STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission to Consider the Adequacy of Verizon New York Inc.'s Retail Service Quality Processes and Programs	**Case 16-C-0122**

INITIAL TESTIMONY OF VERIZON NEW YORK INC.
[AS CORRECTED AUGUST 22, 2016 AND OCTOBER 17, 2016]
REDACTED VERSION

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SECOND CORRECTED INITIAL PANEL TESTIMONY OF VERIZON NEW YORK INC.
REDACTED VERSION

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SECOND CORRECTED INITIAL PANEL TESTIMONY OF VERIZON NEW YORK INC.
REDACTED VERSION

I. INTRODUCTION

Q. What is the purpose of this testimony?

A. This testimony: (a) responds to issues raised in the *Instituting Order*[1] related to the quality of service provided by Verizon New York Inc. ("Verizon") and to Verizon's Service Quality Improvement Plan ("SQIP"); and (b) provides certain information that the Commission specifically requested in the *Instituting Order*.[2]

Q. Please identify the members of the Verizon Witness Panel.

A. The members of the Panel are Richard C. Bozsik, Paul B. Vasington, Vincent L. Depasquale, and Sandra K. Anderson.

Q. What role did each member of this Panel play in the preparation of this testimony?

A. While all members of this Panel have reviewed and support this testimony in its entirety, each Panel member assumed primary responsibility for specific segments of the testimony. Each Panel member has relied on the facts and analyses developed by the other Panel members in their areas of primary responsibility.

Q. Which Panel members are primarily responsible for which portions of the testimony?

A. Mr. Bozsik and Mr. Vasington are primarily responsible for the portions of the testimony related to regulatory policy issues, with Mr. Bozsik assuming specific responsibility for

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[1] Case 16-C-0122, "Order Initiating Proceeding to Review Verizon New York Inc.'s Service Quality" (issued and effective March 21, 2016).

[2] Responses to the Commission's information requests are provided in the Appendix to this testimony.

matters related to the history and details of the Commission's service-quality regulatory regime in New York. Mr. Depasquale is primarily responsible for the information on Verizon's performance under the Commission's Part 603 service quality metrics. Ms. Anderson is responsible for the financial accounting data presented in the Panel testimony.

Q. Please describe the current position and background of each member of the Witness Panel.

A. **Mr. Bozsik:** Mr. Bozsik is Verizon's Director — State Regulatory Affairs for New York and Connecticut. He has over 30 years of experience with the Verizon companies — 10 in Engineering and Operations and the remainder in Regulatory Affairs with increasing levels of responsibility. Mr. Bozsik holds a Master's degree in Business Administration from the University at Albany of the State University of New York.

Mr. Vasington: Mr. Vasington is a Director — State Public Policy for the Verizon companies. He holds a Bachelor of Arts degree in Political Science from Boston College and a Master's degree in Public Policy from Harvard University, Kennedy School of Government. Mr. Vasington joined the Verizon companies in 2005. From September 2003 to February 2005, he was a Vice President at Analysis Group, Inc. Prior to that, from May 2002 to August 2003, he was Chairman of the Massachusetts Department of Telecommunications and Energy ("MDTE"). He also served as a Commissioner at the MDTE from March 1998 to May 2002. From August 1996 to March 1998, he was a Senior Analyst at National Economic Research Associates, Inc. Before that, he served in the Telecommunications Division of the Massachusetts Department of Public Utilities, first as a staff analyst from May 1991 to December 1992 and then as division director from December 1992 to July 1996.

Mr. Depasquale: Mr. Depasquale is a manager in the Verizon companies' Wireline Field Organization, and is responsible for regulatory reporting and compliance in the states of New York, Massachusetts, Rhode Island, and Connecticut. His work currently focuses on service quality reporting. Mr. Depasquale has over 28 years' experience with Verizon and its predecessor companies, having held various positions in operations as well as regulatory reporting and compliance. Mr. Depasquale heads the Verizon companies' Northeast Quality Assurance Team, which oversees regulatory compliance in the area of service reporting and which partners with Regional Operations teams to improve customer service.

Ms. Anderson: Ms. Anderson is a Senior Manager in the Verizon companies' Corporate Accounting group, and is responsible for regulatory reporting and accounting issues. She has over 30 years' experience with Verizon and its predecessor companies, and has held various positions focusing on regulatory accounting matters, jurisdictional cost allocations, and financial reporting. Ms. Anderson has previously testified in regulatory proceedings in New York, Connecticut and Maine. She is a C.P.A. licensed in New York State.

Q. Please identify the premises underlying the *Instituting Order*.

A. The *Instituting Order* is rooted in four key premises:

1. that the Commission's adoption of the SQIP was based on the assumption that Verizon's Fiber to the Premises ("FTTP") footprint would continue to expand;

2. that available data shows that Verizon's current service quality performance is inadequate;

3. that competitive mechanisms may not be operative for Verizon's customers — specifically, that "certain non-Core customers are not exercising choice"[3]; and

4. that changes in Verizon's FTTP-expansion plans, its service quality performance, and competitive responses by its customers, warrant re-assessment of the SQIP.

Q. Are those premises valid?

A. No. As we show in the remainder of this testimony, those premises are not supported by the facts or by sound public policy considerations.

Q. Please summarize your testimony.

A. In Section II, we identify the five key factual conclusions and policy judgments on which the SQIP was based, and explain how the SQIP reflected the changed realities of the New York telecommunications marketplace. In Section III, we show that those factual conclusions and policy judgments remain valid, and weigh heavily against significantly altering or expanding the scope of Verizon's obligations under the SQIP. In Section IV, we show that Verizon continues to invest heavily in its network infrastructure in New York, including its copper infrastructure. In Sections V and VI, we provide detailed data on Verizon's performance under the SQIP, as measured by a variety of service-quality metrics. Based on that data, we demonstrate that Verizon has provided excellent and

[3] *Instituting Order* at 2.

steadily improving service quality since the SQIP was first put in place in 2011, and that there is no basis for the claim that either the quality of Verizon's service, or the company's network, is deteriorating under the SQIP. In Section VII, we show that Verizon's decision not to further expand its FTTP footprint does not provide any sound reason for modifying the SQIP. In Section VIII, we examine certain "remedial" proposals that have been floated at various times by CWA, the Connect New York Coalition, or others, and show that, even if the Commission does identify any service quality deficiencies in this proceeding, the proposals would still be inappropriate.

Our overall conclusion is that the Commission should allow the SQIP to remain in effect without change.

II. THE SQIP WAS BASED ON COGENT COMMISSION POLICIES REFLECTING THE CHANGED REALITIES OF THE NEW YORK TELECOMMUNICATIONS ENVIRONMENT

Q. Please describe the service-quality regulatory regime that was in place in New York prior to the SQIP.

A. The pre-SQIP regime goes back to the 1970s, and reflects outdated facts, assumptions, and policies applicable to a monopoly era characterized by rate-of-return regulation. (The Commission adopted its original Telephone Service Standards over 40 years ago, in

1973,[4] and the closely-monitored OOS>24 metric, with a ≤ 20% performance level, was adopted 27 years ago, in 1989.[5])

Prior to the SQIP, Verizon was required to report its performance under all 10 of the service quality metrics set forth in Part 603 of the Commission's regulations, each month, and (in the case of timeliness-of-repair and certain other metrics) for each of 28 measurement areas in the State. The company reported Customer Trouble Report Rate ("CTRR") data for over 500 Central Office Entities ("COEs"), together with various summary CTRR statistics. Verizon was the *only* company among numerous competing providers in the State that was required to report the full panoply of detailed service quality performance data set forth in Part 603.[6] Verizon's primary landline market adversaries — the cable companies — operated (and continue to operate) essentially free of Commission economic regulation, and thus were not required to report data on the quality of their voice services to the Commission at all. Even the company's regulated competitors were required to report only the CTRR metrics.[7] As a result, Verizon had far less flexibility than any of its competitors in managing its service offerings and its network operations. Verizon alone faced adverse public scrutiny when it failed to meet

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[4] Case 26158, "Opinion and Order Adopting Telephone Service Standards" (Op. No. 73-40) (issued November 26, 1973).

[5] *See* Case 26158, "Memorandum and Resolution" (issued and effective August 7, 1989), Appendix at 20 (instituting monitoring of Maintenance Service – Clearing Time – Percent OOS over 24 hours, with an "Objective" level of 0.0 – 20.0%).

[6] *See* Case 10-C-0202, "Order Directing Verizon New York Inc. to File a Revised Service Quality Improvement Plan" (issued and effective June 22, 2010) ("*June SQIP Order*"), at 2 n.2; 16 NYCRR § 603.4(c).

[7] *See* 16 NYCRR § 603.4(c)(1). Indeed, regulated providers with fewer than seven central offices in the State were and are required to report only one of the CTRR metrics. *Id.*

service metrics that may not have been closely correlated with customer satisfaction — a fact that created a misleading impression of the quality of its service relative to that of other providers.

Q. What changes were made to this regime as a result of the Commission's adoption of the SQIP?

A. The SQIP changed the regulatory regime in a number of important ways.[8]

Perhaps the most significant of these changes related to the two timeliness-of-repair metrics — OOS>24 (which measures the percentage of reported out-of-service troubles not cleared within 24 hours), and SA>48 (which measures the percentage of reported service-affecting troubles not cleared within 48 hours).[9] (An example of a service-affecting trouble is static on the customer's line.)

First, under the SQIP, Verizon's reporting obligations for these two metrics were limited to "core" customers — a category that generally speaking consists of Lifeline subscribers, the elderly, blind, or disabled, and customers who live in areas of the State that were determined not to have wireline competitive alternatives to Verizon's service.[10]

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[8] *See generally June SQIP Order, supra;* Case 10-C-0202, "Order Adopting Verizon New York Inc.'s Revised Service Quality Improvement Plan with Modifications" (issued and effective December 17, 2010) ("*December SQIP Order*"); Case 97-C-0139, "Notice of Revised Uniform Measurement Guidelines" (issued January 31, 2011).

[9] The performance standard for these metrics is ≤20%; that is, Verizon is expected to clear at least 80% of reported OOS troubles within 24 hours and at least 80% of reported SA troubles within 48 hours.

[10] In addition to the core-customer categories defined by the Commission in its SQIP orders, Verizon gives temporary core-customer status to customers who identify themselves as having a special need (such as a serious

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Second, the Commission excluded from the computation of repair time for purposes of these two metrics any extensions of the 24- and 48-hour periods that the customer had requested or accepted.

Third, the 28 geographic reporting areas were consolidated into five.

Fourth, the Commission indicated its intention to seek assessment of a statutory penalty of up to $100,000 pursuant to §§ 24 and 25 of the Public Service Law for each time Verizon failed to meet its performance standard under the modified timeliness-of-repair metrics.

Q. Were changes made to other metrics by the SQIP?

A. Yes. The obligation to report four metrics was eliminated altogether. These were the two metrics related to service installation times, and the metrics for business-office and operator-assistance answer times. (The metric for repair-call answer times remains in place.)

Reporting obligations and performance standards for other metrics, including the highly significant CTRR metrics, remained unchanged. In particular, the "core customer" limitation applies solely to the two timeliness-of-repair metrics, OOS>24 and SA>48, and has no relevance to the CTRR metrics, which are the primary metrics that reflect the general health and reliability of the network. Thus, the CTRR metrics measure the level

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illness) at the time they report a trouble condition. Between April 2015 and March 2016, the percentage of core-customer trouble reports that have been submitted by temporary core customers ranged from 16% to 25%.

of performance provided to *all* of Verizon's customers that purchase the regulated "Plain Old Telephone Service" ("POTS") service that is governed by the Part 603 metrics.

Q. In summary, then, what metrics is Verizon required to report under the SQIP?

A. Verizon is required to report on two timeliness of repair metrics — OOS>24 and SA>48; two CTRR metrics (percent COEs with a CTRR ≤ 3.3 and percent COEs with a CTRR ≤ 5.5); a repair-office answer-time metric; and a trunk blockage metric. All of these metrics are reported monthly.[11] OOS>24 and SA>48 are reported for each of five regions; the CTRR metrics are statewide; the answer-time metric is reported by the administrative entity in the State that handles repair calls; and trunk blockages are reported on a statewide basis.

Q. What were the Commission's rationales for adopting the SQIP?

A. The Commission's SQIP orders identified five key factual and policy considerations that warranted adoption of the Plan.[12]

The first was the widespread availability of competitive alternatives and the high levels of customer migration to those alternatives. The SQIP — by significantly streamlining service quality reporting requirements — advanced the Commission's forward-looking

[11] In accordance with Staff's reporting guidelines, trunk blockages are reported monthly for overlapping three-month periods.

[12] *See generally June SQIP Order and December SQIP Order, supra; see also* Case 10-C-0202, "Order Resolving Petition and Requiring Further Investigation" (issued and effective January 18, 2013) ("*AG Petition Order*").

policy of "allow[ing] competition to set the level of service quality wherever possible."[13] For example, as noted, the Commission eliminated four metrics that were clearly not necessary or appropriate in a highly competitive environment.[14]

A second factor was the unique asymmetrical burdens that the pre-SQIP regulatory regime placed upon Verizon — burdens that undermined competition on a level playing field.[15]

A third factor was the Commission's recognition of the fact that Verizon faced severe challenges that limited its ability to meet fixed and comprehensive service quality standards as its financial position in the State became increasingly strained by competitive revenue losses and the high fixed costs associated with operating a landline network. Those financial realities — combined with robust competition that gave virtually all consumers a choice of providers — clearly warranted a new approach to service quality regulation.[16]

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[13] *June SQIP Order at 2. See also AG Petition Order* at 4 (in directing Verizon to revise earlier version of its SQIP proposal, Commission "sought to apply its long-standing policy of adapting telephone regulation to the needs of an increasingly competitive market." [footnotes omitted]); *id.* at 18 ("To the extent competitive forces exist and non-Core customers have the ability to choose alternative telecommunications providers, less need exists for similar regulatory protections.").

[14] *See June SQIP Order* at 9 (discussing installation and non-repair answer time metrics).

[15] *See* Department of Public Service Staff, "Verizon Service Quality: First Quarter 2012" (filed May 17, 2012), at 7 (SQIP moved "closer to comparable treatment for competing providers, thereby allowing the market to dictate service quality."). *See also* Case 10-C-0202, News Release, "Greater Competitive Flexibility Considered for Verizon — Possible Reporting Changes Designed to Keep Pace with Dynamic Telecom Industry" (issued June 17, 2010), at 1 (SQIP will give Verizon "flexibility to compete in the market").

[16] *See, e.g.*, *AG Petition Order* at 20 ("financial losses due to competitive alternatives have made it increasingly difficult for Verizon to invest in its copper network and meet its service quality standards for all customers.").

Fourth, the SQIP recognized that technology had changed the way customers think about telephone service. In an era increasingly dominated by wireless service, many customers faced with out-of-service or service-affecting conditions on their landline phones would prefer to defer service appointments to more convenient times, and to use their cellphones in the interim, rather than staying at home to wait for a dispatch made in accordance with a rigid 24- or 48-hour schedule compelled by a Commission regulation. Accordingly, as noted above, the SQIP modified the time periods for closing out certain troubles where the customer requested or accepted an alternative repair date.[17]

Finally, the Commission made the reasonable policy judgment that the best way to respond to the rise of competition and the increasing financial pressures on Verizon was to implement a priority-based focus on "core" customers — that is, those customers who live in areas without wireline competitive alternatives, or who are uniquely vulnerable as a result of age, poverty, or disability.[18] This strategy focused the Commission's

[17] *See June SQIP Order* at 10-11.

