

Filed Session of May 16, 2013  
Approved as Recommended  
and so Ordered  
By the Commission

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JEFFREY C. COHEN  
Acting Secretary

Issued and Effective May 16, 2013

STATE OF NEW YORK  
DEPARTMENT OF PUBLIC SERVICE

May 1, 2013

TO: THE COMMISSION

FROM: Office of Telecommunications

SUBJECT: CASE 13-C-0107 - Tariff filing by Verizon New York Inc. to grandfather the ISDN Basic Service Individual Message Business Service, Virtual Office ISDN, and ISDN Packages for business customers.

SUMMARY OF

RECOMMENDATION: The Commission should allow Verizon New York Inc. to increase rates for ISDN Basic Services for business customers and discontinue offering the Services to new business customers.

SUMMARY

Verizon New York Inc. (Verizon) filed tariff revisions, effective May 18, 2013, to increase rates for four Integrated Services Digital Network (ISDN)<sup>1</sup> Basic Service offerings used by business customers and to discontinue offering the Services to new business customers. ISDN is a set of communications standards for simultaneous digital transmission of voice, video, data, and other network services over the traditional circuits using the public switched telephone

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<sup>1</sup> The four ISDN Basic Services are: ISDN Basic Service Individual Message Business Service; Circuit Switched Voice (Second); Virtual Office ISDN; and, ISDN Local Usage Packages.

network. More advanced, cost effective, and productive technologies based upon Internet Protocol (IP) offer several advantages that the older ISDN technology does not provide; and, business customers are gradually migrating away from ISDN. Accordingly, it is recommended that the Commission approve Verizon's request to restrict its service offering for its ISDN class of basic services to the business customers currently using the service and to increase its rates for the ISDN Basic Services.

TARIFF FILING

On March 11, 2013, as revised April 18, 2013, Verizon filed revisions to its PSC NY No. 1 - Communications Tariff to grandfather various ISDN Basic Service offerings used by business customers. (The tariff details are shown on Appendix A.) Specifically, Individual Message Rate subscribers to ISDN Basic Service, Circuit Switched Voice (Second) Service, Virtual Office ISDN, and ISDN Local Data Usage Packages will continue to receive the service. Verizon proposes a \$3.00 monthly rate increase for ISDN Basic Service and Circuit Switched Voice (Second) Service, a range of rate increases to various ISDN Local Data Usage Packages, and a \$10.00 rate increase for Virtual Office ISDN. Current and proposed rates are shown on Appendix B.

Verizon contends that ISDN Basic Service is based upon an older technology that provides for the integration of voice and data on a single telephone line. Verizon indicates the demand for this service has declined significantly in recent years, as much as 56% since 2008, as the marketplace has moved to next-generation technologies providing higher bandwidths and a wider range of applications. According to Verizon, Digital Subscriber Line (DSL) and Internet-Protocol (IP) services, such

as private IP network solutions, which Verizon and other service providers offer, have substantially replaced ISDN Basic Service as a data service. Verizon notes that customers continue to have the choice of regular voice grade business lines or Centrex lines with regard to their voice service needs.

Verizon's customer base for ISDN Basic services has declined to approximately 5,500 lines from a onetime peak of 107,000 with new orders for the service drastically reduced. The Company says that the fixed costs associated with providing these services are becoming burdensome as the number of customers declines resulting in ever-increasing costs per customer. Verizon states that these rate increases will motivate ISDN business customers to migrate to alternative newer and improved services, although, at this time, the Company has no plans to discontinue ISDN services for existing customers.

Verizon states that it is sustaining substantial net financial losses in New York, even while continuing to make significant capital investments in its network. The Company asserts that the Commission has recognized in a number of its orders that Verizon's financial challenges warrant increased flexibility to seek additional revenues, where feasible, through retail rate increases. These policy considerations warrant the increase in the rates identified in this filing, according to Verizon.

