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March 21, 2013

Honorable Jeffrey C. Cohen  
Acting Secretary  
New York State Public Service Commission  
Three Empire State Plaza  
Albany, New York 12223

**Re: Proposed Amendments to Verizon New York Inc. Tariffs PSC No. 1,  
No. 2, and No. 3**

Dear Acting Secretary Cohen:

Verizon New York Inc. ("Verizon") submits the following tariff amendments to be effective on May 18, 2013:

PSC NY No. 1--COMMUNICATIONS  
Index, 5<sup>th</sup> Revised Page 24  
Contents, 1<sup>st</sup> Revised Page 2  
Statement No. 4, Original Page 1  
Section 1  
Contents, 3<sup>rd</sup> Revised Page 6  
3<sup>rd</sup> Revised Page 106  
Attachment, Original Page 1  
Section 2  
Foreword, 1<sup>st</sup> Revised Page 1

PSC NY No. 2--COMMUNICATIONS  
Title Page, 1<sup>st</sup> Revised Page 1

PSC NY No. 3--COMMUNICATIONS  
Title Page, 1<sup>st</sup> Revised Page 1

The filing would put in place a new surcharge of \$0.99/line/month that would apply to tariffed retail switched voice-grade local exchange service lines offered to business or residence customers (except lines used to provide Lifeline service), whether offered on a stand-alone basis or as part of bundled service offerings. The Exhibit explains the basis for the surcharge, and includes a calculation of its anticipated revenue effect. The revenue effect is below the threshold that would constitute a "major change" within the meaning of Publ. Serv. L. § 92(2)(c).

STATE OF CALIFORNIA  
PUBLIC SERVICE COMMISSION  
HONORABLE  
YHAT

11:53 AM 1/5/2015

Verizon will arrange for newspaper publication of this filing in accordance with the Public Service Law.

The changes to PSC No. 1 are being filed via email to the Secretary's office. The changes to PSC Nos. 2 and 3 are being filed via the PSC's Electronic Tariff System (ETS).

Very truly yours,



Keefe B. Clemons

Exhibit

## EXHIBIT

### SURCHARGE DESCRIPTION

**Explanation of the Surcharge.** New York common law generally requires a utility to relocate, at its own cost, facilities that are in public rights-of-way if such relocation is necessary to prevent interference with street repairs, public construction projects, or other activities required for the public health or convenience.<sup>1</sup> In 2012 Verizon New York Inc. (“Verizon”) incurred costs of over \$90 million for such facilities relocation work in the State, and those costs are expected to increase to over \$100 million in 2013.<sup>2</sup>

Such costs have increased substantially in recent years. Moreover, as shown by the following table, the costs have almost tripled on a *per-line* basis, which provides a more meaningful measure of Verizon’s ability to recover them:<sup>3</sup>

Year	Total Cost (M)	Lines	Cost/Line
2006	\$83.64	7,749,979	\$10.79
2007	\$76.04	7,010,657	\$10.85
2008	\$74.77	6,232,026	\$12.00
2009	\$66.18	5,562,449	\$11.90
2010	\$61.31	4,958,893	\$12.36
2011	\$74.17	4,430,069	\$16.74
2012	\$93.31	3,877,247	\$24.07
2013	\$106.43	3,432,197	\$31.01

<sup>1</sup> See, e.g., *New York Tel. Co. v. Binghamton*, 18 N.Y.2d 152, 272 N.Y.S.2d 359, 219 N.E.2d 184 (1966) (relocation to accommodate construction of a middle-income housing project that was turned over to a private developer). “Relocation,” in this context, may include the removal of old facilities and the deployment of replacement facilities, as well as measures taken to protect existing facilities from damage due to public construction activities.

<sup>2</sup> A portion of those costs were incurred in the first instance by Empire City Subway (“ECS”), a wholly-owned subsidiary of Verizon. (Pursuant to a franchise granted by the City of New York, ECS owns underground mainline (*i.e.*, manhole-to-manhole) conduit in Manhattan and the Bronx, and makes it available pursuant to conduit occupancy agreements to Verizon and other service providers. Verizon owns conduit in other parts of its service area, as well as subsidiary (*e.g.*, manhole-to-building) conduit within ECS’s franchise area.) However, a significant portion of the municipal relocation costs incurred by ECS are passed on to service providers — primarily Verizon — pursuant to provisions in ECS’s conduit occupancy agreements. Only costs imposed directly on Verizon, or passed on to Verizon by ECS, are included in the costs provided in this filing.

<sup>3</sup> The line counts shown in the table for 2006-2012 are the end-of-year levels. The 2013 line count is the projected mid-year level based on linear extrapolation from the 2006-2012 data. The costs shown for 2013 are the mid-point of the estimated range. Both expenses and capital expenditures are included. The figures do not include some relocation costs that could not readily be identified as such. For example, certain non-ECS expenses are omitted, although these are expected to be small relative to the totals.