[18] *See June SQIP Order* at 2 ("Overall, based on a consideration of the availability of competitive choice in New York, we find that additional flexibility in our service quality oversight is warranted. However, the Commission needs to protect 'core customers' who cannot rely on competition to establish the appropriate level of service quality." [footnote omitted]). *See also id.* at 12; *December SQIP Order* at 3 (Commission had "concluded that for many customers, there was a diminishing need for regulatory action to ensure timely repairs due to the prevalence of competitive telecommunications alternatives. Rather, regulatory consideration should be focused on so-called 'core' customers (i.e., those customers who have no competitive choices or who have other special needs)."); *id.* at 14 (identifies "underlying premise" that "Commission regulation of service quality should focus on the protection of customers who either lack competitive choice or who have other special needs that render them in need of government protection"; SQIP "complies with this overarching principle"); *AG Petition Order* at 2 (identifies "underlying premise in support of the SQIP" as protection of "Verizon's wireline residential customers most in need of protection in the face of declining resources and increasing competition."); *id.* at 18 ("Our underlying rationale for adopting the SQIP involved a focus of our regulatory enforcement on customers that most needed regulatory protection.").

regulatory oversight on the areas where it concluded that oversight was most needed, and allowed consumer choice to drive service quality for the remainder of customers.

III. THE FACTUAL AND POLICY RATIONALES FOR THE SQIP REMAIN VALID AND WEIGH HEAVILY AGAINST ANY RETURN TO THE PRE-SQIP REGIME

A. COMPETITION

Q. Please comment on the continuing relevance of the Commission's conclusions, in its SQIP orders, concerning the competitive environment.

A. Competition for voice telecommunications services remains robust, and indeed has expanded significantly since the Commission instituted the SQIP. The availability of competitive alternatives is expanding, and customers are migrating to such alternatives in large numbers. Thus, the Commission's policy of "allow[ing] competition to set the level of service quality wherever possible" remains valid and relevant.

In comments filed with the Commission in October 2015 in Case 14-C-0370, Verizon pointed out that at year-end 2000, the company provided nearly 12 million local exchange access lines to its customers, but that that number had declined to well under three million by year-end 2014.[19] In 2015, access line counts declined by an additional 11%, to approximately 2.4 million, and the trend is continuing in 2016.

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[19] Verizon Annual Reports to the Public Service Commission for 2000 and 2014, Schedule 61. *See also* Case 14-C-0370, Department of Public Service, "Assessment of Telecommunications Services" ("*Staff Assessment*"), at 2, 7, 9 n.16, 11-13 (discussing competitive alternatives that have emerged or expanded in recent years and the resulting loss of market share by traditional telephone companies such as Verizon); *id.* at 29 (noting that the "most significant growth in the Lifeline service category . . . is evident in the consumer adoption of wireless Lifeline service"); FCC, Wireline Competition Bureau, Industry Analysis and Technology Division, "Voice Telephone Services: Status as of December 31, 2014 (March 2016), available at https://www.fcc.gov/voice-telephone-

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Recent reports also confirm that customers are continuing to switch from household landline voice service to wireless alternatives. The United States Centers for Disease Control and Prevention ("CDC") conducts semi-annual surveys to determine the level of wireless substitution.[20] The latest CDC survey determined that, as of July-December 2015, nearly one-half of American homes (48.3%) had only wireless telephones, and an additional 14.5% received all or almost all calls on wireless telephones. In other words, in 63% of American households, wireless phones are either the exclusive or predominant form of voice communication. The CDC survey also showed that wireless substitution is more pronounced among those below the age of 30 and those living in poverty, and that the number of wireless-only adults has increased for all measured age groups, including adults over 65:[21]

- More than two-thirds of adults aged 25-29 (72.6%) and 30-34 (69%) live in households with only wireless telephones, and even for those aged 65 and over, more than one out of five (20.5%) live in households with only wireless telephones.

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services-report ("*Voice Telephone Services Report*"), Fig. 1 (at end of 2014, traditional switched access lines made up 16% of total retail voice telephone service connections); NY PSC, Press Release, "PSC Seeks Comment on Telecommunications Assessment" (June 23, 2015) (comparing the situation today with that prevailing a decade ago, and noting that: (a) "New York had 12 million traditional landline connections in service[]. Today, less than 4 million lines." (b) "New York had more than 5 million wireless telephones in service. Today, nearly 21 million wireless phones in service — five times more than traditional landlines." (c) "New York had fewer than a million New Yorkers subscribed to telephone service over . . . cable lines. Today, nearly 5 million customers subscribe to Internet Protocol (IP) phone service instead of traditional phone service." (d) "New York had less than 2 million broadband connections serving New York consumers, primarily over telephone and cable systems. Today, some 19 million broadband connections are in service, provided to consumers over a wide range of technology platforms and network providers.").

[20] U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, "Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, July-December 2015" (released May 2016) (available from http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201605.pdf) (finding that "the number of American homes with only wireless telephones continues to grow").

[21] *Id.* at 2-3.

- Adults living in poverty (64.3%) and adults living near poverty (54%) are more likely than higher income adults (45.7%) to be living in households with only wireless telephones.

Q. Please comment on the *Instituting Order*'s assertion that "the pace of the Company's access line losses has recently slowed down and fewer customers (both Core and non-Core) are leaving its network."[22]

A. The rate of access line loss in 2014 and 2015 — in both cases about 11% — is generally consistent with the line-loss levels of between 10% and 12% that have prevailed since 2005. The only exceptions were 2012 and 2013, which showed higher levels of between 13% and 15%. But that provides no reason for viewing the levels in the last two years as a "slow[ing] down" of competitive line losses; indeed, it would be more reasonable to view the 2012 and 2013 declines as anomalies perhaps attributable to the immediate and lingering effects of Superstorm Sandy or to other causes, and the 2014 and 2015 levels as a return to an established long-term trend. (The trend for the first six months of 2016 is consistent with an annualized decline of between 10% and 11%.) The FCC observes that the national rate of retail switched access line loss over the three years from 2011 to 2014 was 12%.[23]

In any event, a consistent annual decline of at least 11% in the demand for a company's services can hardly be ignored as trivial; nor can it reasonably be interpreted to create any doubt as to whether Verizon's customers "will or are able to exercise competitive

[22] *Instituting Order* at 6-7; *see also id.* at 9-10.

[23] *See Voice Telephone Services Report* at 2.

options."[24] Clearly, they *are* able to exercise competitive options and *are* actually exercising them.

Q. If Verizon's line losses could be shown to be slowing down, would that indicate any failure of competitive mechanisms?

A. No. If line loss rates were in fact declining, it would be more reasonable to conclude that more customers are finding that Verizon services meet their needs and expectations better than the alternatives. In other words, it may be the case that Verizon's efforts to retain and compete for its customers are working to reduce the rate of migration away from Verizon's traditional services, and that these trends are simply more proof that Verizon has, and is acting on, incentives to compete. That is not a failure of competition, but rather the normal operation of competitive mechanisms.

The *Instituting Order* makes a fundamental mistake in viewing a customer's decision to remain with Verizon as somehow outside of the normal workings of competition, as a market failure, or as evidence of an inability to change carriers. The reality is that choosing to stay with Verizon is just as valid an exercise of customer choice as choosing to move to an alternative provider. When customers have choices, the choices they make should be respected, not questioned as if they are somehow not able to assess their own needs and wants in a competitive marketplace.

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[24] *Instituting Order* at 10. For example, an 11% annual customer loss would result in a loss of 44.2% of a business' customers within five years and a loss of 68.8% within ten years.

The *Instituting Order* also ignores or misunderstands the fact that observable competitive activity always takes place at the margin — that is, based on the behavior of consumers who are *most* likely to switch providers. In every competitive market, there are certain "infra-marginal" customers who, for whatever reasons, do not as readily switch providers, but the mere presence of such customers does not mean that the market is not competitive or that the service in question needs to be regulated. These infra-marginal customers benefit from competition because other customers may switch to competing products if a provider were to price above market or to provide sub-standard quality compared to available alternatives. In this way, infra-marginal customers benefit from the competition in which they might not participate themselves.

However, even infra-marginal customers quickly become marginal customers. If Verizon were to overprice its services to these customers or not deliver service at the quality levels they demand, it is likely that no matter how long such customers have remained with Verizon, and no matter how satisfied they have been in the past, those customers will take their business to a different provider that may better meet their needs.

In short, whatever success Verizon has in retaining customers should not be interpreted as proof that no effective competition exists in the market.[25]

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[25] In paragraphs 130-146 of a report filed by Verizon on October 23, 2015 in Case 14-C-0379, Dr. John W. Mayo demonstrated empirically that classes of customers traditionally classified as vulnerable are in fact willing and able to migrate to alternative providers.

Q. Is there any basis for the *Instituting Order*'s concern that "there may be an unwillingness on the part of Verizon to compete to retain and adequately serve its regulated wireline customer base."[26]?

A. No, there is not. First, the premise of this conclusion — that Verizon is failing to provide adequate service quality to non-core customers, notwithstanding the existence of robust competition — is simply incorrect, as demonstrated later in this testimony.

Second, even if that premise were true, there would be no basis for equating a failure to meet service quality metrics and performance standards that have their origin in the monopoly era of the 1970s with a failure to meet consumer expectations in today's robust competitive market. For example, as the Commission itself recognized in its SQIP orders, the availability of cell phone service has made customers increasingly unwilling to stay home to have their landline service repaired; this in turn has changed customer expectations concerning repair time frames.

Third, the Commission's analysis implicitly assumes that an incentive to retain customers is the only variable that determines whether service quality standards are met. But it is a rare industry in which the situation is that simple. Indeed, service quality concerns are prevalent in a number of manifestly competitive industries, such as air travel and automobile manufacturing, where industry performance is affected by more than just the incentive to provide quality service. In such industries, as in telecommunications, a failure to meet service standards (whether imposed by regulation or by customer demand)

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[26] *Instituting Order* at 10.

may be due to the business challenges that such standards present, and not to any unwillingness to compete.

Q. With respect to Verizon, what business challenges are you referring to?

A. Verizon faces business challenges with respect to the provision of regulated telecommunications services in New York as a result of having to make necessary expenditures and investments to compete, while at the same time managing a decline in demand and revenues associated with competition, and incurring the significant fixed costs associated with providing service over a mostly copper network.

In such an environment, Verizon's failure in some cases to meet regulatory service quality performance standards — or even customer expectations — is certainly not the result of any lack of incentives. Verizon has a strong financial incentive to compete to retain current customers.

Q. Please explain that financial incentive.

A. Loss of customers to a competing service provider can have a significant financial effect on Verizon because telecommunications, like other network industries, is one in which a large portion of costs is fixed and a smaller portion is variable. What this means is that at the margin, revenue losses from competition will outpace reductions in expense from reduced demand. For a firm facing this condition, even small losses of volume to competitors can result in a large reduction in profits.

Q. How can this be demonstrated?

A. A simple comparison of average revenues lost when a customer leaves Verizon to the types of costs that Verizon avoids demonstrates that the lost revenues are significantly greater than the shed costs. In short, losing a customer reduces Verizon's overall profits.

Q. What categories of lost-revenue were included in your comparison and what is the average monthly revenue for Verizon that is lost when a customer moves to a different provider?

A. The *Instituting Order* expressed concerns primarily about non-core customers in areas where Verizon has not deployed its FTTP network, so the service we analyzed for this comparison is residential basic exchange service ("RBES"), which consists of an access line and local usage.[27] The revenues Verizon derives (not including what Verizon collects for government fees and taxes) from RBES include the dial-tone line charge ("line"), the federal Subscriber Line Charge ("SLC"), and charges for local usage. This list actually understates the revenue that Verizon receives because it does not include net revenues from vertical features (*e.g.*, Caller ID), intra- and inter-state toll usage, and other services. The revenues from the included services are shown below.

Rate Element	Monthly Revenues
Line	$15.80
SLC	$6.46
Local Usage	$7.20
TOTAL	$29.46

[27] The monthly flat-rated usage charge was used for this analysis.

Q. Please identify the specific categories of cost that Verizon might avoid as a result of a customer's decision to leave the company.

A. For any individual customer, Verizon does not avoid any costs, other than the monthly cost of rendering one bill, if that customer leaves for another company. The company may also shed the costs associated with handling repair calls and dispatches for that customer, but that cost would have to be weighted by the likelihood that a customer will experience an out-of-service or service-affecting trouble in a given month, which, based on the company's overall CTRR, is in the range of 1.5% to 2%. Therefore, the short-term avoided costs associated with a customer's decision to change carriers are minimal.

Only over time and with a larger volume of line loss does Verizon start to reduce some partially variable costs, such as incremental labor, product management, accounting, and customer service costs. Network costs generally are not reduced, except potentially some costs associated with the drop wire to the customer location and network interface device. The geographic scope of Verizon's network does not change, no matter how many customers we lose. For example, even if we lose three-quarters of the customers in a particular community, those customers will not all live on the same street or in the same neighborhood. Verizon has to maintain its local distribution network of poles and wires running throughout a community, as well as a central office and often remote terminals, in order to serve the dispersed customers who remain with us.

Q. What conclusions do you draw from this assessment?

A. It is clear that Verizon has a strong financial incentive to compete — and thus to spend and invest to retain its copper-served customers in non-FTTP areas. This is corroborated by Verizon's actual behavior. As we discuss below, Verizon continues to spend and to invest in its copper network in New York. Also, in other states where Verizon has been granted the legal authority to withdraw its basic service offerings, Verizon has never exercised that right. The above analysis shows why and shows that allegations suggesting lack of interest on the part of Verizon in retaining its customers are false.

Q. Given the existence of robust competition, did the Commission make the correct policy judgment in allowing competition to control service quality for non-core customers?

A. Yes, and that judgment was and is consistent with the overall course that the Commission has charted concerning the regulatory response to competition in its trilogy of competition orders, including particularly the 2006 *Competition III Order*:

> [T]he importance of some service quality metrics diminishes with the availability of choice. Customers not satisfied with how quickly their calls are answered or how long it may take to get service installed may choose another provider. In an environment with such choices, service quality becomes more sensitive to competitive pressures in meeting consumer service needs, and *related regulatory mandates must be more carefully tailored*.[28]

As long as customers have choices, the market for communications services is the best "regulator" of service. Market forces are the best means of ensuring that carriers deliver the myriad price and quality results that consumers demand in the competitive

[28] Case 05-C-0616, "Statement of Policy on Further Steps Toward Competition in the Intermodal Telecommunications Market and Order Allowing Rate Filings" (issued and effective April 11, 2006) ("*Competition III Order*"), at 89 (footnote omitted and emphasis supplied).

marketplace; and in fact they are doing so. At page 6 of its *Competition III Order*, the Commission recognized the potential harm of applying regulation where it is not needed, especially when it is applied asymmetrically: "Indeed, some regulations, particularly when applied asymmetrically, can be detrimental to the innovation in pricing and services that occur as a result of true competition."

Verizon has strong market incentives to provide good service quality to all of its customers, including core and non-core, and the Commission, through the SQIP, has correctly relied on competition, choice, and market incentives to control service quality for non-core customers.

