

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on May 16, 2013

COMMISSIONERS PRESENT:

Garry A. Brown, Chairman
Patricia L. Acampora
Maureen F. Harris
James L. Larocca
Gregg C. Sayre

CASE 13-C-0099 - Tariff filing by Verizon New York Inc. to
increase the rate for Non-Published Service for
residential and business customers.

ORDER APPROVING RATE INCREASE

(Issued and Effective May 16, 2013)

BY THE COMMISSION:

INTRODUCTION

Verizon New York Inc. (Verizon, or the company) filed revisions to its PSC NY No. 1 - Communications tariff, effective May 18, 2013, to provide for a monthly rate increase of \$0.50 for non-published directory listings, for residence and business customers. We conclude that Verizon's proposed targeted rate increases are reasonable and authorize them to take effect.

TARIFF FILING

On March 1, 2013, Verizon filed the revisions listed in Appendix A to its PSC NY No. 1 - Communications tariff, to increase the rates for non-published service to become effective May 18, 2013. Verizon describes non-published service as an optional feature that excludes the telephone numbers of subscribers from listings in published directories or their release to the general public through directory assistance

service. The company proposes to increase the monthly recurring rate for residence and business non-published directory listings by 20%, or \$0.50, from \$2.50 to \$3.00. The company estimates that these rate increases would generate \$1.6 million in additional annual revenue.

In support of its request, Verizon states that the \$2.50 rate for non-published service has been in effect since February 2005. The company maintains that the proposed 20% increase is reasonable, based upon the rate of inflation since 2005. Verizon provides a chart that applies annual inflation factors for the last eight years to its non-published service rate, in order to demonstrate that the proposed increase is comparable to general cost of living increases. Verizon notes that the proposed \$3.00 monthly rate is below the tariffed rates charged by multiple other carriers who compete with Verizon in this state: AT&T Communications, Inc. (\$4.99); Time Warner Cable Information Services (New York), LLC, d/b/a Time Warner Cable (\$3.75); One Communications, Inc. (\$3.13); and XO Communications, Inc. (\$3.10).

PUBLIC NOTICE

On March 18, 2013, the Acting Secretary to the Commission issued a Notice Inviting Comments on Verizon's proposal and requesting initial comments by April 8, 2013 and reply comments by April 15, 2013. No comments were filed in response to the notice.

DISCUSSION

We approve Verizon's request to increase the rate for residence and business non-published service for several reasons. First, it is appropriate to consider Verizon's overall financial condition. As we have noted in other contexts and proceedings,

the company's financial condition continues to deteriorate. Verizon's decline in revenues¹ provides support for allowing Verizon to increase its revenues through rate increases to targeted services, as we have allowed over the last few years,² and as Verizon proposes in this filing.

In our Competition III Order, we specifically excluded residential non-published directory listings from the automatic pricing flexibility we granted for most non-basic residential services, due to a concern that the pricing for this service might not be sufficiently constrained by competition.³ Our concern regarding a lack of competitive pricing remains, despite the presence of alternative providers of non-published service. For, as Verizon notes, other providers' tariffed rates for non-published listings cited by Verizon are invariably higher than Verizon's rate. In fact, Verizon's proposed \$0.50 rate increase would still leave Verizon's resultant \$3.00 price below the price of the major alternative providers of non-published service cited in Verizon's filing.

We note that the rates for directory listing services like non-published service have been historically set well in

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

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

³ See Case 05-C-0616, Transition to Intermodal Competition, Statement of Policy on Further Steps Toward Competition in the Intermodal Telecommunications Market and Order Allowing Rate Filings (issued and effective April 11, 2006) (Competition III Order), pp. 68-69.

excess of costs in order to subsidize and keep basic local rates low. Allowing Verizon's proposed \$0.50 increase is reasonable because this would continue the Commission's policy of above-cost pricing for this service, which would continue to reduce the pressure to increase its basic rates.

Customers who desire an unlisted number and are dissatisfied with the price increase have alternatives. Although the alternative providers listed by Verizon currently charge more than Verizon for non-published listings, an alternative provider may offer a lower total price for communications services than Verizon. In addition, wireless providers do not share listings in the directory databases. Given that alternative options exist, we find that Verizon's proposed \$0.50 residential rate increase for non-published service is reasonable.

As for the proposed business rate increase, we will approve the company's proposed \$0.50 rate increase for business unpublished listings using the same rationale that we used for residence listings, i.e., this is a targeted rate increase based on the company's financial need; continuing to price the service above cost will lessen the pressure to increase basic service

rates; and the requested \$0.50 increase will still leave Verizon's rate lower than that of alternative providers.⁴

Finally, Verizon's request represents one among several requests to increase cash flow (e.g., tariff amendments seeking rate increases and retention of proceeds from building sales and tax refunds). This cash flow increase (and past increases) should be viewed as a proper regulatory response to the financial stress Verizon claims it is and will be under as it continues its transition into an increasingly competitive market.

The company is correct that the consumer price index (CPI) measure of inflation is indicative of increases to the general cost of living. However, telecommunication costs have historically risen at a much lower rate than the CPI. The company has not provided an adequate alternative explanation as to why it is appropriate to tie a general inflation factor to rate changes for this particular service. We are concerned that reliance upon inflation factors as a justification for a rate increase would be particularly inapt in this case, because directory listing services, of which non-published service is just one example, have been historically priced above cost.

⁴ Under the pricing flexibility previously granted by the Commission (Verizon's tariff PSC NY No. 1 - Communications, Section 1.A.10.c), Verizon has the one-time authority to increase the rate up to 10% for business non-published service, from \$2.50 to \$2.75. This flexible pricing authority, consistent with the Commission's January 17, 2008 Order in Cases 06-C-0897 and 07-C-0610, allows Verizon rate increases of up to 10% for business services not previously granted pricing flexibility. We allowed this flexibility based solely on the financial needs of the company, with no analysis of the level of competitive alternatives for these business services. However, non-published service represents an atypical case because the pricing is not constrained by competition and the service is priced well above cost. Accordingly, in this instance we do not base the business rate increase on these pricing flexibility tariff provisions.

CONCLUSION

We conclude that sufficient basis exists to approve Verizon's proposed targeted rate increases to business and residence non-published service.

The Commission orders:

1. Verizon New York Inc.'s tariff amendments increasing the rates for business and residence non-published service are authorized to take effect.

2. Verizon New York Inc. is exempt from the requirement that it publish notice of its tariff amendments once a week for four weeks in a newspaper of general circulation (Public Service Law §92(2)).

3. This proceeding is closed.

By the Commission,

(SIGNED)

JEFFREY C. COHEN
Acting Secretary

ADMINISTRATIVE DETAILS

Filing by: Verizon New York Inc.
Revisions to: P.S.C. NY No. 1 - Communications

Section 30
4th Revised Page 248

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Effective: May 18, 2013