Verizon notes that competitive alternatives exist for business customers in New York State, referencing its comments submitted on February 25, 2013 in a pending Commission proceeding examining proposed modifications to Verizon's Service Quality Improvement Plan as it applies to business customers.<sup>2</sup>

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<sup>2</sup> Case 10-C-0202, Verizon Service Quality Plan, Notice Requesting Comments on Tariff Modifications and Business Lines (issued January 18, 2013).

PUBLIC NOTICE

On March 25, 2013, the Acting Secretary to the Commission issued a Notice Inviting Comments. No comments were received by the April 18, 2013 deadline for submitting comments. Verizon requests waiver of newspaper publication of the notice of its proposed tariff amendments because it provided direct notice to its customers in bill inserts sent in March 2013.

DISCUSSION

ISDN services, first offered in the early 1990s, are considered outmoded and outdated with slower data transfer speeds of only 128 kilobits per second (Kbps). This is due to the development of new Internet-based Internet Protocol (IP) technologies for integrating various functions and transmitting video and data, at higher speeds in a more cost effective manner. As Verizon noted, other services, such as DSL and IP-based networks, are used in place of ISDN. These alternatives are available from both Verizon and other providers where those other providers are positioned to offer the service.

Verizon's proposed tariff amendments would increase the rates for the four ISDN Basic Services it offers its business customers. Verizon proposes to increase the rate for Virtual Office ISDN Month-to-Month from \$100 to \$110, a 10% increase. This increase is authorized under the pricing flexibility previously granted by the Commission<sup>3</sup> (Verizon's PSC

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<sup>3</sup> Case 06-C-0897 and Case 07-C-0610, Verizon New York Inc. - Pricing Flexibility, Order Denying Request for 25% Pricing Flexibility and Allowing for a 10% Increase to Certain Business Rates (issued January 17, 2008).

No. 1 Tariff, §1.A.10).<sup>4</sup> Accordingly, Verizon does not require additional Commission approval for the Virtual Office ISDN Month-to Month rate increase to take effect.

Verizon proposed rate increases for ISDN Basic Service Individual Message Business Service, Circuit Switched Voice (Second), and ISDN Local Usage Packages exceed the authorized pricing flexibility rate increase because they are greater than 110% of the original rates for these services at the time additional flexibility was granted<sup>5</sup>. Thus, Commission approval is required.

Staff recommends the proposed rate increases be allowed for the following reasons. Verizon's overall financial condition continues to deteriorate. The Company's decline in revenues<sup>6</sup> provides additional support for allowing Verizon to increase its revenues through rate increases to targeted services. This decision is consistent with past Commission decisions to allow similar rate increases over the last few years.<sup>7</sup> The rate increase is reasonable, given the increased costs which Verizon attributes to the maintenance of an out-of-date older service, with diminishing customer interest and

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<sup>4</sup> Verizon's PSC NY No. 1 - Communications Tariff A.10.c states "In accordance with the procedures specified in this Section, any Eligible Rate may be: (a) increased at any time to any level that is less than or equal to 110% of the level of such Eligible Rate as of the effective date of this Section. . . ."

<sup>5</sup> On July 3, 2008 Verizon increased these service rates to the authorized 110% flexibility rate allowed by the Commission.

<sup>6</sup> In its 2011 Annual Report, for its jurisdictional operations, Verizon reported an overall intrastate return of a negative 28.08% and a net loss of about \$1,487,000,000. This information is, however, unaudited.

<sup>7</sup> Tier 2 and Tier 3 Service Order; Case 08-C-0371, Verizon New York Inc. - Rates, Untitled Order\_ (issued May 21, 2008); Case 09-C-0023, Verizon New York Inc. - Rates, Untitled Order (issued March 16, 2009).

demand. Verizon will maintain ISDN services for the business customers that use them, while providing an opportunity for migration to more advanced technological options. In 2004,<sup>8</sup> the Commission authorized Verizon to stop offering similar ISDN services for residential customers.