B. Regulatory Asymmetry

Q. Does the SQIP's concern with regulatory asymmetry remain relevant?

A. Certainly. Even under the SQIP, Verizon remains subject to service quality monitoring and oversight at a level well beyond that imposed on its competitors. Just as was the case in 2010, the quality of service provided by cable companies is not subject to routine Commission oversight,[29] and the CTRR remains the only metric monitored for competing CLECs. Of course, the disparity would only increase if the SQIP were terminated or significantly scaled back and Verizon were required to report on the full panoply of Part 603 regulations. (In light of the Commission's success in allowing market forces to drive

[29] This situation is not materially changed by the fact that in 2013 Time Warner Cable voluntarily agreed to comply with the Commission's service quality reporting requirements in connection with seeking ETC status and associated Lifeline subsidies. TWC is not subject to the SQIP's penalty provisions if it fails to meet timeliness-of-repair standards.

competition for telephone services, achieving regulatory parity by adding additional regulatory burdens to Verizon's competitors would clearly be a substantial step in the wrong direction.)

C. FINANCIAL CHALLENGES FACED BY VERIZON

Q. In January 2013, in the *AG Petition Order*, the Commission noted that "financial losses due to competitive alternatives have made it increasingly difficult for Verizon to invest in its copper network and meet its service quality standards for all customers." Is this still the case?

A. Yes. As noted previously, Verizon has lost and continues to lose substantial numbers of customers as a result of competition. This has resulted in a significant decline in local service revenue.

Moreover, because of the inherent characteristics of network-based industries, and because of Verizon's continued network investment, the size, scope, and costs of Verizon's network have not been reduced in proportion to declining demand. Indeed, Verizon's net telecommunications plant *increased* by approximately 2% between 2008 and 2015.[30]

As a result of these trends, Verizon's net income in New York is and has been "underwater" by a substantial amount. In examining Verizon's net income based upon the financial data that it reports annually to the Commission, two facts must be

[30] Verizon Annual Reports to the Public Service Commission, Schedule 11, Page 16, Line 45.

considered. First, net income as reported in Verizon's financial reports to the Commission includes income earned by Verizon subsidiaries,[31] such as Verizon Long Distance LLC, a separate entity that provides nationwide long-distance services. Second, because of a change in accounting for pensions and other post-employment benefits implemented in 2010, Verizon's historical net income data must be normalized to provide comparable data from year to year.

Q. Please explain that change.

A. Consistent with generally accepted accounting principles, Verizon's net income reflects the immediate recognition of actuarial experience and market gains or losses for the funds that support pensions and other post-retirement benefits for Verizon employees and retirees.[32] This accounting methodology improves the transparency of the plans' operating performance, but also results in greater volatility in operating expenses when compared to the averaging methodologies previously used. The actuarial gains/losses and actual returns on plan assets are determined by market and investment trends rather than by any trends in competition or other operational aspects of Verizon's voice telephony business.

Q. What is Verizon's net income when the data is normalized to exclude the impact of subsidiary income and the new accounting methodology for benefit plans?

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[31] In accordance with FCC and State accounting rules, Verizon accounts for its investment in subsidiaries on the equity method. Thus, affiliate earnings are reflected as a one-line income item in Account 7355, Equity in Earnings of Affiliated Companies. (*See* Verizon Annual Reports to the Public Service Commission, Schedule 12, Line 22.) Verizon's subsidiaries are identified in Schedule 5.

[32] These amounts are included in Other General & Administrative Expense, Schedule 44, Line 90.

A. The following table shows Verizon's net income for 2008 through 2015, excluding the effects of subsidiary earnings and the actuarial and market gains/losses of benefit plans:

TABLE 1
VERIZON ADJUSTED NET INCOME 2008-2015

[BEGIN CONFIDENTIAL]

YEAR	NET INCOME
2008	[redacted]
2009	
2010	
2011	
2012	
2013	
2014	
2015	

[END CONFIDENTIAL]

In short, the company is *losing about a billion dollars annually* in New York.

A similar trend is demonstrated by the company's cash flows. Looking at the 2008 through 2015 time period, capital expenditures exceeded cash from operations by $4.8 billion on a cumulative basis, with an average shortfall of $600 million per year.[33]

In other words, Verizon has consistently paid out more — and, in many years, substantially more — cash in support of its investment in its telephone plant in the State than it received from operations.

Q. How was Verizon able to sustain levels of investment that could not be fully supported by cash from operations?

[33] Verizon Annual Reports to the Public Service Commission, Schedule 13.

A. Verizon has been forced to substantially increase its borrowings from affiliated companies. Its level of Notes Payable to Affiliated Companies increased from $2.8 billion in 2008 to $8.2 billion in 2015. Not only did Verizon need cash to support its construction program, it also needed cash to meet over $1.6 billion in bondholder debt obligations that came due during the period.

D. CHANGES IN CUSTOMER BEHAVIOR DUE TO UBIQUITOUS USE OF CELL PHONES

Q. You noted earlier in this testimony that "the SQIP recognized that technology had changed the way that customers think about telephone service. For example, in an era increasingly dominated by wireless service, many customers faced with out-of-service or service-affecting conditions on their landline phones would prefer to defer service appointments to more convenient times, and to use their cellphones in the interim, rather than staying at home to wait for a dispatch made in accordance with a rigid 24- or 48-hour schedule compelled by a Commission regulation." Is this factor still relevant?

A. Yes. Cell phone use levels remain high, as demonstrated by CDC data and other information discussed above.

Moreover, there is direct evidence that many customers choose to defer repair appointments beyond the 24- and 48-hour windows imposed by the Commission's performance standards for timeliness-of-repair metrics. For example, from September 2015 through March 2016, over 70% of core customers chose to request or accept deferrals of their repair appointments beyond the regulatory windows.

E. THE LOGIC OF PRIORITIZATION

Q. Is the prioritization policy underlying the SQIP still valid?

A. Yes. Focusing the Commission's regulatory oversight in the areas where it is most needed, and allowing competition to drive service quality for the remainder of customers, remains a cogent policy decision. In Section III(A), above, we explained the policy considerations that favor allowing competition to drive service quality for the majority of customers.

Q. Should the Commission's prioritization policy be regarded as an undue and unreasonable preference in favor of core customers?

A. The Panel cannot comment on the legal issues that such an argument would raise, and which the company will undoubtedly address in the legal memoranda that it submits in this proceeding. However, as a policy matter it would be a reasonable exercise of the Commission's authority to permit or mandate differential treatment of different classes of customers, where, as here, the differentiation has a sound policy basis. There is clearly a sound basis for a plan such as the SQIP that encourages a regulated company to offer priority repair service to customers without competitive alternatives, or to ones with special vulnerabilities. The Commission concluded as much in its *AG Petition Order*. The SQIP advances the goal of protecting such customers in a limited and reasonable manner.

Extending the specific timeliness-of-repair provisions of the SQIP to all customers — not just core customers — would diminish, if not eliminate, the very focus that the Plan was designed to achieve. The reality is that if everyone is a priority customer, then no one is a priority customer. Equally, there is no basis for diffusing that intended focus by adding additional groups to the core customer category.[34]

* * *

Q. Please summarize the Panel's testimony on the continuing relevance of the determinations and policy considerations underlying the SQIP.

A. The factual considerations underlying the SQIP — the existence of robust competition, the financial challenges faced by Verizon, and the impact of increased adoption of wireless technology — remain true and are even more pronounced than they were when the SQIP was adopted. The Commission's policy judgments — to let competition govern service quality for non-core customers, to reduce regulatory asymmetry, and to prioritize service restoration for vulnerable customers — remain valid. The SQIP should be kept in place, and the Commission should resist calls to undermine the Plan.

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[34] *See, e.g., December SQIP Order* at 16 ("[W]e also see no need to expand the definition of core customers to include service to government agencies insofar as it relates directly to public safety and welfare, because critical customers in need of priority repair service have competitive choice and may avail themselves of the federal Telecommunications Service (TSP) program." [Footnote omitted]). *See also AG Petition Order* at 21-22 ("[W]e find that expanding the SQIP to non-Core residential customers is unwarranted, given that these customers have choice and are, therefore, not without recourse. Requiring Verizon to comply with the full panoply of service quality metrics for non-Core residential customers may, only serve to dilute resources committed to Core customers.").

IV. VERIZON CONTINUES TO INVEST HEAVILY IN ITS NETWORK INFRASTRUCTURE IN NEW YORK STATE, INCLUDING ITS COPPER NETWORK

Q. You have testified as to the financial challenges faced by Verizon. Have those challenges affected its investment in its network infrastructure in New York?

A. Despite the financial challenges it faces, Verizon continues to invest in its network infrastructure in the State and to make substantial expenditures to maintain that infrastructure.[35] Since 2008, Verizon has invested almost $9.5 billion in capital expenditures in New York, with more than a billion dollars invested in 2015 alone.[36] Between 2004 and 2015 it invested more than $3.5 billion in building out Verizon's fiber network in New York City. This high level of investment is particularly striking given the decline in Verizon's wireline business. Indeed, the ratio of the company's capital expenditures to its access-line counts has almost doubled between 2008 and 2015, from approximately $229/line to approximately $450/line.[37] The Verizon companies' high level of domestic capital investment was cited in a Progressive Policy Institute report on "U.S. Investment Heroes of 2014: Investing at Home in a Connected World," and in the corresponding report for 2015. And as the Commission noted in a recent order:

> Information provided by Verizon on its financial condition supports its assertion that it is experiencing a revenue shortfall due to ongoing access line losses. The data also suggests that the amount of its capital investment in New York exceeds the amount of funds it receives from its New York

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[35] *See Staff Assessment* at 79 ("The data demonstrates that Verizon and some of the Class B Companies, though facing significant challenges in New York, continue to reinvest heavily in New York State infrastructure.").

[36] Verizon Annual Reports to the Public Service Commission for 2008-2015, Schedule 13.

[37] Data from Verizon Annual Reports to the Public Service Commission for 2008 and 2015, Schedules 13 and 61.

operations and that the Company is not exporting cash from its New York operations to its corporate parents.[38]

Q. Are these investments limited to Verizon's fiber-optic network?

A. Absolutely not. The company's capital investments related to the copper network have totaled more than $1.6 billion from 2004 through 2015, and expenses related to that network have totaled over $8.5 billion over the same period.[39] (*See* Confidential Exhibit K.) These figures, like those for total investment, are particularly striking given the company's rapidly diminishing line counts and revenues over those years. When normalized on a per-copper-access-line basis, Verizon's total expenditures on the copper network (capital plus expense) were about 16% higher in 2015 than the average for the period from 2009 through 2014. (Copper line counts were not available for the period prior to 2009, so Verizon could not extend the normalization analysis to earlier years.)

V. VERIZON'S PERFORMANCE UNDER THE SQIP HAS BEEN EXCELLENT

Q. The *Instituting Order* refers at page 12 to a "seeming failure of Verizon's wireline telephone service to meet long-standing Commission service quality objectives …." Has Verizon's performance under the SQIP in fact been inadequate?

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[38] Case 15-C-0495, "Order Approving Transfer" (issued and effective October 16, 2015), at 2.

[39] These figures underestimate copper costs, since they do not include an allocation of certain expenses and investments that are common to the copper and fiber networks, such as those associated with conduit and poles.

A. No. Indeed, Verizon's performance has been very good and has steadily improved under the SQIP. This can be seen by reviewing the company's performance under the key Part 603 metrics and other relevant measures of service quality.

A. CUSTOMER TROUBLE REPORT RATE

Q. How is the CTRR measured?

A. In general, CTRR refers to the number of initial customer trouble reports per hundred access lines per month. There are actually two CTRR metrics included in the Commission's Part 603 regulations —one that measures the percentage of Central Office Entities ("COEs") that have a CTRR ≤ 5.5 (with no specified target percentage), and one that measures the percentage of COEs with a CTRR ≤ 3.3 (with a target percentage of 85%). Additionally, Verizon's overall CTRR, *i.e.*, its aggregate CTRR for all COEs, although not specifically listed as a Part 603 metric, provides an important overall indicator of the performance of the company's network.

Q. Why is the CTRR significant?

A. Aside from the CTRR's general role as an indicator of the quality of service provided to customers, Staff has frequently recognized it as an important indicator of the general health of the network.[40]

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[40] *See, e.g.,* Department of Public Service Staff, "Verizon Service Quality: First Quarter 2016" (filed May 19, 2016), at 8 (referring to "[t]he Company's performance for network reliability, as measured by the statewide CTRR metric"); *Staff Assessment* at 22, Figure 6 (graph of CTRR headed "Statewide Telephone Reliability").

Further, the CTRR furnishes an important network-related complement to timeliness-of-repair data. This is because the two timeliness-of-repair metrics — the OOS>24 and SA>48 — apply only to the small percentage of Verizon's customers who experience troubles (a percentage that is reflected in the CTRR). Thus, an OOS>24 of 20% does not mean that 20% of Verizon's customers experience out-of-service troubles that are not cleared within 24 hours, but rather that of the small percentage of customers who do experience out-of-service troubles, 80% have their service restored within 24 hours. Thus, timeliness-of-repair data should be understood in the context of CTRR data.

Q. Please describe trends in Verizon's network reliability, as measured by the CTRR.

A. Historical trends for the CTRR are shown on the following three graphs.

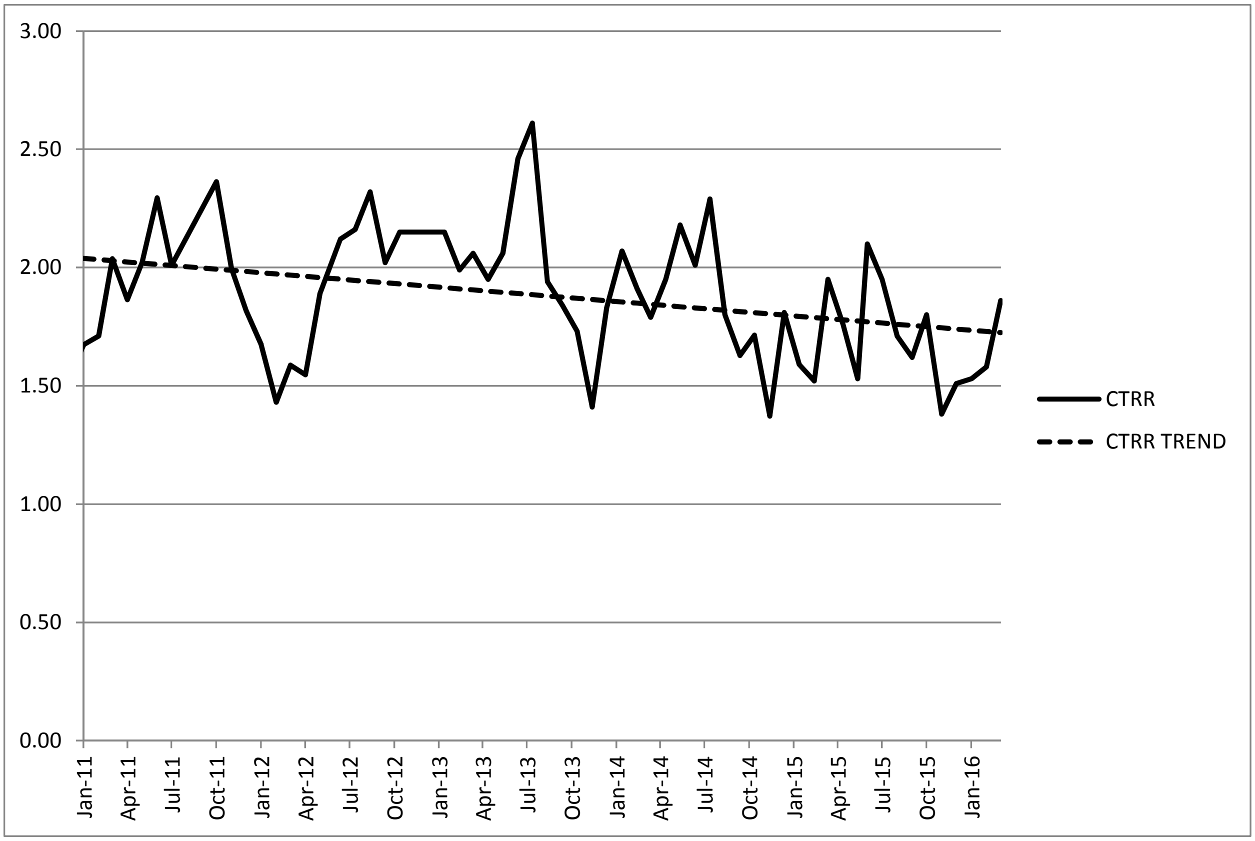
Q. What time period is covered by these graphs?

