appears that there were no payments that should have been paid for the wireless network construction – which now includes the fiber optic wires that were supposed to be used for FiOS, but can now be wires to the wireless cell sites.
- In previous reports we highlighted how, from 2010-2012, Verizon New York appears to have paid $2.8 billion for the construction of cell sites for Verizon Wireless, using the state utility as a cash machine. At the same time, not only were customers charged for these networks, but the claim was that the local phone networks were unprofitable to continue to upgrade or maintain and the construction budgets were diverted to wireless instead of upgrading cities.

Getting to Cost-Causers; Local Service was Overcharged $3.7 Billion in 2017— Local Service is Profitable.

- The expenses that were paid by Local Service are mostly artificial and created by the FCC's mal-formed cost accounting rules, which are still in use, regardless of what the FCC claims.

According to the FCC, it only costs $45-50 per home passed per year to maintain and keep the copper networks.[1] Verizon New York showed 1.9 million basic copper access lines, so if the FCC is correct, then the expenses should only be $95 million a year. The implications of this FCC statement are staggering.

If Local Service was based on actual expenses:

- **We estimate that Local Service was overcharged $3.7 Billion in 2017.**
- **We estimate that Local Service has been and is profitable if the actual expenses were calculated.**

Local Service, the copper based networks, only spent approximately $75-$125 million on construction and maintenance in 2017 and the rest went to pay for other lines of business. There was no Marketing or advertising for "POTS" service, and Corporate Operations expense should never be charged to a business when the other lines of business, from FiOS to special access, are creating all these costs.

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.

Conclusion: Halting the cross-subsidies and making the affiliate companies pay market prices would generate enough revenue to build out the State of New York with fiber optics and could supply lower prices, open infrastructure for competitors and choice.

Manipulating the Access Line Accounting

- Verizon New York claims line losses, ending 2017 with 1.9 million access lines. However, as we pointed out, this represents only the copper-based, voice phone service, and leaves out most of the other access lines, such as FiOS, VOIP lines, Special Access lines, etc.
- **Simply Math: Verizon Shows No Access Lines for $4 Billion Dollars.** Based purely on total revenues of Verizon NY, if Local Service, which had 1.9 million lines and revenues of $1 billion is revenues at the end of 2017, then all of Verizon NY, which showed approximately $5 billion in revenues, could have approximately 7-8 million lines that are not being counted, giving Verizon NY a total of 9-10 million lines.

CONCLUSION: Verizon has used these claimed access line losses tied to these claimed financial losses to create harmful public policies. This 2017 financial report, released May 31, 2018, presents a picture of a state utility out of control and that needs investigation and immediate fixing.

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

Summary & Analysis: Verizon NY 2017 Annual Report

Introduction

This report provides a basic summary and analysis of the Verizon NY 2017 Annual Report, released May 31, 2018. It is part of a series of reports by New Networks Institute (NNI) and the IRREGULATORS on Verizon NY's financial and business activities since 2012. The data and analyses have been used in multiple ways, from a current appeal of an FCC decision on Business Data Services (also known as "Special Access"), to research that helped to initiate an investigation of Verizon NY that led, in part, to a proposed settlement.

- Other Related Reports and Filings:
- https://newnetworks.com/ny-related-filings/
- More about the Proposed Settlement: https://bit.ly/2HWj7sU

1) Summary: Verizon New York, the State Utility

Verizon NY is the state 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.

> "The Company is engaged in providing two types of telecommunications services, exchange telecommunications and exchange access services, in NY State and a small portion of Connecticut…These telecommunications services include public and private voice and data transmission of radio and television signals and teletypewriter services."

And these include both the copper-based phone service 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.)

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 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.
- **"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 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, and they, too, are part of and use the state utility wires.

NOTE: We will rely on these Verizon NY financials through the rest of this report

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%**

Discussion: Revenues, Expenses & Losses
(All financials quoted are taken verbatim from Verizon NY; all discussions numbers are rounded for simplicity.)

3) **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.

