March 17th, 2022

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TO: STATE OF NEW YORK, DEPARTMENT OF PUBLIC SERVICE

RE: MATTER NO. 21-02182 - In the Matter of the Commission's
Broadband Study and Mapping Pursuant to the Broadband Connectivity Act.
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IRREGULATORS to NY STATE: Halt the Verizon Wireless Subsidies: Get Back the Billions that have been overcharged by Verizon, Now.

TELEPHONE CORPORATIONS
ANNUAL REPORT
OF
Verizon New York, Inc.
Exact legal name of reporting telephone corporation changed during year, show also the previous name and date
140 WEST STREET
NEW YORK, N.Y. 10007
(Address of principal business office at end of year)
FOR THE
YEAR ENDED DECEMBER 31, 2020
TO THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

verizon

Verizon New York 2020 Financial Annual Report
Excerpt: Revenues, Expenses and Profits

		Total (b)	Nonregulated (c)	Local Service (f)	Backhaul & BDS (g)
1)	Total Operating Revenues	$ 3,920,536,065	$ 1,103,831,282	$ 1,034,529,443	$ 1,782,175,341
	Operating Expenses				
2)	Construct & Maintainance	$ 2,292,823,022	$ 681,510,905	$ 1,068,343,137	$ 542,968,980
3)	Marketing	$ 268,473,617	$ 40,051,393	$ 144,924,731	$ 83,497,493
4)	Customer Operations	$ 218,760,557	$ 15,791,442	$ 146,298,266	$ 56,670,849
5)	Corporate Operations	$ 1,373,212,407	$ 139,569,189	$ 832,918,318	$ 400,724,899
6)	Total Operating Expenses	$ 5,319,671,559	$ 916,302,836	$ 2,908,134,380	$ 1,495,234,343
7)	Net Operating Revenues	$(1,399,135,494)	$ 187,528,447	$(1,873,604,938)	$ 286,940,997

IRREGULATORS

(This is an excerpt taken directly from Verizon NY 2020 Annual Report, published June 2020.)

THESE COMMENTS HAVE PART 1 and PART 2,

THIS IS PART 1

Verizon, with the help of AT&T and CenturyLink, the 3 holding companies that control the majority of America's state-based telecommunications public utilities, created the Digital Divide on purpose. Verizon NY is the primary NY state public telecommunications utility and it left the entire state infrastructure to deteriorate, and it diverted billions of the construction budgets to illegally fund the wireless business. At the same time, with the help of the other Bell companies, they were able to manipulate the accounting of the state's utility to illegally put billions of expenses directly into one service - Local phone service. At the same time, Verizon was granted multiple rate increases over the last 3 decades to fund fiber optic broadband; in fact, the fiber to the home for FiOS is part of this state utility and was charged to local phone customers -- When Verizon stopped FiOS years ago, it began unlawfully diverting its local service budgets to build out its wireless network -- leaving most of the state with the copper wires that should have been replaced.

These subsidies, cooked books and fraudulent acts have been called to the attention of the NY State PSC by us for over a decade-- which has been captured and negligent – the PSC stood by while Verizon created the Digital Divide. It failed to act in the public interest by allowing and even enabling Verizon's bad conduct. It apparently does not even examine the Annual Reports Verizon files each year with the PSC.

The IRREGULATORS believe it is time to halt the cross-subsidies and to use the money Verizon NY collected from its customers to deliver on the promise of a fiber optic future -- with no government subsidies needed.

- We demand the State start immediate investigations of Verizon NY's financial cross-subsidies and the illegal subsidizing of the wireless business, and the misallocation of billions in corporate operations expenses.
- We demand that the Governor's Office and Attorney General investigate the NY State Public Service Commission for a negligence, and Verizon for fraud and the manipulation of the financial accounting.
- We have submitted primary analyses using Verizon New York Annual Reports, which detailed these cross-subsidies, over the last decade, using experts, auditors and lawyers -- at our own expense-- and they were ignored.
- **There have been no audits of the Verizon NY's books for 2 decades and no 'rate cases', even with 100% rate increases.**

IN SHORT: WE WANT THESE SUBSIDIES HALTED IMMEDIATELY. WE WANT ALL OF THE MONETY THAT WAS SUBSIDIED BACK TO BE USED TO WIRE NY STATE AND NO GOVERNMENT SUBSIDIES.