A. Generally, they cover the period of the SQIP — 2011 to the present. However, the graphs omit the four months for which the Commission granted waivers of certain service quality metrics due to unusually severe conditions faced by Verizon: (a) August – September 2011 (Hurricane Irene, Tropical Storm Lee, and the 2011 work stoppage), and (b) November – December 2012 (Superstorm Sandy). Also omitted are the three months affected by the recent 2016 work stoppage: April – June 2016. Verizon is applying for a waiver covering those months as well.

Q. What trends are shown by the graphs?

A. Verizon's overall CTRR has improved since the SQIP began in 2011, and has generally remained within the 1.5-2.5 range — *i.e.*, well below even the more stringent (3.3) criterion level set by the Commission in Part 603.

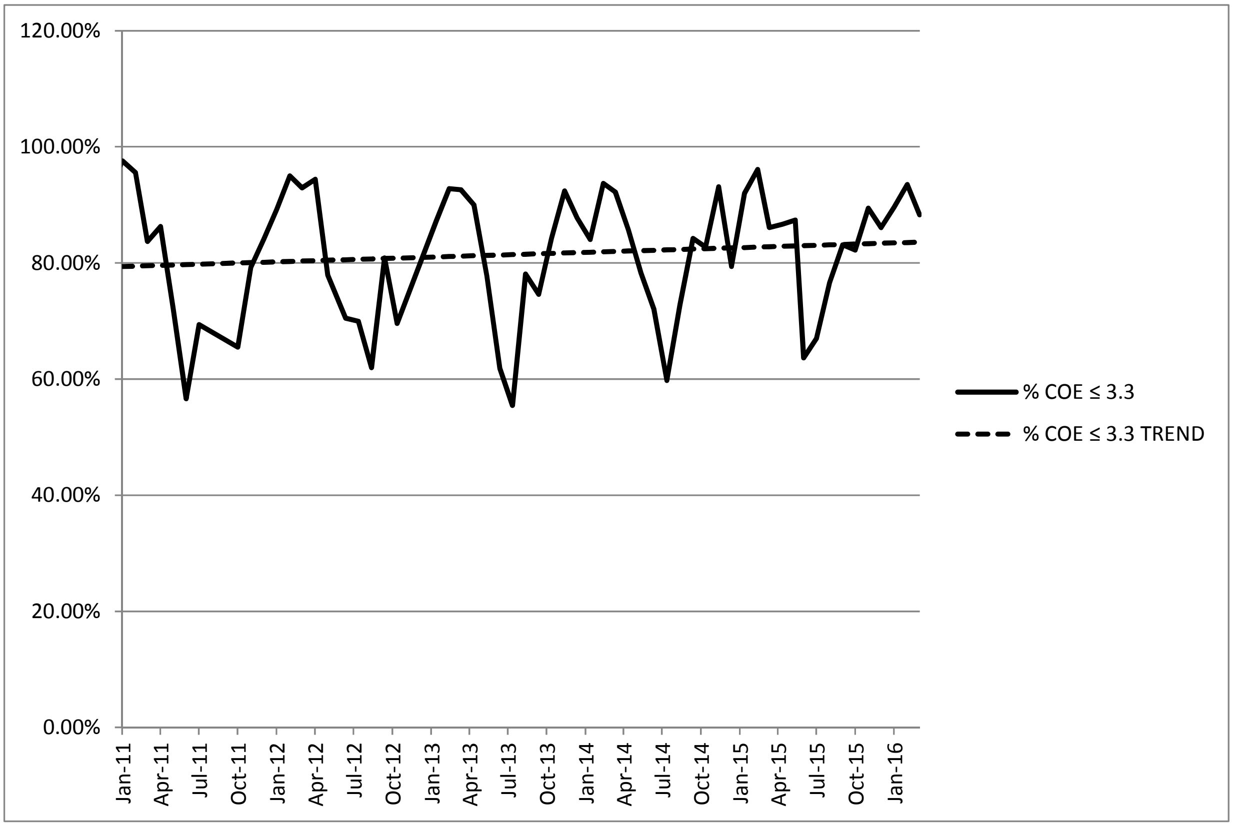
GRAPH 1: STATEWIDE CTRR LEVELS



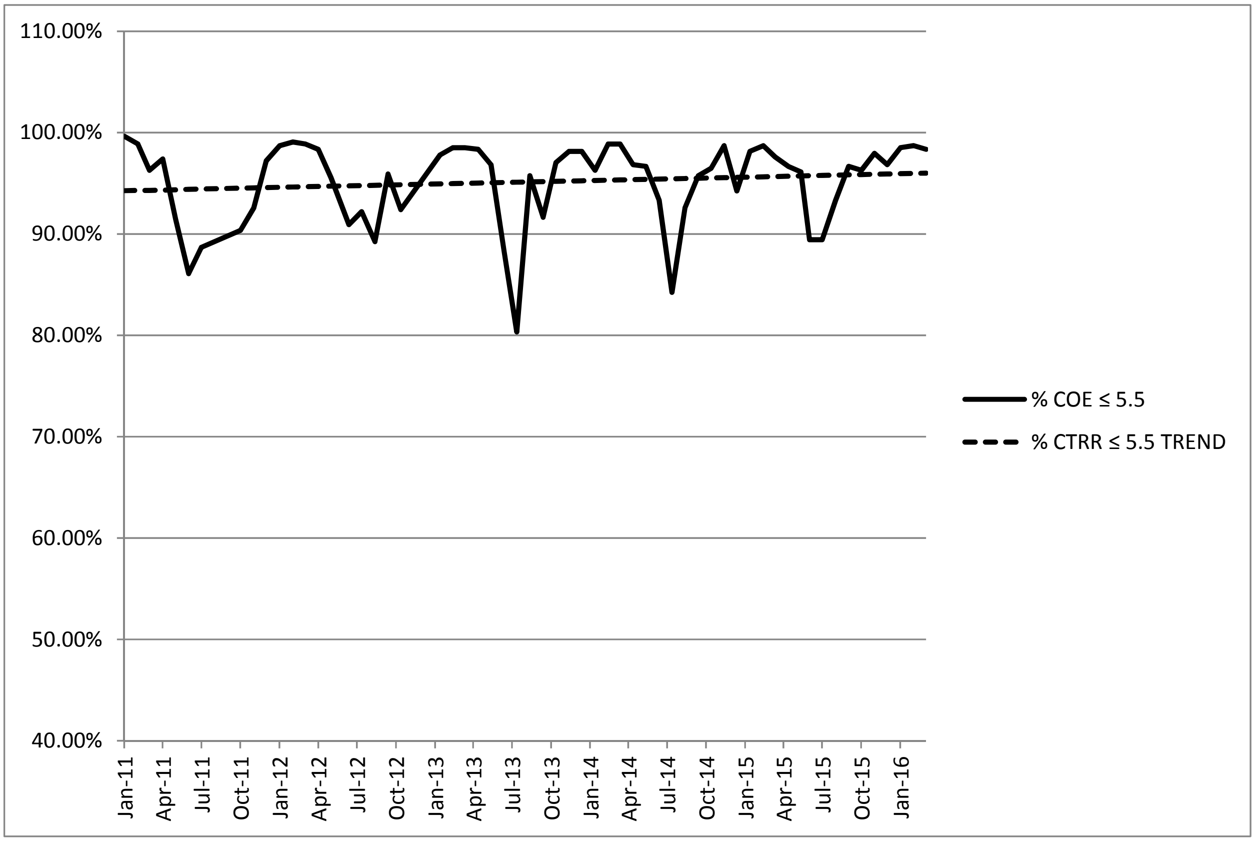
Further, the percentages of entities at or below a 3.3 or 5.5 CTRR both show a modest improving trend.[41] Although those two trends are not statistically significant at the 95% level, the data certainly provides no evidence of any deterioration of those two metrics over the life of the SQIP.

[41] Note that for the preceding graph, which measures the company-wide report rate, the *decreasing* trend shown by the data represents improvement. For the two following graphs, which measure the percentage of Central Office Entities meeting or bettering the 3.3 and 5.5 standards, an *increasing* trend represents improvement.

GRAPH 2: PERCENTAGE OF CENTRAL OFFICE ENTITIES WITH CTRR ≤ 3.3



GRAPH 3: PERCENTAGE OF CENTRAL OFFICE ENTITIES WITH CTRR ≤ 5.5



Q. Are there any other factors that should be taken into account in assessing CTRR data?

A. Yes, one particularly important factor arises in connection with the CTRR metrics that measure the number of COEs that have a CTRR of 3.3 or less, or 5.5 or less, in a given month. Particularly in the more sparsely populated regions of the State, many such COEs serve only a small number of access lines, in some cases just over a hundred. As customers switch to wireline competitive alternatives or to wireless service (as they are doing, even in those sparsely-populated areas), the line counts diminish further. These low line counts make the CTRR metrics overly pessimistic as indicators of the company's performance or of the reliability of its network. In some offices, only a handful of trouble reports during a month can lead to a CTRR in excess of the 3.3

threshold and even the 5.5 threshold. Thus, random and unavoidable individual events such as third-party cable cuts can — by putting a small number of customers out of service — have a disproportionate impact on Verizon's service quality statistics. This is demonstrated by the fact that the coefficient of variation (*i.e.*, the ratio of the standard deviation to the mean) for monthly CTRR statistics at Verizon's 539 COEs in New York decreases significantly with the number of access lines served.[42] In other words, CTRR levels in smaller wire centers are, unsurprisingly, more subject to variation than the levels in larger wire centers. Despite this statistical truism, both large and small wire centers are included by the Commission, without differentiation, in counting the number and percentage of wire centers that exceed the 3.3 and 5.5 thresholds. Verizon submits that the Commission should consider changes in the CTRR reporting process under which existing smaller COEs would be aggregated into entities of a size that is large enough to reduce the effect of isolated incidents. (One reasonable way to implement this would be to aggregate data for host switches with data for their remotes.)

B. Timeliness of Repair

Q. Please describe trends in Verizon's timeliness of repair under the SQIP, as measured by the OOS>24 and SA>48 metrics.

[42] For the 31 COEs having fewer than 250 lines, the average coefficient of variation was 0.70 for the period from June 2015 through May 2016, as compared with an average of 0.45 for all 539 COEs.

A. Verizon has met the ≤ 20% target for the OOS>24 and SA>48 metrics for 574 out of 590 "opportunities" — a success level of over 97%.[43]

Q. Under the SQIP, the OOS>24 and SA>48 metrics measure timeliness-of-repair for core customers. How should timeliness-of-repair performance for total customers (core *and* non-core) be measured?

A. Although the SQIP does not require Verizon to report timeliness-of-repair performance for its total customer base, that aspect of the company's service quality can be assessed.

In its 2010 orders adopting the SQIP, the Commission recognized that any cases in which the customer had requested or accepted a deferred repair appointment should not count as an OOS>24 or SA>48 "miss" as long as the company cleared the trouble within the agreed-to timeframe. As a result, an "accept/request" exclusion was incorporated into Staff's service quality measurement guidelines for core customers. This modification to the guidelines was cogent and appropriate, as the Commission recognized.[44] It is equally appropriate for measuring timeliness-of-repair for non-core (or total) customers.

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[43] Data through March 2016, excluding the four months for which the Commission waived the requirements of the SQIP, as well as the three months affected by the recent work stoppage. "Opportunity" here refers to the opportunity to achieve one of the timeliness metrics in one month in one of the five areas into which the State has been divided for purposes of the SQIP. There were 590 such opportunities from January 2011 through March 2016, excluding the four waived months (2 metrics x 5 areas x 59 months).

In cases where it did not meet the target in a given region in a given month, Verizon made $100,000 payments in lieu of penalties to the State treasury, or else applied that amount for the benefit of customers through refunds.

[44] *See June SQIP Order* at 10-11.

Although Verizon implemented the accept/request rule in its service quality reporting systems for core-customer troubles, it does not currently record accept/request information for non-core customers. (The capability was not implemented because it was not required to meet Verizon's SQIP reporting obligations.) As a result, all available data related to repair times for non-core customers is overstated because it does not take account of the accept/request exclusion. In order to ensure that aggregate data combining core and non-core repair times is meaningful, the non-core data has to be adjusted to reflect the impact of the accept/request exclusion.

In presenting the total-customer ("all-in") timeliness-of-repair data discussed below, Verizon implemented the accept/request adjustment by computing, for each month of data, the percentage reduction in the total core-customer repair time that resulted from the application of the accept/request exclusion to those customers. That percentage was then used to adjust the actual repair times in that month for all customers.[45] The adjusted repair times were used to compute adjusted OOS>24 and SA>48 metrics for all customers.

