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LETTER 2: Dear Mayor de Blasio,

New York City Must Call for a Halt to the Billion + Dollars of Cross-Subsidies and Overcharging by Verizon NY, the Public Telco Utility

The [New York City Internet Master plan](#) claims:

“Every New Yorker deserves easy, affordable access to the internet. With the Internet Master Plan, we are giving notice to corporations that the days of creating a digital divide in our city are over. Providing equitable broadband service to all New Yorkers regardless of where they live or how much they make is vital to ensuring everyone has the basic tools they need to succeed.”

If this is really the position of the City, then we request that the City join our call for an investigation to halt a massive financial cross-subsidy scheme that has been going on for years. We estimate that Verizon has overcharged its [NY customers by \\$1.1-\\$1.6 billion](#) in just 2019. And this is only a partial amount of the total. This analysis is based on a 10 year examination of Verizon New York’s financial reports.

Most Important: On June 8th, 2020, the [Verizon New York 2019 Annual Report](#) was published. The Internet Master Plan doesn’t mention or examine that Verizon NY is New York State’s primary telecommunications public utility and it includes New York City.

LETTER 1, We requested the following of the City of New York:

- Do not renew the Verizon FiOS cable franchise, which expired in July 2020, until Verizon provides access to FTTP, Fiber to the Premises, to 100% of NYC residences, as required by the expired franchise agreement.
- Apply maximum penalties and fines against Verizon, as specified in the agreement, for its failure to offer FTTP broadband to all households in the City.
- Hold Verizon accountable for not balancing its FTTP deployments as required, depriving low-income areas of parity with other parts of the City—a social injustice.
- Discontinue any renewal and dispute settlement negotiations with Verizon and establish a transparent process that invites public participation.
- No bait-and-switch should be allowed. Embrace the principle that wireless is not a suitable substitute for FTTP, which Verizon is pushing in NY and other jurisdictions.

The City’s Internet Master Plan showed that Verizon has [massive FTTP deployment holes](#), mainly in low-income areas. Moreover, in Upstate New York, Verizon has left whole cities without proper upgrades.

To summarize: Verizon intentionally violated its agreements because it envisions an all-wireless future with a dramatically reduced work force, lower overhead and increased profits. It has manipulated its reports and narratives to portray landline or wired service as unprofitable. And Verizon grossly inflates the promise of 5G and operates a shell game to pretend that 5G can be economically feasible.

In truth, Verizon diverted billions of dollars in construction budgets to fund its wireless network. However, local phone customers, including low-income families and rural areas, have paid rate increases multiple times—thousands of dollars per family-- for a fiber optic future.

[Communications prices](#) in the US are 3-14 times more than overseas and have been inflated artificially by these financial machinations. The lack of accountability is astounding. In NY, responsible authorities have conducted no audits or investigations of Verizon's gaming the system.

Thus, halting the billions that were diverted to Verizon's wireless and the other lines of business, will not only right a collection of wrongs, but will supply billions that should have been used to upgrade the entire state with fiber optics, as well as lower rates on all communications services.

We Will Address:

- 1) Verizon NY is a state-based telecommunication utility that covers NYS and NYC. And Verizon NY is the entity that has the contract with NYC for FiOS.
- 2) The "FTTP", "Fiber to the Premises" wires used for FiOS, are part of this state utility and are "Title II", providing common carrier services.
- 3) Verizon NY was allowed to increase rates on local service and other wired services multiple times in order to fund FTTP.
- 4) Verizon New York diverted billions of dollars of the utility construction budgets to build out their wireless business. It left whole cities in Upstate NY with legacy services and ignored parts of NYC, mainly the low-income areas.
- 5) Verizon Management told investors that Verizon's wireless networks were being built via the wireline construction budgets.
- 6) Verizon has no intention of finishing New York FTTP deployments, and will seek to substitute wireless service, devoting its construction budget to the fiber optic wires it needs for its wireless network to connect antennae and stations.
- 7) The [Verizon NY 2019 Annual Report](#) shows that billions in Verizon-wide, Corporate Operations expenses are over-allocated to local service; that the majority of construction budgets are being put into 'local service' but are being used by wireless; and that Verizon Wireless is underpaying Verizon NY when it uses these networks for "backhaul" (the data networks connecting cell sites and switching centers.)
- 8) IRREGULATORS v FCC: Blame it on FCC accounting rules, that are deformed and put the majority of all expenses into the wired utility to make it unprofitable.

Putting the Facts on the Table.

- 1) **Verizon NY is a state-based telecommunication utility, covering NYS and NYC.** From NY Telephone to NYNEX to Bell Atlantic and now Verizon NY, the primary state-based public telecommunications utility has a very long history of claiming it would upgrade the state's copper-based infrastructure with fiber optics and charging consumers to fund the projects over the last three decades.
- 2) **The FTTP, fiber to the premises, wires, used for FiOS, are part of the state utility, [providing Title II, common carrier](#) services.**

On June 15, 2005, the New York Public Service Commission ("NY PSC") "declared that Verizon NY's FTTP upgrade is authorized under its existing state telephone rights because the upgrade furthers the deployment of telecommunications and broadband services, and is consistent with state and federal law and in the public interest." The NY PSC determined that, unlike a company seeking to build an unfranchised cable television system, Verizon NY already has the necessary authority to use the rights-of-way to provide telecommunications service over its existing network. See [Declaratory Ruling on Verizon Communication, Inc.'s Built-Out of its Fiber to the Premises Network, NY Public Service Commission](#), Case 05-M-0520/05-M-0247, June 15, 2005 at 4.