How Much Money are We Talking About? See Part 2.

Overcharging: A Partial List:

- **Verizon Overcharged Local Service an Estimated $925 Million in Corporate Operations and Marketing Expenses,** in just New York in 2020. It assigned expenses totaling 95% of Local Service revenues. NOTE: We estimate only $50 million of the $977 million ($833 million +$144 million) could be considered legitimate.
- **Verizon NY Local Service was Overcharged an Estimated $1.02 Billion due to the Construction and Maintenance Budget Put into Local Service that it used for its Wireless Network.**
- **Verizon Wireless "Cellco Partners", we estimate owes over $1 billion annually, in construction and payments for the right-of-way** it has been getting in violation of the law for the last decade. Verizon NY's diversion of funds to wireless meant that entire parts of NY state were not upgraded -- causing the Digital Divide.
- **Verizon NY shows losses of over $2 billion a year for the last decade, saving hundreds of millions of dollars in taxes annually.** All of these were caused by the dumping of the corporate expenses, the failure of the wireless company to pay for use of the construction budgets and rights-of-way.

SUMMARY: In short, Verizon NY's misallocations of just the construction and corporate operations, these costs alone, charged to Local Service, were almost $1.9 billion dollars in 2020. This does not include the customer overcharging, tax losses

CONCLUSION: NY State should not be allowed to repeat the mistakes of the past. History tells us:

- **The Digital Divide cannot be fixed with government subsidies**; they will just be captured by Verizon, (and nationwide with AT&T and CenturyLink (Lumen Technologies) the Bell holding companies that have merged to control America's critical wired infrastructure -- which is also used for wireless).
- **There is No Institutional Memory**-- and this current NY State broadband proceeding runs the risk of compounding the felony if more money is thrown at the bad actor, Verizon NY.
- **Start Proceedings for a Just Result -- Separate Verizon from the networks they let to deteriorate.** By 2010, America was supposed have been a fiber optic nation. Verizon et al, multiple times, charged customers for upgrades to the utility plant -- and took the money for their other lines of business.

And their ability to game the regulatory system has to stop now.

Let's add some basic facts that have been ignored:

- **FACT:** Verizon's entire fiber optic deployments to date are part of the existing state public utility. Verizon has classified them as "Title II", common carrier networks, and claims that they are an upgrade of the existing telecommunication networks, thus giving them the ability to get rate increases, as well as the advantage of use of the rights-of-way and other perks.
- **FACT:** Verizon has claimed Title II harms investment. The quote below proves Title II is, in fact, the investment mechanism.
- **FACT:** In 2005-2009, Verizon was granted rate increases for a 'massive deployment of fiber optics' and losses.
- **FACT:** Verizon halted the fiber optic deployment in NY State-- but the State did not adjust rates to reflect that.
- **FACT:** Illegal diverting of the construction budgets to Cellco Partners, the wireless subsidiary, has been going on for over a decade.
- **FACT:** The accounting used by Verizon has been manipulated to do these cross-subsidies and use Local Service as a cash machine.
- **FACT:** These actions created the Digital Divide.

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- **FACT: Verizon's entire fiber optic deployments to date are part of the existing state public utility and was put in as "Title II", common carrier networks.**

> **Verizon New York FiOS Franchise, 2005**
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> **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 State has not once examined this issue, even when we have been urging the PSC and the FCC to investigate Verizon's shoddy manipulations for over a decade.

- **FACT: Verizon has claimed Title II harms investment, directly contradictory to what is in the Verizon franchise agreements.**

This second excerpt is from [Verizon's Open Internet Comments](), July 15, 2014

> "Imposing a Title II common carriage regime on broadband providers would be a radical change in course that would only chill, not spur innovation. Title II is a regulatory dinosaur, crafted eighty years ago — and based on 19th-Century laws regulating railroads — to address the one-wire world of rotary telephones."