Q. What time period is covered by the timeliness-of-repair data presented below?

A. As with the CTRR data discussed above, the OOS>24 and SA>48 metrics are presented here for the period of the SQIP — *i.e.*, from January 2011 to the present — omitting,

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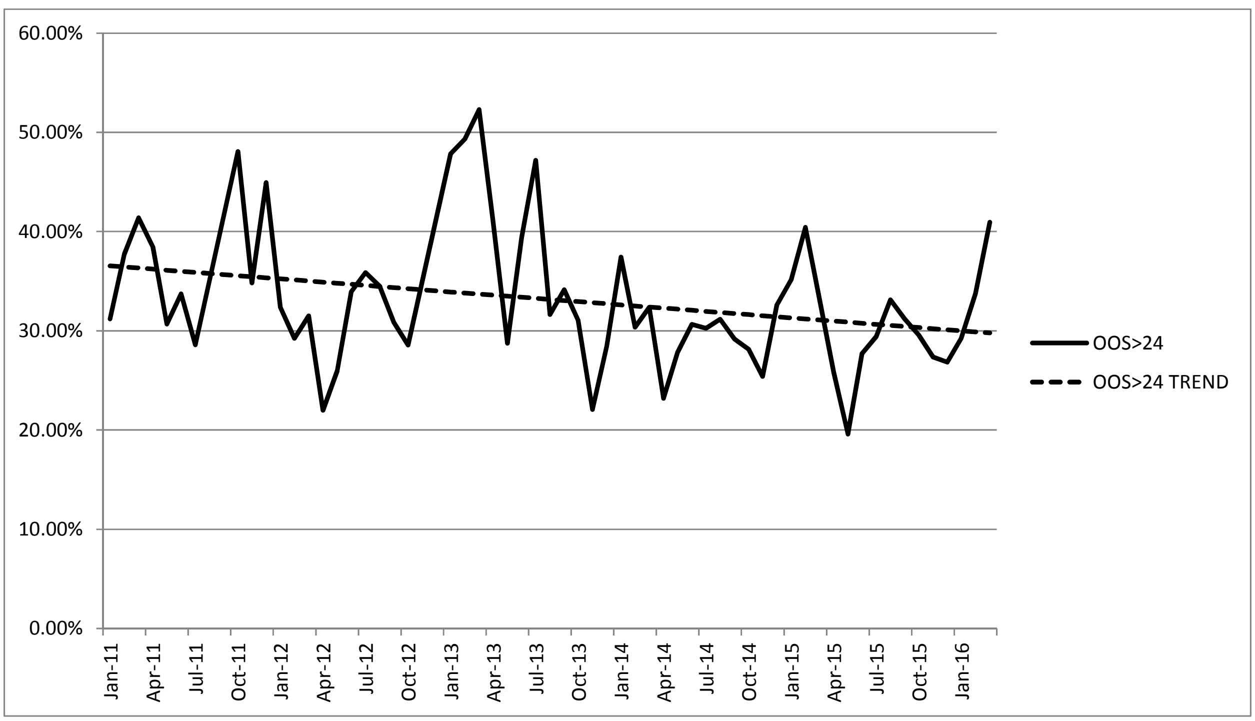
[45] "Actual" repair times here refers to repair times as measured under the "stop-clock" rules set forth in the Commission's service-quality reporting guidelines.

however, the four months for which the Commission granted service quality waivers and the three months affected by the 2016 strike.

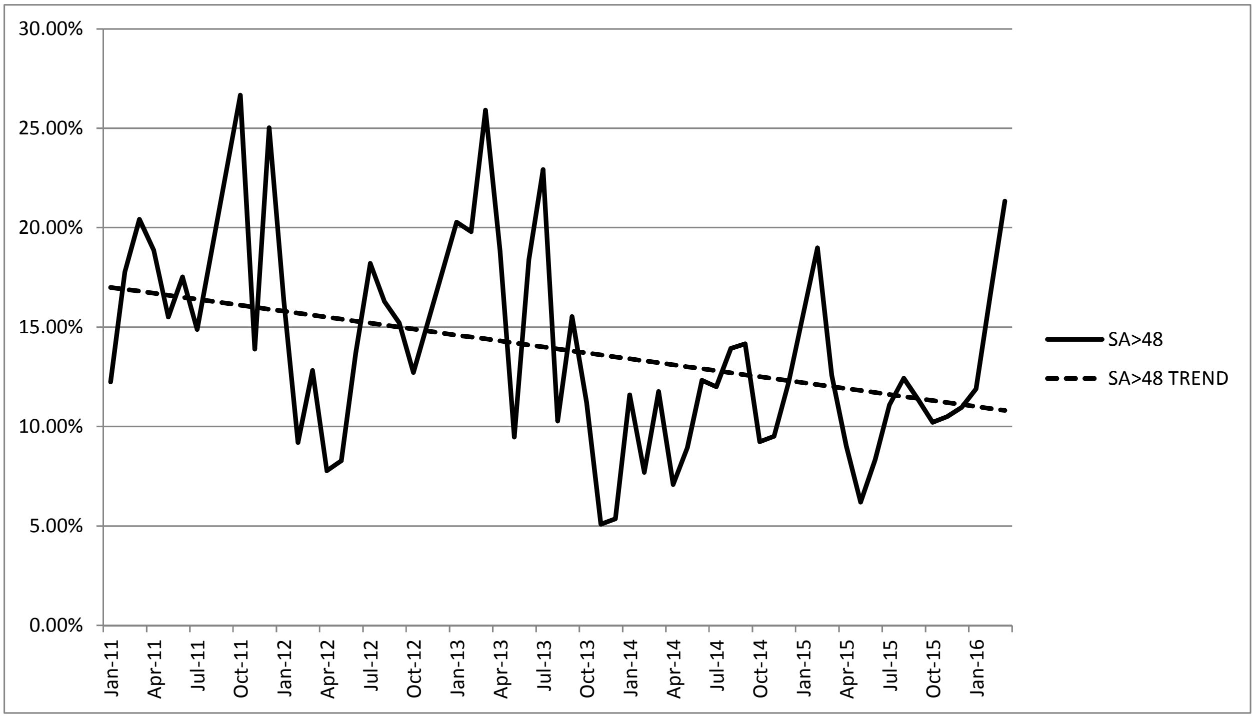
Q. Please describe trends in Verizon's timeliness of repair performance for all customers, both core and non-core, based on the adjusted data.

A. The following graphs of adjusted OOS>24 and SA>48 performance for all customers show that although repair times are somewhat higher for all customers than they are for core customers, the levels are reasonable and both metrics are improving. SA>48 levels are virtually always at or better than the 20% criterion that applies to core customers.

GRAPH 4: OOS>24 PERFORMANCE FOR ALL CUSTOMERS (CORE AND NON-CORE)



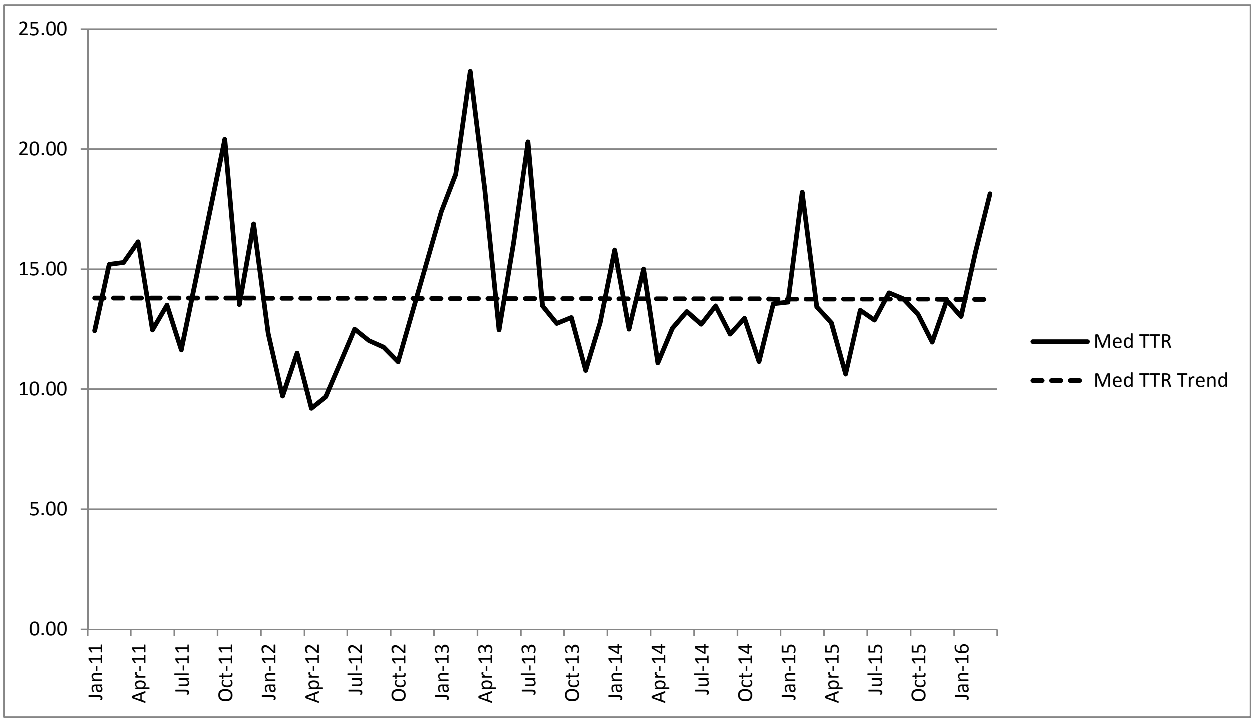
GRAPH 5: SA>48 PERFORMANCE FOR ALL CUSTOMERS (CORE AND NON-CORE)



Additionally, we note that the median adjusted repair time for all customers is less than 20 hours in almost all months, and generally between 10 and 15 hours.[46] The following graph shows the median repair time over the life of the SQIP. There is no significant deteriorating trend.

[46] The median provides a better representation of "average" repair time than the mean. This is because mean repair-time data tends to be strongly influenced by a relatively small number of outlier, high-repair-time jobs. The median is not as sensitive to such outliers.

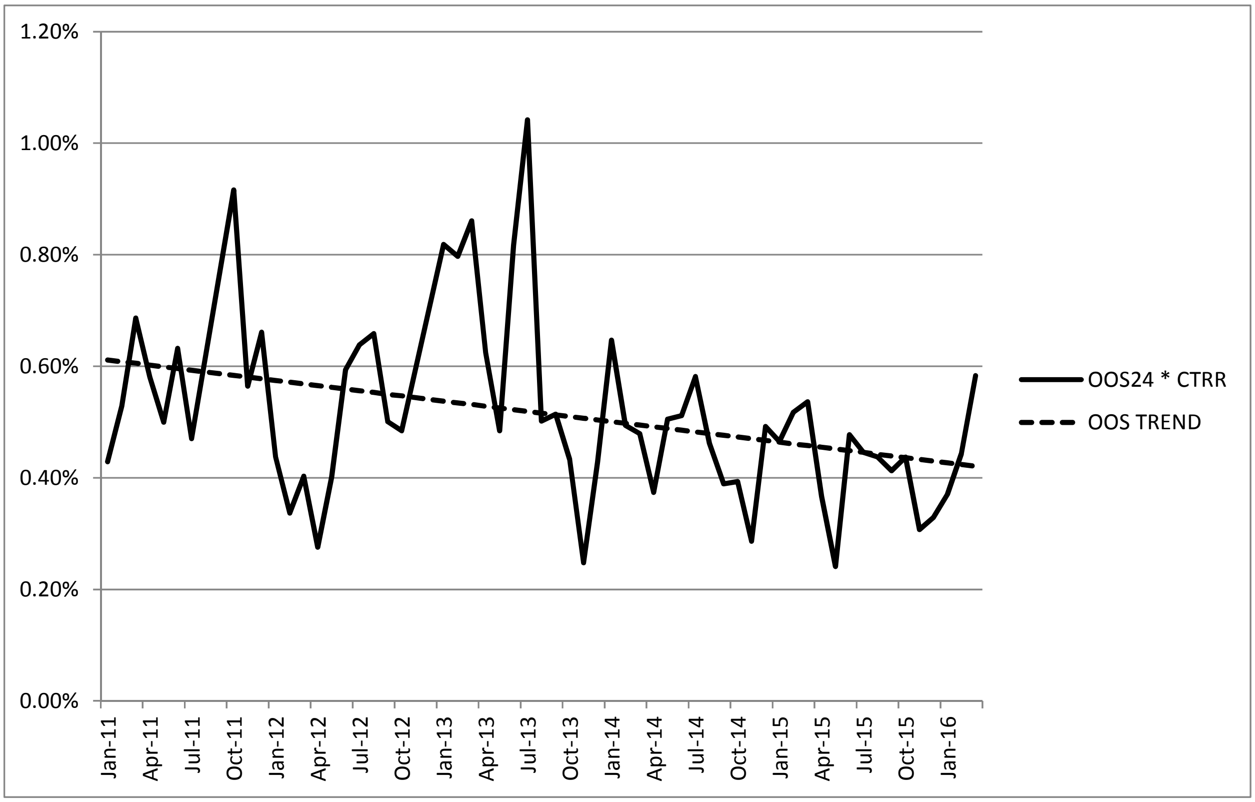
GRAPH 6: MEDIAN TIME TO REPAIR FOR ALL CUSTOMERS (CORE AND NON-CORE)



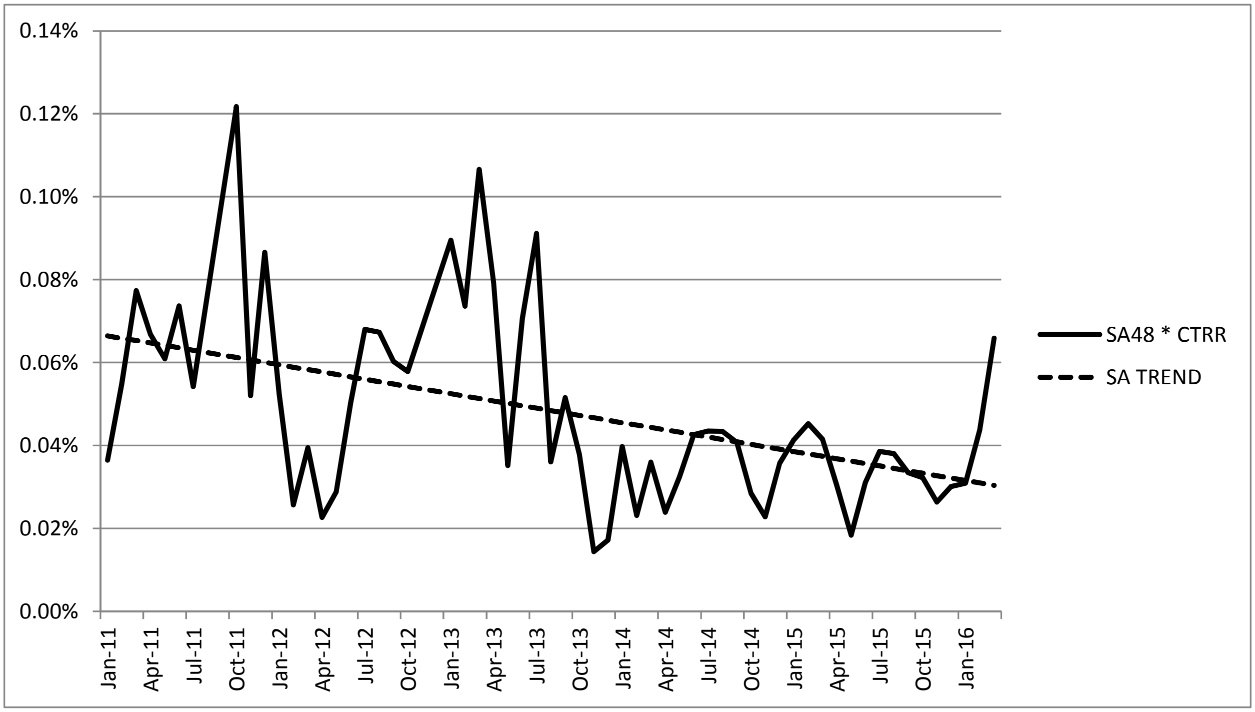
Q. You noted previously that timeliness-of-repair data should be understood in the context of the CTRR. How would you apply that principle to the data summarized above?

A. Graphs 7 and 8 show OOS>24 and SA>48 data adjusted for the frequency of out-of-service and service-affecting troubles. In other words, it shows the percentage of customers in each month who experience an out of service event lasting longer than 24 hours, or an SA event lasting longer than 48 hours. This was determined by: (a) calculating separate CTRRs for out of service and service affecting troubles (equal to the number of such troubles in the month, divided by the total line count, and multiplied by 100), and (b) multiplying the OOS>24 percentage by the OOS CTRR and the SA>48 percentage by the SA CTRR. As with the previous graphs, the four waiver months and the three months affected by the 2016 strike were omitted. As can be seen from the graphs, the resulting percentages are extremely small, and the trend for each of the metrics is improving.