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**

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

Local Service is funding all of these other lines of business 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:

Local Service

- **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, which are the charges for lawyers, executive pay, and even the corporate jets.
- **Local Service** paid 53% of all expenses.
- **Local Service** is paying the 68% of all "Customer Operations" and 54% of "Marketing and Advertising".
- In other words, Verizon New York's Local Service, as compared to revenues, paid 164% in Corporate Operations, 108% in construction and 373% in total expenses compared to the Local Service revenues.
- **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, 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 paid 29% of Corporation Operations and 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 dollars of the revenues.

5) 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), Local Service paid 238% more in Marketing expenses, 750% more Customer Operations, 510% more Corporate Operations expense and 165% in overall expenses.

6) **These Cross-Subsidies are Created by the FCC's Cost Accounting Rules**

The rules that place the expenses into each line of business are based on the year 2000 and the FCC hasn't examined the rules for 17 years, when they were 'frozen' in 2001. The rules were 'forborne' starting around 2007, meaning that they are no longer enforced. Yet, it appears that New York and other states, as well as the incumbent utility companies, appear to still use them -- creating these subsidies.

At the same time, the FCC stopped requiring or collecting the basic data about revenues and expenses in the state utilities in 2007. New York State appears to be the only state that still requires a full, public annual report. (See our reports and filings on the cost accounting rules and the FCC's current path to eliminate all remnants of the rules.)

7) Zombie Rules Are Now in Place.

Like the walking dead, the idea that there are rules that were supposedly ‘erased’ a decade ago but are still in use and no regulator has bothered to examine these massive financial cross-subsidies, is an obvious red flag. The Verizon New York proposed settlement underway started with an investigation using some of our research which exposed this financial shell game. At this point the State has dropped any investigation into these financial machinations, even though, as we will discuss, billions per year are being overcharged, or worse, billions are being diverted out of the state utility to fund other ‘interstate’ lines of business.

8) Verizon Subsidiaries & Affiliate Payments Are Out of Control.

The “Corporate Operations” expense are mostly payments made to Verizon’s own subsidiaries, and the ‘affiliate transaction’ payments reveal another layer of issues.

9) $3 Billion in Corporate Operation Expenses

In this first exhibit, Verizon NY shows $3 billion dollars in related payments to Verizon’s Corporate Operations’ groups. These are all of the corporate charges from executive pay, the corporate jets, lawyers, lobbyists, and most likely all of the foundation grant money.

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.)

10) Local Service Paid 61% of Corporate Operations Expense

Next, Local Service is paying 61% of this expense at $1.8 billion dollars, making it unprofitable by $800 million for just this one expense item.

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.

11) 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.

12) Verizon Wireless Free Ride ("Cellco Partners") and Verizon NY

In 2016, we estimated that Verizon's wireless networks in New York State generated $6.5-$7.5 billion in revenue, separate from the Verizon NY revenues (and we expect the revenues would be within this range in 2017). However, the Verizon NY 2017 Annual Report shows that "Cellco Partners" (Verizon Wireless is a D/B/A), only paid $106 million to Verizon NY for use of the networks. Moreover, it appears that there were no payments that should have been paid for the wireless network construction – which now includes the fiber optic wires that were supposed to be used for FiOS, but can now be wires to the wireless cell sites.

In previous reports we highlighted how, from 2010-2012, Verizon New York appears to have paid $2.8 billion for the construction of cell sites for Verizon Wireless, using the state utility as a cash machine. At the same time, not only were customers charged for these networks, but the claim was that the local phone networks were unprofitable to continue to upgrade or maintain and so the construction budgets were diverted to wireless instead of upgrading cities.

13) Verizon New York, 2017, Overcharging of Local Service

The expenses that were paid by Local Service are mostly artificial and created by the FCC's mal-formed cost accounting rules, which are still in use, regardless of what the FCC claims.

What should happen next? Fix the current methodology that uses the Zombie rules' approach— with a cost-causer approach to make prices just and reasonable, where the state utility is not being used as a cash machine for other lines of business and customers aren't being overcharged.