This tariff filing implements a Municipal Construction Surcharge of \$0.99 per line per month in order to offset the impact of these costs. The surcharge will apply to all tariffed retail business and residential switched voice-grade local exchange service lines in the State, whether such lines are provided on a standalone basis or as part of a package or bundle. However, the surcharge will not apply to Lifeline service.

The surcharge (which is equivalent to \$11.88 per line per year) will only partially offset the \$20.22 increase in annual per-line municipal relocation costs that Verizon has experienced since 2006. Moreover, demand restriction will further lower the incremental revenue that will result from the surcharge. Nevertheless, the surcharge will at least help to offset the substantial financial losses that Verizon is incurring overall in the State.

**Revenue Effect of the Filing.** Based on a projected mid-year 2013 line count of 3.26 million access lines (excluding lines used to provide Lifeline service), a \$0.99/line/month surcharge would generate a maximum of \$38.7 million in annual revenue. This figure does not take into account the likelihood that revenues would be suppressed to some extent by demand restriction in the highly competitive New York market. This increase is under the threshold for a “major change” in rates as defined in Publ. Serv. L. § 92(2)(c), based on 2011 revenue data.<sup>4</sup>

**The Surcharge Is Reasonable.** The surcharge is reasonable: municipal relocation costs have skyrocketed since 2006, and Verizon continues to lose billions in the State each year. Verizon needs to recoup its losses where it can. Moreover, customers have competitive alternatives and can choose other providers if they are dissatisfied.

The rise of competition for Verizon’s retail services was discussed at length in the Commission’s 2006 *Competition III Order*,<sup>5</sup> and the trends have only accelerated since then, as Staff and the Commission have repeatedly recognized. Indeed, in the period since the order was released, Verizon’s access line count has declined by over 50%. This trend has affected the basic business lines that would be subject to this surcharge just as it has affected residential lines.<sup>6</sup> In turn, the loss of access lines and revenues, coupled with the high fixed costs associated with maintaining a ubiquitous network within its service area and the heavy capital investments that the company has made in order to modernize that network, have had an extremely detrimental effect on the company’s financial position in the State. This is demonstrated by the following financial metrics, derived from Verizon’s Annual Report to the Commission for 2011.

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<sup>4</sup> In any event, a portion of the revenue increase would be attributable to services subject to full pricing flexibility under Verizon Tariff No. 1, § 1(A)(9).

<sup>5</sup> 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).

<sup>6</sup> See Case 10-C-0202, “Comments of Verizon New York Inc. on Proposed Changes in the Regulation of the Quality of Service Provided to Core and Small Business Customers” (February 25, 2013), § III(C).

- Net operating income: *negative* \$1.74 billion
- Net income: *negative* \$2.06 billion (net of earnings in affiliated companies)
- Cash flow from investment activities (*i.e.*, net capital investments): *negative* \$1.11 billion
- Cash flow from investment activities plus cash flow from operations: *negative* \$1.23 billion (dividends from affiliates excluded)

In short, Verizon is sustaining substantial net losses in the State, even while continuing to make significant capital investments in its network. The Commission has recognized on a number of occasions that these financial challenges warrant increased flexibility to seek additional revenues, where feasible, through retail rate increases,<sup>7</sup> as does the robust competitive environment that exists in this State. By the same rationale, these compelling policy considerations warrant the implementation of this municipal construction surcharge.<sup>8</sup>

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<sup>7</sup> See, e.g., Cases 06-C-0897 and 07-C-0610, "Order Denying Request for 25% Pricing Flexibility and Allowing for a 10% Increase to Certain Business Rates" (issued and effective January 17, 2008), at 13-14; Case 12-C-0382, Memorandum to the Commission from the Office of Telecommunications (October 3, 2012), approved as recommended and so-ordered by the Commission (issued and effective October 22, 2012), at 5.

<sup>8</sup> This would be the case even if the surcharge were deemed to result in an effective increase in "basic service" (access line plus local usage) rates above the \$23/month level approved in the *Competition III Order*. In that Order, the Commission stated that the prior rates, which were "below identified forward-looking costs are not only anti-competitive, but they suggest that rates are not even contributing to recovery of the costs of a hypothetical forward-looking network, let alone the one that actually exists." Accordingly, the Commission considered it "reasonable to move [basic service] rates to and above forward looking costs." *Competition III Order* at 59. The \$23 access line plus local usage rate approved in *Competition III* did not include the EUCL or surcharges.

On two occasions *after* the *Competition III* rate increases were implemented, the Commission permitted further increases in residential access line rates (coupled with decreases in local usage rates), generally based on the significant financial challenges that Verizon faced in the State as a result of the loss of customers to its competitors. See Case 08-C-0372, Memorandum to the Commission from the Office of Telecommunications and the Office of Accounting and Finance (June 3, 2008), approved as recommended and so ordered (issued and effective June 18, 2008); Case 09-C-0327, Memorandum to the Commission from the Office of Telecommunications and the Office of Accounting and Finance (June 18, 2009), approved as recommended and so ordered (issued and effective June 18, 2009).