GRAPH 7: % LINES EXPERIENCING OOS>24 EVENT (CORE AND NON-CORE)



GRAPH 8: % LINES EXPERIENCING SA>48 EVENT (CORE AND NON-CORE)



Q. Apparently based on timeliness-of-repair data for both core plus non-core customers, the Commission stated in its *Instituting Order* that Verizon is "allowing" certain aspects of its "service quality for its non-Core customers to continue to fail the Commission's long-standing service quality standards." Is this a fair representation of the data presented above?

A. No. The statement is based on the fact that such data exceeds the 20% Part 603 criterion level. Such OOS>24 and SA>48 levels for the entire customer base are an inevitable effect of the Commission's decisions to incent Verizon to prioritize repair for core customers, and to set a 20% standard for core customers. Any effective prioritization scheme is bound to lead to higher repair times for non-prioritized customers. It is thus unreasonable, and inconsistent with the policies of the SQIP, to expect Verizon to achieve non-core repair times within the Part 603 performance standards.

C. PSC COMPLAINTS

Q. What are PSC complaints?

A. Although it is not listed as a Part 603 metric, the Commission tracks escalated, chargeable complaints and uses that statistic as a general indicator of the quality of service provided by regulated telephone companies.

Q. How are such complaints measured by the Commission?

A. In essence, the PSC complaint rate is the annualized number of escalated, chargeable complaints received for a provider per 10,000 lines. Thus, the number of such complaints charged against a provider in a given month is multiplied by 12, then divided by the line count in that month, then multiplied by 10,000, to obtain the complaint rate for the month.

Q. Is there a performance standard for PSC complaints?

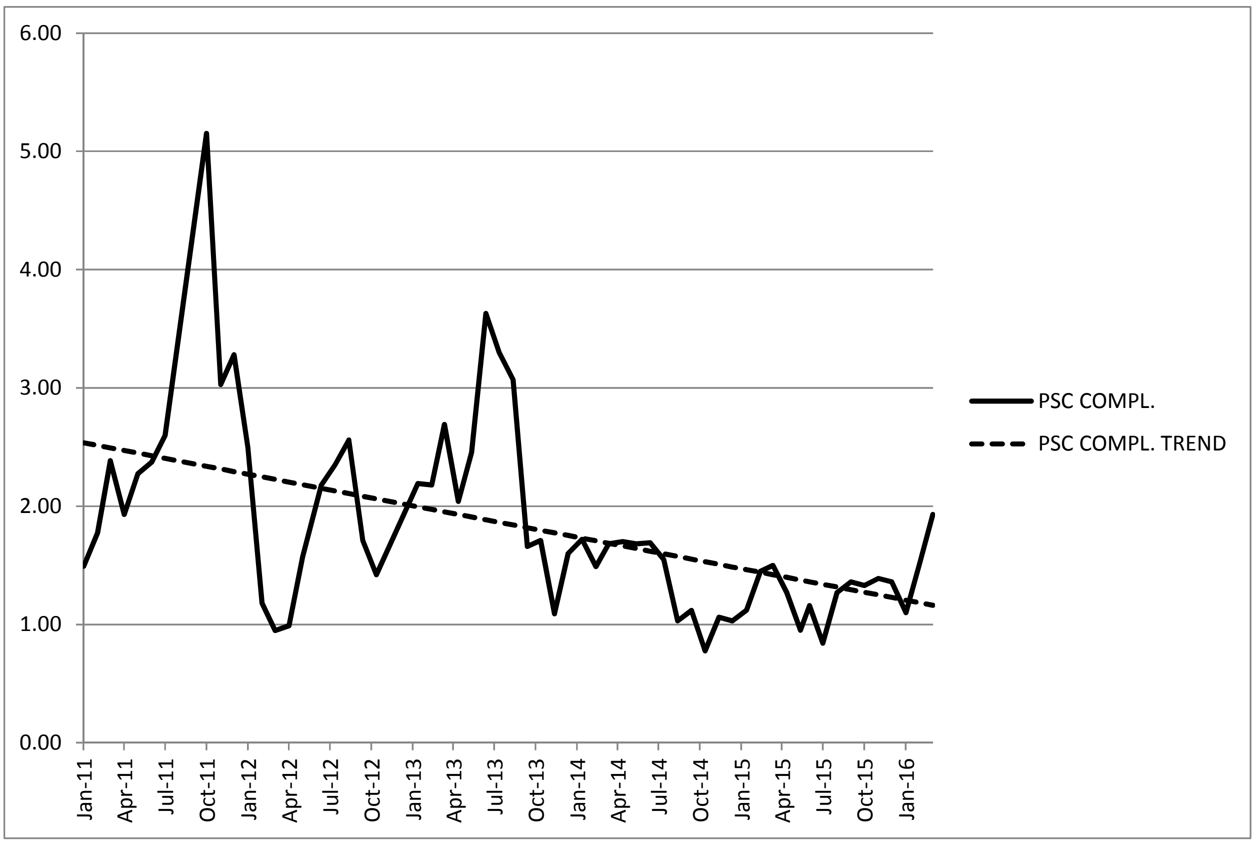
A. No. The Commission awards service-quality commendations where the complaint rate for a provider falls below 0.75, but that commendation level is not in any sense a minimum performance standard.[47]

[47] In an October 19, 2015 filing in Case 14-C-0370, the Connect New York Coalition stated that "Verizon failed to meet the PSC benchmark for consumer complaints every month between Jan. 2012 and May 2015." However, the "benchmark" that the Coalition was referring to was the 0.75 commendation level, not any performance "benchmark."

Q. Please describe trends in the PSC complaint rate for Verizon.

A. As the graph below shows, the number of complaints filed with the Commission by Verizon customers has shown an improving trend over the years since the SQIP went into effect.

GRAPH 9: PSC COMPLAINT RATES



D. SERVICE INQUIRY REPORTS

Q. What is a Service Inquiry Report?

A. A Service Inquiry Report, or SIR, is "a report which provides an explanation for the [service-affecting] condition giving rise to the report," the number of customers affected by the condition, and, where relevant, a remedial plan. SIRs must generally be submitted to Staff in cases where a company repeatedly fails to meet applicable service-quality performance standards.[48] In effect, the number of SIRs that Verizon is required to file provides some indication as to the extent of persistent or repeated service quality problems.

Q. How many reported metrics could potentially give rise to SIRs?

A. Given the numerous metrics that Verizon is required to report each month, there are 551 "opportunities" for a SIR filing each month.[49]

Q. Please describe the trends in the number of SIRs that Verizon has been required to submit.

A. As is shown below, the annual number of SIRs has steadily declined under the SQIP through 2015. Indeed, the number of SIRs per year declined by over 40% from 2011 to 2015 (having already declined by over 77% from 2010 to 2011). Levels are continuing to decline during 2016; the figures for January through June were 0, 2, 1, 1, 2, and 3, respectively, for an annualized rate of 18 (as compared with 64 for 2015 — a further decline of over 70%).

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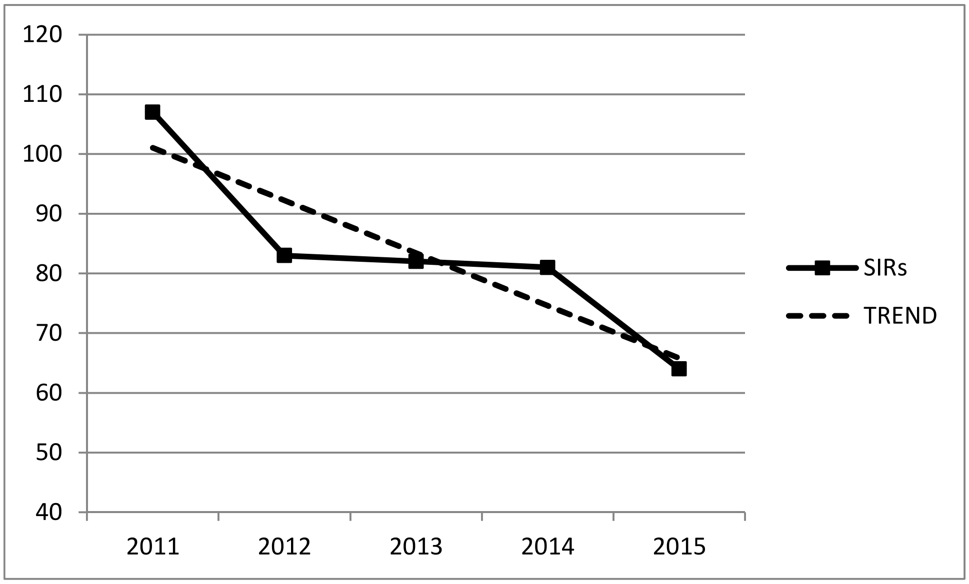
[48] *See* 16 NYCRR §§ 603.4(d), (e).

[49] Aside from CTRRs for each of the 539 COEs, Verizon is currently required to report 10 timeliness-of-repair metrics (two for each of the five measurement areas in the State), plus trunk blockages and repair-office answer times, for a total of 539 + 10 + 2 = 551 metrics per month.

GRAPH 10: SIRS



Q. In an October 19, 2015 filing, the Connect New York Coalition noted that "Verizon [had] filed 252 Service Inquiry Reports between Jan. 2012 and May 2015 . . . ." Please comment on that statement.

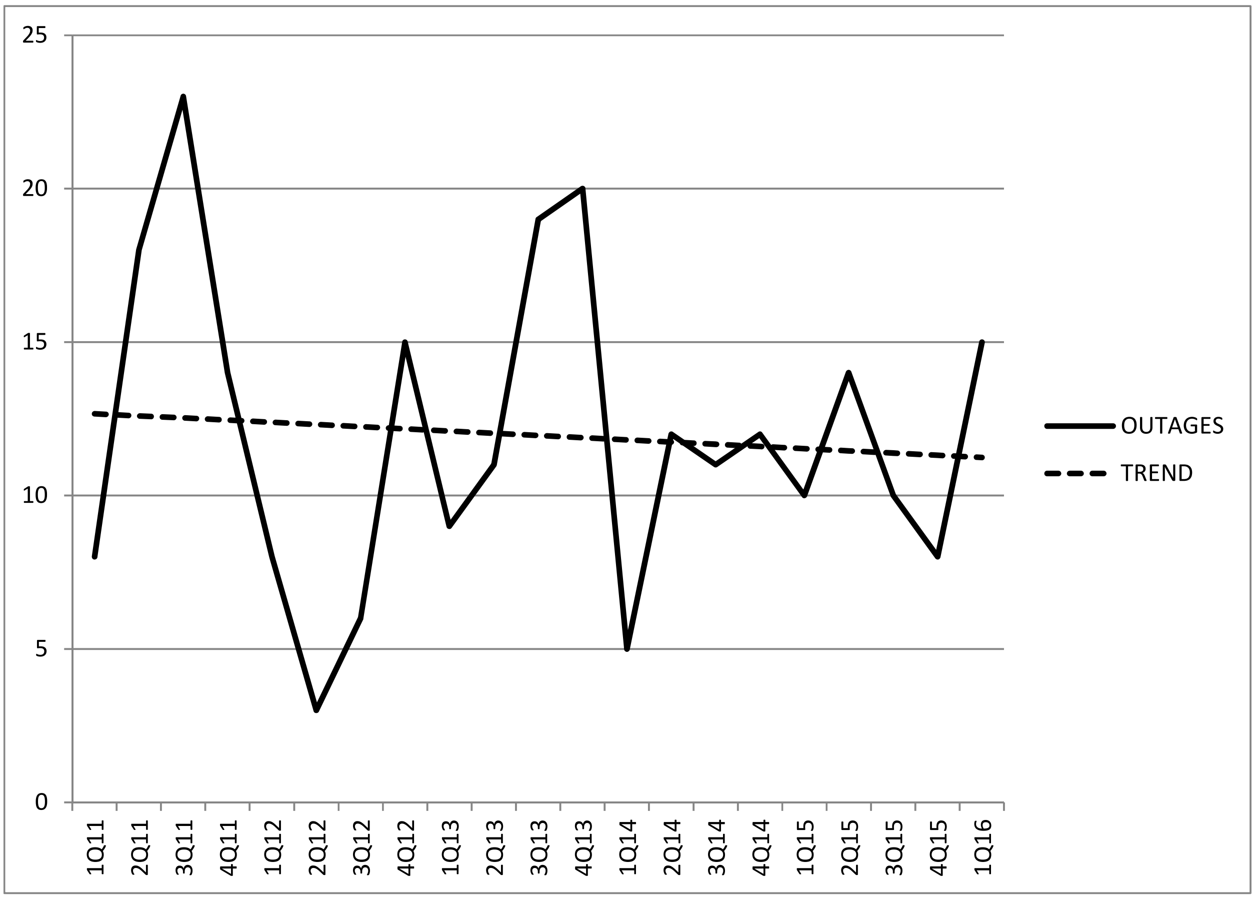
A. Although that figure is numerically correct, it is presented without a proper context. First, it ignores the strong declining trend noted above. Second, given the fact that Verizon is required to report 551 metrics each month that could give rise to a SIR, there were 22,040 "opportunities" for a SIR filing during the 40-month period referred to by the Coalition. Thus, the Coalition's statistic simply shows that repeated performance deficits warranting a SIR occurred for only 1.14% of the SIR "opportunities" during that period.

E. OTHER INDICATORS OF SERVICE QUALITY

Q. Please discuss trends in major service outages experienced by Verizon under the SQIP.[50]

A. Data for 2011 through the first quarter of 2016 is shown below. There is certainly no trend towards an increase in outages during the period.

GRAPH 11: MAJOR NETWORK OUTAGES



Q. What other indicators are there that Verizon is satisfying its customers?

[50] "Major Service Outage" is defined by the Commission at http://www.dps.ny.gov/TOR/TOR_FAQ1.html.