As more fully described in [Exhibit 1](#), Verizon NY maintains that it is constructing its FTTP network pursuant to its authority as a common carrier under Title II of the Communications Act of 1934, as amended, and Section 27 of the New York Transportation Corporations Law. For this reason and others, certain terms and conditions may differ between the incumbent cable provider's franchise and Verizon NY's franchise.

The reason Verizon classified FTTP as Title II was to allow it to charge the state local phone customers and the wired networks for the construction of these networks. (NOTE: Verizon misrepresented this to the Federal Communications Commission, claiming that the FTTP was for “Title I”, information services, and that the “Title II” classification actually impeded investment. Title II services, ironically, have been the investment mechanism for FTTP.)

3) Verizon New York was allowed multiple rate increases on local service and other wired services in order to fund fiber optic networks.

June 2009: [Statement by NY Public Service Commission](#).

“We are always concerned about the impacts on ratepayers of any rate increase, especially in times of economic stress...Nevertheless, there are certain increases in Verizon’s costs that have to be recognized. This is especially important given the magnitude of the company’s capital investment program, including its **massive deployment of fiber optics in New York**. We encourage Verizon to make appropriate investments in New York, and these minor rate increases will allow those investments to continue.”

4) Verizon New York diverted billions of dollars of the utility construction budgets to build out their wireless business.

In 2012, the NY State [Attorney General claimed](#) that 75% of the capital expenditures in New York State went to fund the building of the fiber optic wires to cell sites and to FiOS, not to the maintain the state’s copper networks

“Verizon New York’s claim of making over a ‘billion dollars’ in 2011 capital investments to its landline network is misleading. In fact, roughly three-quarters of the money was invested in providing transport facilities to serve wireless cell sites and its FiOS. Wireless carriers, including Verizon’s affiliate Verizon offering wireless, directly compete with landline telephone service and the company’s FiOS is primarily a video and Internet broadband offering....Therefore, only a fraction of the company’s capital program is dedicated to supporting and upgrading its landline telephone service.”

But, unknown to the Attorney General, by 2012, Verizon was no longer building out FiOS, and had focused almost exclusively on the illegal use of the utility construction budgets for wireless.

5) Verizon Management told investors that Verizon’s wireless networks were being built via the wireline construction budgets.

In 2012, Fran Shammo, former Verizon CFO [told investors](#) that the wireless company’s construction expenses have been charged to the wireline business.

“The fact of the matter is Wireline capital — and I won’t get the number but it’s pretty substantial — is being spent on the Wireline side of the house to support the Wireless growth. So the IP backbone, the data transmission, fiber to the cell, that is all on the Wireline books but it’s all being built for the Wireless Company.”

This is now called “One Fiber” and it is done to hide the transfer from wireline to wireless.

6) It appears Verizon has no intention of finishing New York fiber optic deployments.

Verizon Communications, Inc, the holding company's 2019 Annual Report (as opposed to the Verizon NY, state-based annual report) did not even mention any obligations pertaining to wired fiber optic wired services, or that there are state utilities.

“We are focusing our capital spending on adding capacity and density to our 4G LTE network, while also building our next generation 5G network. We are densifying our network by utilizing small cell technology, in-building solutions and distributed antenna systems. Network densification enables us to add capacity to address increasing mobile video consumption and the growing demand for IoT products and services on our 4G LTE and 5G networks.”

7) Investigate the Billion + in Overcharging and Cross Subsidies We estimate that Verizon NY Local Service was [overcharged an estimated \\$1.1-\\$1.6 billion](#), in just 2019, in just New York , including NYC. (This is the low number.)

- Verizon New York has shown losses of over \$2 billion for most years over the last decade, almost all created by “Local Service”,
- Local Service was charged over \$1/2 billion in “Corporate Operations” expense, 61% of the total Verizon assigned to NYS.
- In 2017, Local Service was charged \$1.8 billion, 61% of the total for this line item.
- Local Service was charged \$205 million, 54% of the total, for “Marketing”. When was the last time you saw an advertisement or video commercial for basic copper-based phone service?
- “Local Service” is the basic, wireline, voice-only, copper-wired based business. It was charged \$1.2 billion in “Construction & Maintenance” and has historically actually spent only \$75–\$125 million.
- Verizon New York’s Backhaul had \$1.9 billion in revenues but paid ½ of what Local Service paid for construction or corporate operations expenses and had a 55% profit margin.

Here’s the problem. Local service should not have been paying billions in corporate operations expenses, nor \$1.2 billion in construction or \$205 million in marketing, which means all of this is subsidizing other lines of Verizon’s business instead of having upgraded and maintained the NYS’ infrastructure or finishing Verizon’s FiOS New York City franchise.

8) IRREGULATORS v FCC: Blame it on FCC accounting rules, that are deformed and put the majority of all expenses into the wired utility to make it unprofitable.

It is impossible to explain all of the intricacies of how the FCC accounting formulas became deformed. The [IRREGULATORS took the FCC to court](#) to expose how the rules created this massive financial cross-subsidy scheme. We got the decision we wanted: NY State is now independent of the FCC and can halt all of these cross-subsidies.

If New York is to have an affordable high speed broadband, internet, fiber optic future, the City and State must stop Verizon’s unchecked ability to continue this shell game.

[Click for links](#) to our bios, filings in New York State, and related research and work.