Consistent with previous Commission orders, it is expected that Verizon will use the revenues it realizes with this rate increase to make the investments necessary for ensuring continued reliability of its services and to make possible the new technologically advanced services that are increasingly demanded by consumers. It is recognized that an incumbent's need to maintain and invest in its network is a valid basis for allowing a rate increase.<sup>9</sup>

Verizon's request here represents one among several requests to increase its revenues, including other tariff amendments seeking rate increases and petitions to retain proceeds from building sales and tax refunds. Revenue increases and past revenue enhancers should be viewed as a proper regulatory response to the financial stress Verizon experiences and that will persist as the Company manages its transition into an increasingly competitive telecommunications market.

Customers received direct notice of the proposed rate increases through bill inserts. Accordingly, exemption of Verizon's proposed tariff revisions from statutory requirements to publish notice of the proposed rate change in a newspaper (Public Service Law §92(2)) is granted for good cause shown.

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<sup>8</sup> Case 04-C-1237, Ordinary Tariff Filing of Verizon New York Inc. to provide for the grandfathering of several business and residential services.

<sup>9</sup> Case 05-C-0616, Transition to Intermodal Competition, Statement of Policy on Further Steps Toward Competition in the Intermodal Telecommunications Market and Order Allowing Rate Filings (issued April 11, 2006), p. 57.

CONCLUSION

Verizon's tariff revisions and price increases to ISDN Basic Service and the other ancillary ISDN services described above are reasonable. Alternatives exist in the marketplace for customers who prefer to subscribe to Verizon's other services or, in some cases, other platforms. Verizon's weakened financial condition combined with the increased costs associated with maintaining ISDN Basic services supports approval of the remaining proposed targeted price increases.

RECOMMENDATION

It is recommended that:

1. Verizon New York Inc.'s proposed tariff amendments relating to ISDN Basic Service for Individual Message Rate business customers, Circuit Switched Voice (Second) Service, Virtual Office ISDN, and ISDN Local Data Usage Packages as discussed in the body of this Order and set forth in Appendix A be allowed to take effect.
2. Verizon New York Inc. be granted special permission allowing the tariff amendments to take effect on less than statutory notice and providing an exemption from the requirement in Public Service Law §92(2) relating to newspaper publication of a notice of the rate changes.

3. This proceeding be closed.

Respectfully submitted,

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ADMINISTRATIVE DETAILS

Filing by: Verizon New York Inc.

Revisions to: P.S.C. NY No. 1 - Communications

Section 2

4<sup>th</sup> Revised Page 113

3<sup>rd</sup> Revised Page 114

2<sup>nd</sup> Revised Pages 115-117

3<sup>rd</sup> Revised Page 118

2<sup>nd</sup> Revised Pages 119-125

4<sup>th</sup> Revised Page 126

2<sup>nd</sup> Revised Pages 135-136

4<sup>th</sup> Revised Page 137

Section 30

8<sup>th</sup> Revised Page 52

7<sup>th</sup> Revised Page 53

4<sup>th</sup> Revised Page 55

5<sup>th</sup> Revised Pages 56-57

Rate Attachment

5<sup>th</sup> Revised Pages 16-17

Issued: April 18, 2013

Effective: May 18, 2013

<b>Rate Element</b>	<b>Current Rate</b>	<b>Proposed Rate</b>	<b>Increase (\$)</b>
ISDN Basic Exchange Service Line	\$12.10	\$15.10	\$3.00
Circuit Switched Voice (Second Appearance)	\$8.47	\$11.47	\$3.00
Optional Local Data Usage Packages:			
20 Hour Package	\$13.20	\$14.70	\$1.50
60 Hour Package	\$31.68	\$34.93	\$3.25
140 Hour Package	\$55.44	\$61.19	\$5.75
Virtual Office ISDN ❖ Per Line, Month-to-Month, Non Recurring Charge	\$100.00	\$110.00	\$10.00

- ❖ The 10% increase to this rate is consistent with the additional pricing flexibility granted Verizon for retail business services in the Commission's January 17, 2008 Order in Cases 06-C-0897 and 07-C-0610.