A. In Case 14-C-0370, Staff noted J.D. Power survey results showing that Verizon companies "had the largest point score improvement in customer satisfaction levels year-to-year, at 89 points, and improved its ranking from 3rd to 1st between 2011 and 2013, with a score of 729 out of a 1,000 point scale."[51]

Q. Please describe Verizon's performance with respect to installation metrics.

A. Part 603 includes two such metrics, although Verizon is not required to report either metric under the SQIP. The first metric is "the monthly percentage of initial basic local exchange service line installations completed within five working days (following the day the order is received)." The performance standard for this metric is 80% for each installation administrative entity. Verizon has achieved this metric for 93% of the "opportunities" (calculated as described above for timeliness-of-repair metrics) from March 2012 through March 2016. (Data for installation metrics is not readily available for the period prior to March 2012.) The company-wide performance is consistently above the 80% threshold and is improving, as the following graph shows:[52]

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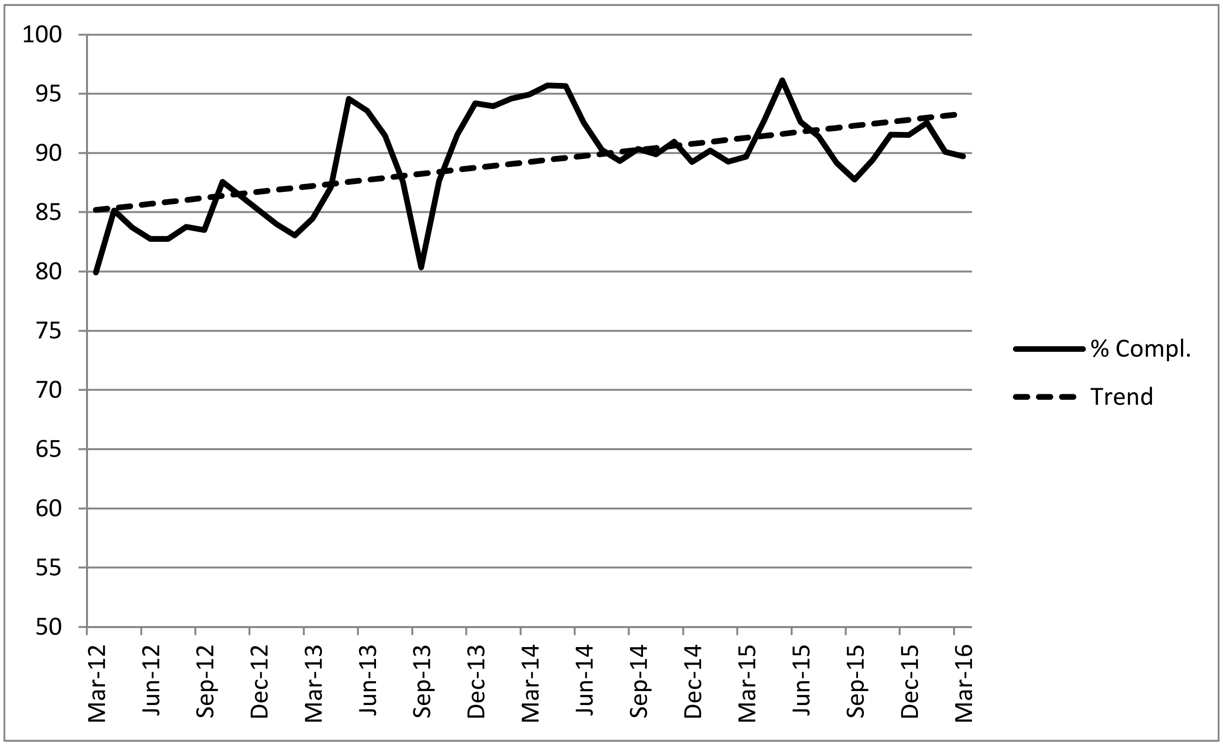
[51] *Staff Assessment* at 24-25.

[52] In this graph and the following one, months in which service quality metrics were waived are omitted.

GRAPH 12: % INSTALLATIONS COMPLETED WITHIN FIVE DAYS

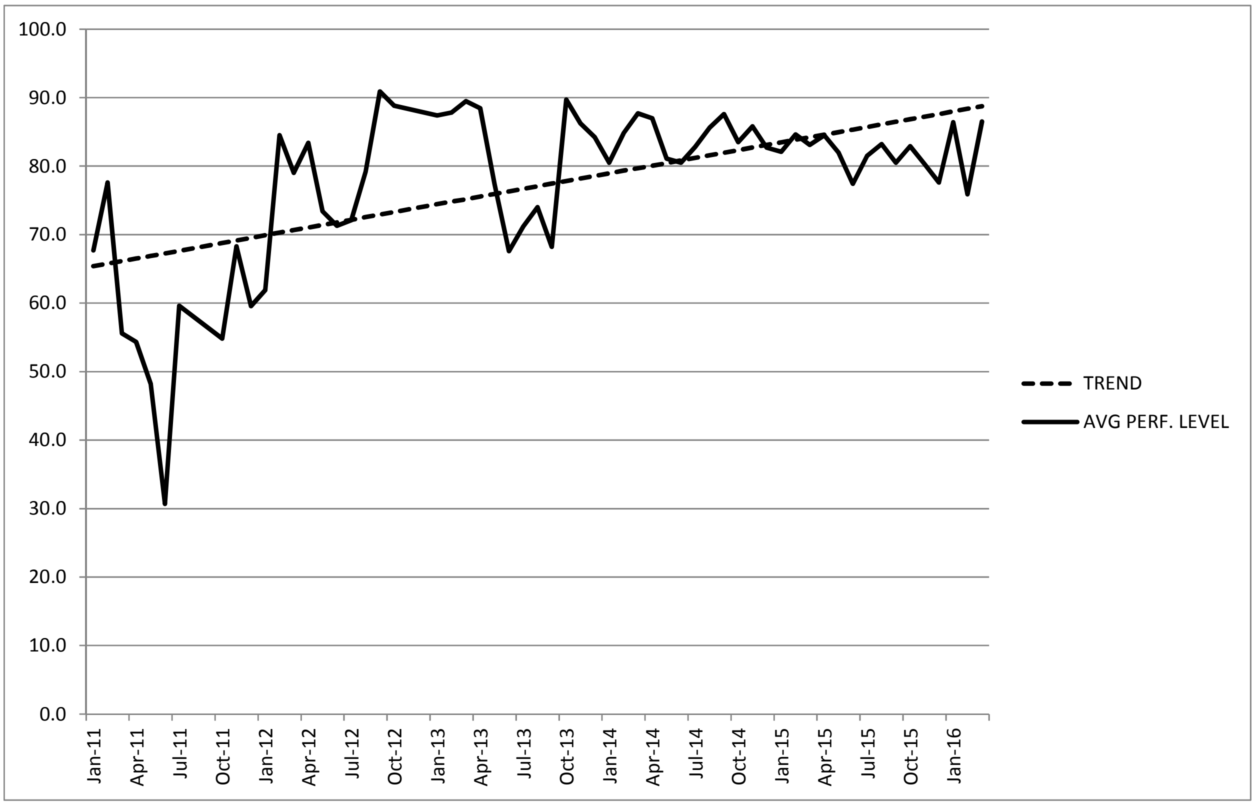


The second installation metric is "percentage of installation commitments missed per month." This metric has a performance threshold of 10.0% or less for each installation administrative entity. Verizon has achieved this performance standard for 98% of the opportunities during the period March 2012 through March 2016.

Q. Please discuss trends in repair-bureau answer time data.

A. Part 603 defines the repair answer time metric as "the monthly percentage of consumer calls for repair office service answered within 30 seconds. The performance threshold for each administrative entity is 80.0% or greater." At varying times from 2011 to the present, there have been one, two, or three repair-bureau answer centers that qualify as administrative entities for purposes of this metric. The graph below shows the average answer time for the entities that were handling repair calls in each month.

GRAPH 13: AVERAGE PERCENT OF REPAIR BUREAU ANSWER TIMES WITHIN PERFORMANCE STANDARD



There has been a clear improvement under the SQIP, and Verizon has met the 80% performance standard virtually every month since late 2013. (As with prior graphs, this one omits the four "waiver" months and the months affected by the 2016 work stoppage.)

Q. The data that the Panel presented above relates to Verizon customers that purchase services subject to the Part 603 metrics, whether served by copper or by fiber. Are your conclusions generally applicable to the subset of those customers who are served by copper?

A. Yes. The metrics for copper customers closely replicate those for all customers combined. For example, based on data for the one-year period from April 2015 to March 2016, the median adjusted repair time for OOS troubles was 13.6 hours for all customers and **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** hours for customers served by copper. Similarly, the adjusted OOS>24 was 30.01 hours for all customers and **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** hours for customers served by copper. The CTRR over this period was 1.70 for all Verizon access lines and **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** for copper lines.

F. SUMMARY

Q. What conclusions does the Panel draw from the service quality data presented above?

A. The data confirms that Verizon is managing its network in a way that affords high-quality service to its customers. There is no basis for the *Instituting Order*'s assertion that "Verizon's copper service quality for non-Core customers does not meet Commission standards."[53]

Q. In reaching its tentative conclusions about Verizon's service quality, the *Instituting Order* relied in part on statements made at the public statement hearings conducted in Case 14-C-0370.[54] Can you comment on the relevance of those statements?

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[53] *Instituting Order* at 7, 11.

[54] *See Instituting Order* at 11.

A. As the Commission recognized, such statements constitute "anecdotal evidence." Such "evidence" should not be allowed to override the highly detailed data on service quality metrics that is provided in this testimony. The testimony of this self-selected group does not constitute a balanced or complete or representative picture of the overall quality of service provided by Verizon.[55] This is particularly true in view of the fact that the CWA — which was then engaged in highly contentious collective bargaining negotiations with Verizon, negotiations that culminated, before an agreement was reached, in a seven-week work stoppage — played an active role in lining up witnesses for the hearings, consistent with its contemporaneous statement that it would "rally, engage in informational picketing, [and] *build political and regulatory pressure on the company* . . . ."[56] Indeed, a review of the transcripts suggests that a significant percentage of the speakers at the hearings either explicitly identified themselves as CWA members or officials, or were current or former Union-represented Verizon employees, or were members or representatives of other labor unions.[57]

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[55] We say "self-selected" because customers who are experiencing problems with Verizon are far more likely to take the trouble of attending a public statement hearing than are customers who are satisfied with their service.

[56] This statement had been posted on http://standuptoverizon.com, but is no longer there as of the date of this filing. The statement is still available at http://district1.cwa-union.org/news/entry/regional_bargaining_report_271-d1 (emphasis supplied).

[57] In connection with the July 8, 2015 hearing in Suffolk County, CWA Local 1108 sent a notice to its members that "EVERY MEMBER SHOULD ATTEND AND BRING FAMILY MEMBERS AND FRIENDS." The notice urged members *not* to wear the red clothing that is the traditional CWA symbol of solidarity, presumably so that they would not be identifiable as anything other than members of the public. The notice went on to state that "WE MUST SEND A MESSAGE TO VERIZON AND THE P[S]C THAT WE NEED GOOD JOBS IN OUR COMM[U]NITY, CUSTOMERS NEED QUALITY SERVICE, INTERNET SHOULD BE PART OF BASIC SERVICE."

(continued . . .)

Also, many of the statements made at the hearings (and much of the passion displayed there) focused not on POTS service quality — which is the focus of the Part 603 metrics and the SQIP — but on non-jurisdictional services such as wireless and broadband (and, in some cases, on other providers, such as Time Warner Cable).

VI. ISSUES RELATED TO FIBER DEPLOYMENT AND TO THE AVAILABILITY OF BROADBAND SERVICE IN THIS STATE SHOULD NOT DRIVE THE OUTCOME OF THIS PROCEEDING

Q. Please describe the current status of Verizon's fiber deployment program in New York.

A. Among Verizon's most significant network investments has been the deployment of an FTTP infrastructure in substantial portions of its landline service area. As a result of this initiative, fiber-based service is now available to almost half of the housing units in the State. The roll-out of FTTP facilities starting in 2004, the expansion of Verizon's FTTP footprint to its current boundaries, and the fulfilment of Verizon's obligation to build out its FTTP network within existing video franchise areas, has required an enormous level of capital investment by the company.[58] Expanding Verizon's FTTP footprint beyond its current boundaries would require a substantial increase in the company's already heavy level of network investment, in the face of the negative net income and cash flow it has experienced, as discussed above. In recognition of these realities, the company does not currently plan to expand its FTTP footprint in New York other than to meet existing

(. . . continued)

While CWA and its members have every right to engage in advocacy before the Commission, at public statement hearings and otherwise, such advocacy should not be mistaken by the Commission for a balanced presentation of the facts or as generally representative of customer experiences.

[58] Verizon has 186 cable television franchises in New York State, and in some municipalities the company offers voice and broadband Internet access over fiber without a cable television franchise.

franchise commitments, but is instead focused on marketing FTTP-based services to more subscribers in the communities where FTTP is already deployed, given the substantial investments that have already been made.[59]

Q. What conclusions did the *Instituting Order* draw from Verizon's plans related to its FTTP footprint?

A. At several points in the order, the claim is made that the SQIP was adopted in reliance on Verizon's continuing deployment of FTTP facilities, since that initiative demonstrated the company's willingness to compete to retain its customers, and thus established the "competitive backdrop" that was the foundation of the SQIP orders. Accordingly, the order states, the decision not to expand Verizon's FTTP deployment indicates that the Commission's "service quality oversight of Verizon has reached another inflection point and that the underlying premise for the continuation of Verizon's service quality focus on Core customers is now being called into question."[60]

Q. Please comment on that assessment of the basic rationale for the SQIP.

A. There is no indication in either of the two orders creating the SQIP — the *June SQIP Order* or the *December SQIP Order* — that the Commission relied in any way on Verizon's FTTP deployment plans. Indeed, the words "fiber," "FTTP," or "FiOS" occur

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[59] That decision has naturally been a source of disappointment to some communities where FTTP facilities have not been deployed. In some cases, this disappointment has expressed itself in accusations that Verizon has intentionally avoided making FTTP available to economically disadvantaged communities within the State. However, the facts show otherwise, as Verizon demonstrated at pages 11-13 of its October 23, 2015 comments in Case 14-C-0370.

[60] *See, e.g., Instituting Order* at 8 (footnote omitted). *See generally* discussion in *id.* at 5-10.

nowhere in either order. The Commission did not attempt to draw a connection between the SQIP and Verizon's fiber deployment efforts until over two years after the Plan was adopted. In January 2013, in the *AG Petition Order*, the Commission observed that "Verizon has an incentive to maintain some level of service quality for these customers in order to retain revenues and margins associated with its copper network," and noted that "[o]ne manifestation of this incentive can be seen in Verizon's response to competition in New York by making large investments in deploying its fiber networks."[61] Later in that order, the Commission noted that prioritization of core customers was justifiable "given the limitations on Verizon's ability to recover its fixed costs from its remaining customers and the competitive pressure to invest in fiber facilities."[62] A subsequent reference similarly relates fiber deployment to the financial pressures on the company, which pressures have already been discussed as a key rationale for the SQIP.[63]

In short, Verizon's FTTP deployment plans were not a factor in the *creation* of the SQIP, and to the extent that they provided part of the basis for the decision to *retain* the SQIP in 2013, it was primarily because of the financial pressures that FTTP investment in part had imposed on the company. In only one statement did the Commission point to FTTP deployment as evidence of its incentive to retain customers, and even there the reference was equivocal, as the Commission's primary reliance was on the company's incentives to

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[61] *AG Petition Order* at 22.

[62] *Id.* at 24.

[63] *Id.* at 26-27.

retain "revenues and margins associated with its copper network," with FTTP deployment being cited as but "[o]ne manifestation of that incentive."

In any event, the *Instituting Order*'s focus on FTTP deployment ignores the five factors discussed in Section II of this testimony, each of which received far more discussion than the company's FTTP deployment plans in the three SQIP orders, and each of which provides a far more cogent rationale for retaining the SQIP.

Q. Does the Verizon's decision not to expand its FTTP footprint eliminate the financial pressures referred to in the *AG Petition Order*?

A. Not in the least. As discussed earlier in this testimony, Verizon continues to make necessary investments in its network to ensure its continued ability to provide reliable services to its customers. Verizon's net income remains substantially negative; the financial challenges it faces are as daunting as ever; and financial factors remain a powerful argument for retaining the SQIP in its current form.