Local Service should never have been paying 61% of Corporate Operations expense or for construction expenses of over $1.2 billion dollars that are obviously being used by other Verizon lines of business.

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

We ran some of the numbers to show what would happen if the Zombie rules were fixed to match the 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, then Local Service should have paid $1.6 billion and was overcharged $2.4 billion in just NY and in just 2017.

Exhibit 8
Methodology 1: Verizon NY Local Service Vs Expenses Based on Revenues, 2017

Based on 21.62%			
Operating Expenses	**Paid**	**Should have Paid**	**Overcharge**
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	$ 4,022,050,865	$ 1,638,398,017	**$ 2,383,652,848**
Paid	**$ 4,022,050,865**		
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 overage 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 five reasons;

- First, it leaves outrageous expenses to be charged to Local Service, such as the construction and maintenance, which are not being generated by the copper networks, but via the flawed FCC’s forborne 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.

15) Methodology 2: Getting to Cost-Causers; Local Service was Overcharged $3.7 Billion in 2017—Local Service is Profitable.

According to the FCC, it only costs $45-50 per home passed per year to maintain and keep the copper networks and 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.[2]

> "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.

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 9
Methodology 2: Verizon NY Local Service Paid Expenses based on Actual Costs & Removed Cross-Subsidies

Based on Actual Expenditure Estimates			
	Paid	**Should have Paid**	**Overcharge**
Construct & Maintain	$ 1,165,566,908	$ 125,000,000	$ 1,040,566,908
Marketing	$ 172,875,774	$ 5,000,000	$ 167,875,774
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**		

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

- 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.
- 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.

Conclusion: Halting the cross-subsidies and making the affiliate companies pay market prices would generate enough revenue to build out the State of New York with fiber optics. Using cost-causing financials would return the state utility construction budgets to building state infrastructure and would also lower costs for all services by removing subsidies that shareholders should be paying for, not the public, or worse, subsidies that were charged to wireline customers.

16) Massive Manipulation of Access lines

- Verizon claimed it lost 425,000 lines and now has 1.9 million lines. However, these appear to be only the 'intrastate', copper-based POTS lines, leaving out most access lines in service.

Exhibit 10
Verizon New York 2017 Annual Report Excerpt, Number of Access Lines

	During the Year		
At Beginning of the Year	Added	Discontinued	At End of the Year
2,156,399	168,459	424,795	1,900,063

- **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 is 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. Business Data Services had almost $2 billion dollars of revenues but shows no access lines.
- All other Verizon subsidiaries' lines.

- **Missing: Access Lines for $4 Billion Dollars**

Based purely on total revenues of Verizon NY—Local Service had 1.9 million lines and $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 not decreasing; a fact that no regulator has examined.

- **Missing: Accounting of Services as Substitution of Lines**

But, this only tells part of the story. Take a “Triple Play” service which has cable TV, phone service, broadband and internet service, all using the same wire for these services.

As other services have been deployed over the last two decades, there has been no accounting of the removal/lack or need of more wires to deliver more services. I.e.; if one line can handle 2-5 other services, then a business or residential customer that substitutes one line for 2-5 lines that were previously in use, changes this accounting.

Along this line, broadband services can also substitute for 10-100 copper-based lines, which has been going on for a decade. A traditional “T1” telecommunications service handle 24 simultaneous calls but uses only one or 2 lines copper-lines, while a ‘bonded’ pair of copper wires can deliver speeds that could replace many other slower broadband lines.

Unfortunately, what we have now is a bastard accounting to make it look like no one is using wired services or that customers are dropping their lines, when, in fact, it is partly an illusion as they are migrating or cannibalizing the previous lines.

- **Access Line Manipulation Used to Manipulate Public Policies.**

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.
- This 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.

A full upcoming report on the manipulation of the accounting of access lines details the harms caused to public policies.

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 States' regulatory framework to benefit the company and not customers.