- **FACT: In 2005-2009, Verizon was granted rate increases for a "massive deployment of fiber optics" and to compensate the company for the artificial losses it manufactured.**

> This price increase will generate needed additional short-term revenues for Verizon, as the company faces the dual financial pressures created by competitive access line losses and the costs of building out an advanced voice/video/data network in the State. As the Commission has noted, Verizon's financial condition is "relevant" when the Commission considers pricing changes because "the state has an interest in a viable company. This is especially important given the magnitude of the company's capital investment program, including its massive deployment of fiber." "There seems to be little question that the company is in need of financial relief; Verizon [New York] 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%."[3] For 2007, Verizon reported an overall intrastate return of negative 6.24% and an intrastate return on common equity of negative 46.0%.
>
> Moreover, this price change will encourage the migration of customers towards higher-value service bundles, consistent with the trend toward bundled service offerings in the market as a whole.

Massive deployment of fiber was for the FTTP, fiber to the premises of FiOS. As we will discuss, the losses were artificial.

- **FACT: Verizon halted the fiber optic deployment in NY State-- but did not adjust rates to reflect that.**

Verizon's former CFO, Fran Shammo, Verizon Communications Inc. announced at an investor event in 2011 that their planned fiber optic build out, known as FiOS, was completed and that there were no fiber buildout plans for about 6.5 million households in their state service areas.

> "I think that we are very, very satisfied with the portfolio at this point. I can't say that we are actively trying to divest of anything at this point in time. I would say that from a homes passed perspective as we continue with FiOS, we will continue to pass the 18 million homes. We will have about 6 million to 7 million we won't pass at this point. It doesn't mean that we will never pass them. But I think we owe it to our investors at this point to return the investment on where we have put into the ground from a FiOS perspective. Now, having said that, I think that with the wireless, with LTE, I think it brings a lot more opportunity of how we bundle these products to

offer the outside of the FiOS footprint and some innovative things that we can do around LTE, along with the wireline products to create some very specialized bundles for these customers. So, at this point we are not looking to divest anymore."

- Customers paid for the upgrades for 'massive deployment' and this, in and of itself, was illegal if Verizon claims these networks were Title II
- Customers in rural areas never got use of upgraded networks for it but paid for it.

    - **FACT: Illegal diverting of the construction budgets to Cellco Partners, the wireless subsidiary,**

Shut Off the Copper, Force-March Customers to Wireless

These quotes were the start; the rest of this marketing campaign played out throughout the rest of the decade.

"Cut the copper off," Lowell McAdam, Chairman and CEO of Verizon Communications, speaking at the Guggenheim Securities Symposium, June 21, 2012

> "And then in other areas that are more rural and more sparsely populated, we have got LTE [Verizon Wireless] built that will handle all of those services, and so we are going to cut the copper off there. We are going to do it over wireless. So, I am going to be really shrinking the amount of copper we have out there, and then I can focus the investment on that to improve the performance of it."

And Verizon did not make this decision because wireless is a superior technology to fiber. It did so to earn more profits by reducing labor and other costs. The interests of the public did not enter into the equation. Verizon's message to the public has been that 5G and wireless would replace the wired networks; to the investors it is — Get rid of 'labor intensive' activities and lower costs. Lowell McAdam, at the May 24, 2016 event:

> "So if you think about it if I can get we than say a 1000 meters of a business and I give them a router, a basic router that has a 5G service inside it and I'm up and operating immediately, I mean, think about the difference for the carrier in the cost structure; half of our cost to establish high speed data whether it's consumer business is inside the four walls of the business. 'Once you go wireless, you don't have to run co-ax, you don't have to do any of those high labor intensive activities and so you light up service overnight. So then you get into how much capacity do you want and you can — the pricing models can change dramatically'."

SEE PART 2 for more financial details