Q. Does Verizon's decision not to expand its FTTP footprint eliminate its incentives for customer retention?

A. No. Regardless of its FTTP deployment decisions, Verizon retains strong incentives for retaining customers currently on its copper network, since every customer who leaves that network deprives Verizon of revenues that are substantially greater than any costs it would shed as a result of the customer's decision, as is discussed in Section III(A), above.

Q. Does Verizon's decision not to expand its FTTP footprint provide evidence that the company does not have any incentive to retain its customers?

A. No. It simply indicates a decision to continue with less financially burdensome strategies for retaining customers currently on its copper network and outside of its FTTP footprint. Companies make decisions to make or forego investments for a wide variety of reasons, even though investments could confer certain benefits. An ultimate decision not to make a particular investment does not demonstrate that a company is uninterested in the potential benefits that may flow from the investment — to the contrary, it may simply indicate a decision to pursue the benefits through alternative means.

The claim that Verizon, by its decision not to expand its FTTP footprint, is manifesting a lack of interest in retaining its current customers is no more cogent than would be a similar statement for AT&T, other New York ILECs, or traditional cable companies, based on their apparent decision not to upgrade their copper or hybrid fiber-copper networks to FTTP.

Q. Would the Commission be justified in requiring Verizon to resume the expansion of its FTTP footprint as a remedy, if it identified any material service deficiencies in this proceeding?

A. Putting aside the fact that no such material deficiencies exist — as the evidence martialed in Section V of this testimony demonstrates — mandated FTTP deployment would be an unnecessary and unreasonable solution to any perceived deficiency.[64] Aside from the massive investment obligation that such a mandate would impose on Verizon and Verizon alone, there is no basis for an assumption or finding that the quality of service cannot be maintained outside current FTTP deployment areas using the existing copper network. Indeed, the Upstate CTRR plan provides an example of successful management of service quality concerns of the copper network, and demonstrates the Commission's ability to respond to discrete service quality issues as they arise without changing its basic regulatory framework.

Q. Please describe that plan.

A. In a series of discussions with Verizon in November 2013, Staff expressed concern over the number of upstate COEs that had reported a CTRR in excess of 5.5 during the third quarter of 2013, and the resulting increase in the number of SIRs submitted by Verizon. In a November 13, 2013 letter to Staff, Verizon pointed out that "the numbers of customers served by these offices has declined significantly in recent years, a fact that

[64] Legal memoranda submitted by Verizon at the appropriate point in this proceeding will also establish that mandated FTTP deployment would be an unlawful response under the Public Service Law and the Constitution.

Those memoranda will also show that it would not be lawful for the Commission to mandate FTTP deployment as a means to expand the availability of non-jurisdictional broadband services in the State. Verizon recognizes the legitimate concerns that have been aired at the public statement hearings by residents who believe that adequate wireline broadband services are not currently available in their communities. Ultimately, however, the solution is not to attempt to compel one company in a hyper-competitive industry — such as Verizon — to make billions of dollars of additional, possibly uneconomic network investments, without regard to the number of customers benefitted, the likely return, or the financial challenges that the company faces. Even if there were a legal basis for such compulsion — and there is not — it would be unsound policy. Public funding or incentive programs may be the answer for communities that have not been adequately served by the competitive market. The Governor's New NY Broadband Program provides one possible model for such initiatives.

magnifies the statistical impact of individual, isolated cable or equipment failures."

Verizon nevertheless stated that it recognized the importance

> of maintaining adequate service quality in all areas of New York, and it therefore shares Staff's interest in addressing service quality issues in these offices and restoring them to CTRR levels more consistent with Verizon's overall performance in the State. Accordingly, Verizon commits to providing to you . . . a detailed written plan for reducing CTRR levels in these offices.

Pursuant to that commitment, on January 31, 2014, Verizon submitted a "detailed plan on proposed corrective measures to achieve improvement in service quality and network reliability."[65] The objectives of the Plan were those identified by Staff — to improve CTRR levels at certain "underperforming" COEs by reducing the number and frequency of reported troubles and SIRs at those COEs. The Plan addressed those objectives by identifying 32 COEs that accounted for a disproportionate number of the company's CTRR "misses" (*i.e.*, CTRR levels greater than 5.5) and CTRR SIRs, and by developing a focused program of capital investment and proactive maintenance aimed at reducing the number of troubles experienced by customers served by those COEs. The Plan was rooted in extensive and detailed data — including Verizon's records, cable testing, and personal observation of outside plant conditions. Verizon stated when it proposed the plan that it expected the plan to significantly improve service quality in the targeted wire

[65] Letter from Chad G. Hume, Director, Office of Telecommunications, New York State Department of Public Service, to Richard Bozsik, Verizon (November 19, 2013).

centers for all classes of customers — business and residence — and thus to help improve the company's overall CTRR statistics. The Commission accepted the plan.[66]

Q. What was the outcome of the plan?

A. The plan has lived up to the company's and the Commission's expectations. Both SIRs and CTRR levels for the offices included in the plan have significantly improved. As the following graph shows, the weighted-average CTRRs for the group of 32 COEs declined from a trend-line level of about 4.5 prior to the plan's implementation to a level under 3.0 in early 2016.[67]

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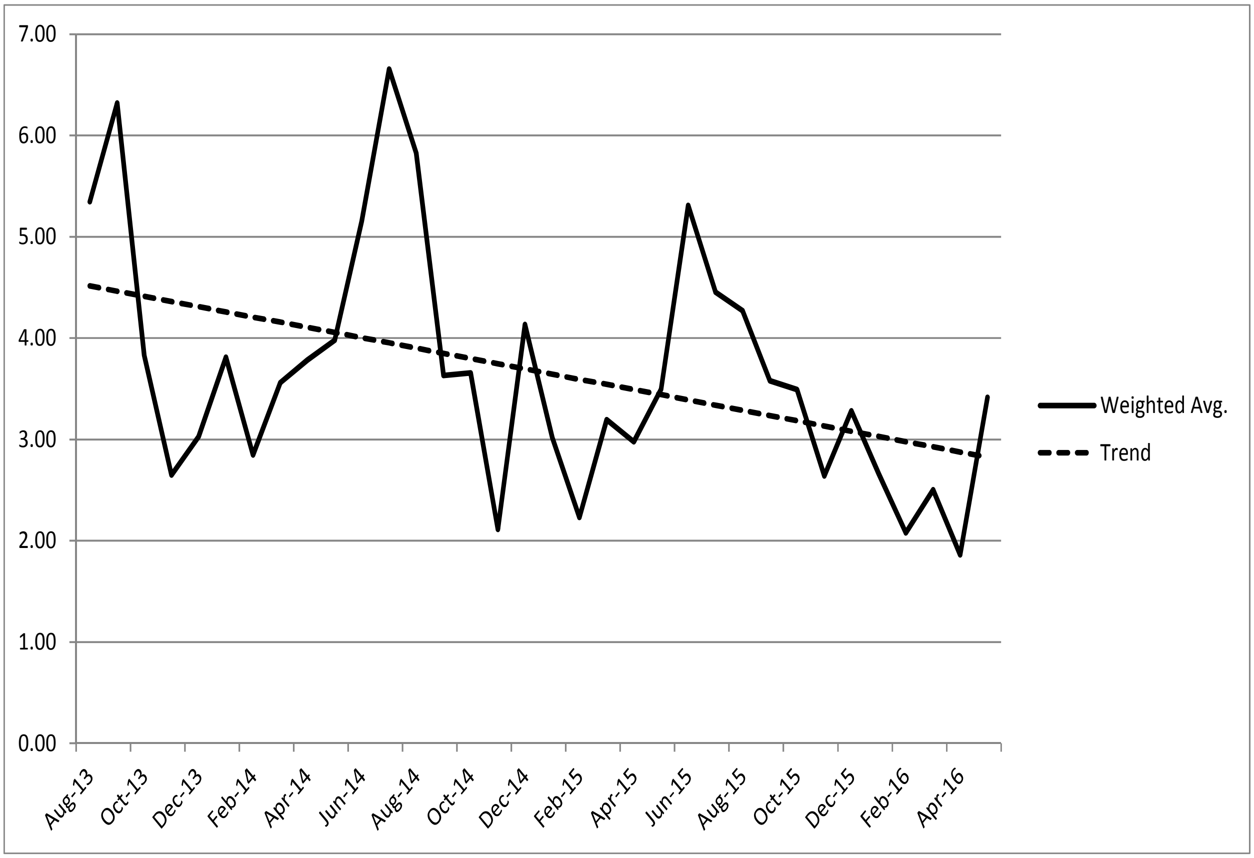
[66] Case 13-C-0161, Memorandum to the Commission from the Office of Telecommunications (May 18, 2014), approved as recommended and so ordered by the Commission (issued and effective June 13, 2014).

[67] CTRRs for the 32 COEs were weighted by the number of lines served.

GRAPH 14: VERIZON'S PERFORMANCE UNDER THE UPSTATE CTRR PLAN: WEIGHTED AVERAGE CTRR FOR 32 UPSTATE COEs[68]



SIRs, which totaled 60 in the year prior to and including July 2014, were reduced to 15 in the year prior to and including May 2016.

Q. What conclusion does the Panel draw from this experience?

A. This experience shows that targeted remedial measures provide a more effective and more reasonable solution to discrete service quality problems affecting the copper network than eliminating or diluting the SQIP or seeking to compel Verizon to alter its

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[68] Weighting based on May 2016 line counts.

FTTP deployment plans. To take the latter course would be tantamount to abandoning the cogent factual conclusions and policy judgments underlying the SQIP.

Q. Can similar measures be adopted in the wake of the success of the Upstate CTRR Plan?

A. Verizon has tentatively identified additional upstate COEs that currently appear to have high CTRR levels comparable to those that were considered for inclusion in the 2014 plan, and is in the process of determining what expenditures and capital investments would be needed to improve performance in those wire centers. Verizon has earmarked a little over $2 million to be used for that purpose.

VII. OTHER REMEDIAL ISSUES

Q. In the preceding section of this testimony, the Panel discussed the position that some have taken that Verizon should be required to expand its FTTP footprint as a remedy for claimed service quality issues. Do you have any additional comments on other "remedies" that have been put forward by CWA, the Connect New York Coalition, and others in this and related proceedings, or in other forums?

A. Yes.

A frequent claim is that the Commission should impose substantial penalties whenever Verizon fails to meet service quality metrics. However, it could scarcely be considered good policy to impose new liabilities on a service provider that serves millions of customers in the State, that is *currently* sustaining substantial annual losses, and that nevertheless is continuing to make substantial investments in its network.[69]

VIII. CONCLUSION

Q. Please summarize the witness Panel's conclusions.

A. For all of the reasons set forth above, the Commission should allow the SQIP to remain in force without significant modifications.

Q. Does this conclude your testimony?

A. Yes.

[69] As Verizon's legal memoranda will show if such penalty proposals are advanced in this proceeding, there are also serious legal questions about the Commission's authority to impose penalties without reference to the levels, standards, and procedures set forth in §§ 24 and 25 of the Public Service Law.

APPENDIX

VERIZON'S RESPONSES TO THE COMMISSION'S INFORMATION REQUESTS

INFORMATION REQUEST 1:

Verizon shall provide all service quality data pursuant to 16 NYCRR Part 603 for both Core and non-Core customers from 2010 – Present company-wide and by each of its five regions.

RESPONSE:

Information responsive to this request is provided in Exhibit A as describe below. All data is monthly (except for the trunk blockage metric, which, in accordance with Staff's reporting guidelines, is provided for overlapping three-month periods). Data is provided separately for each relevant region or administrative entity in accordance with Part 603 reporting requirements. Except where otherwise noted, the data covers the period from January 2010 through June 2016.

We assume that the request to separate out data for core customers applies only to the timeliness-of-repair metrics for which the distinction was developed and for which it is relevant under the SQIP.

- **Exhibit A** — OOS>24 and SA>48, separately for core customers and for all customers covered by the Part 603 metrics.
- **Exhibit B** — Statewide OOS>24 and SA>48 data for all customers for January 2011 through June 2016, adjusted in accordance with the methodology discussed in this testimony. (The data in Exhibit A is *not* adjusted.)
- **Exhibit C** — % COEs with CTRR ≤ 3.3.
- **Exhibit D** — % COEs with CTRR ≤ 5.5.
- **Exhibit E** — % installations completed within five business days. (Data is readily available only for March 2012 and after.)
- **Exhibit F** — % installation commitments missed. (Data is readily available only for March 2012 and after.)

- **Exhibit G** — Answer-time metric; repair
- **Exhibit H** — Answer-time metric; business office
- **Exhibit I** — Answer time metric; operator
- **Exhibit J** — Number of final trunk groups with blocking greater than three percent for three consecutive months.[70]

INFORMATION REQUEST 2:

Verizon shall detail what efforts it is making to retain customers still reliant on its copper network.

RESPONSE:

Verizon seeks to retain customers on its copper network — as it seeks to retain customers on its FTTP network — by providing services that customers want (within the capabilities of the network) and by maintaining the safety, quality, and reliability of that service. To those ends, Verizon monitors customer satisfaction with repair dispatches, as well as monitoring numerous metrics of operational performance. In both cases the company seeks to maintain customer satisfaction by identifying potential problems and identify and implementing appropriate remedial measures. *See* response to IR-4, below.

INFORMATION REQUEST 3:

Verizon shall detail what efforts it is making to ensure the continued viability of the copper network, including the submission of detailed capital and operational expenditure budgets for its wireline network from 2004 — Present and forecasted capital and operational expenditure budgets for its wireline network for the next five (5) years.

RESPONSE:

As described in its testimony, Verizon makes substantial capital investments in its copper network above and beyond the substantial expenses it incurs in order to maintain and repair that

[70] Verizon has almost 5,000 final trunk groups.

network. *See* Section IV, above. Data on such investments and expenditures is provided in Confidential Exhibit K, which shows actual copper-related expense and capital dollars for 2004 through 2015, and projected capital expenditures for 2016 and 2017. For purposes of normalizing this financial data on a per-access-line basis, the Exhibit also shows copper line counts for 2009 through 2015. (Copper line counts are not available for the period prior to 2009.)

The level of investments and expenditures shown in Confidential Exhibit K understates the costs of the copper network, since it does not include any allocation to the copper network of the total expense and investment associated with supporting structures such as poles and conduit (and associated rights-of-way, easements, and other real property interests), which are shared by copper cable and fiber-optic cable.

Verizon does not prepare detailed financial budgets five years in advance. Projected capital expenditures by Uniform System of Accounts (USOA) plant type are available at this time only for 2016 and 2017. Expense budgets are not prepared at a detailed USOA level, and thus do not separately identify expenditures associated with the copper network.

INFORMATION REQUEST 4:

> In presenting answers to these questions, Verizon shall file information and data that includes, but need not be limited to, what metrics, objectives, measures or other tools Verizon uses to measure, analyze or adjust its performance, service quality, reliability, and safety information for both Core and non-Core customers.

RESPONSE:

Verizon management is constantly reviewing operational data with a view towards assessing performance, implementing best practices, detecting potential problems, and putting remedial measures in place to address those problems. These efforts take place at all levels of management, with strategies ranging from one-on-one discussions between foremen and individual technicians, to informal group meetings between managers and technicians, to periodic conference calls to review service quality metrics, to regular and formal management meetings at various levels at which operational data is reviewed. Among the data reviewed at such meetings are SQIP metrics, SIRs, PSC complaints, repair and installation dispatch volumes, daily loads, repair times, hours per dispatch, customer ratings, and employee safety data.