GENERAL TARIFF

SECTION 24. SERVICES FURNISHED UNDER VARIABLE TERM PAYMENT PLANS

SECTION 25. SWITCHED NETWORK ACCESS PORT SERVICE

SECTION 26. LINK SERVICES

STATEMENTS

Statement No. 1 - Municipal Surcharge for Local Utility Gross Revenue Taxes

Statement No. 2 - Surcharges for State Excise on Telecommunication Services and Gross Earnings Tax (Gross Revenue Tax)

Statement No. 3 - Metropolitan Commuter Transportation District Tax Surcharges (MTA Tax)

Statement No. 4 - Municipal Construction Surcharge

(N)(1)

(1) See Attachment Page 1, Paragraph 1., following all pages that are a part of this Section, which sets forth the implementation date as provided for in Section 1, Paragraph A.13. of this Tariff.

(N)  
(N)

GENERAL TARIFF

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Mileage (Cont'd)			
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Signal Grade Lines .....	7	D.3.	
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Modular Jacks.....	8	D.	
Moves and Changes .....	15		
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Municipal Surcharge for Local Utility Gross Revenue Taxes .....	1	DD. & Statement No. 1	
Municipal Construction Surcharge .....		AA. & Statement No. 4	(N)(1) (N)(1)
N			
Name and Number Delivery Service .....	2	KK.	
National Directory Assistance Service .....	9	K.	
Natural Gas Pipe Line Companies - Connections with Facilities of .....	1	B.1.	
New York Statewide Relay Service.....	1	PP.	

(1) See Attachment Page 1, Paragraph 1., following all pages that are a part of this Section, which sets forth the implementation date as provided for in Section 1, Paragraph A.13. of this Tariff.

(N)  
(N)

GENERAL RULES AND REGULATIONS

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X. Credits for Telephone Instruments (No longer applicable)		
Y. Dial-A-Visit Message Detail .....	104	
Z. Discounted Service for Customers with Disabilities .....	105	
AA. Municipal Construction Surcharge .....	106	(N)(1)
BB. Specialized Equipment for Customers with Disabilities .....	106.1	
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(1) See Attachment Page 1, Paragraph 1., following all pages that are a part of this Section, which sets forth the implementation date as provided for in Section 1, Paragraph A.13. of this Tariff.		(N) (N)



GENERAL RULES AND REGULATIONS

AA. Municipal Construction Surcharge

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A monthly Municipal Construction Surcharge applies on a per-line, per-month basis to all retail switched voice-grade local exchange service lines offered by this Tariff or by any other Verizon New York Inc. tariff, whether such lines are provided on a standalone basis or as part of a package or bundle, and whether provided to residence or business customers; *provided however*, that the surcharge will not be applied to lines used to provide Lifeline service.

(N)(1)

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(1) See Attachment Page 1, Paragraph 1., following all pages that are a part of this Section, which sets forth the implementation date as provided for in Section 1, Paragraph A.13. of this Tariff.

(N)  
(N)

**IMPLEMENTATION DATE\***  
(Effective May 18, 2013)

1. The implementation date of the Municipal Construction Surcharge, filed on March 21, 2013 with an effective date of May 18, 2013, is May 18, 2013.

\* See Section 1, Paragraph A.13. of Tariff PSC NY No. 1—COMMUNICATIONS.

INDIVIDUAL PARTY AND AUXILIARY LINE SERVICE  
 AND STATION SERVICE

1. Effective January 1, 1983, in accordance with the order of the Federal Communications Commission (FCC) in Docket 20828, customer premises equipment, as defined by the FCC, will be provided by Telephone Company (the Company) for use with new or existing service only so long as such equipment is available from the Company inventory acquired prior to January 1, 1983, except as otherwise permitted by the FCC. (T)(1)

The Company will continue to provide maintenance for the Company-provided customer premises equipment subject to the availability of replacement parts and/or equipment.

The use and provision of customer premises equipment remains subject to the regulations of filed tariffs.

The following services and items of equipment in this Section are not affected by this FCC decision and will continue to be offered by New York Telephone to its subscribers, subject to such limitations as may be set forth in this Section:

<u>PAGE(S)</u>	<u>USOC/ITEM</u>	<u>PARAGRAPH</u>
5, 6	Foreign Exchange Service, additional charges	A.2.
16	Additional Central Office Number	D.3.
29, 30	Custom Calling Service	H.2.a
32	Remote Call Forwarding	I.2.

All other services and items of equipment in this Section are affected by this FCC decision and will continue to be offered by New York Telephone to its subscribers only so long as available from inventory.

Rates and/or regulations shown on the following tariff pages become effective February 1, 1990:

- Section 2
- 6th Revised Page 17
- 13th Revised Page 18

2. See Sections 1.AA. and Statement No. 4 of this Tariff for the Municipal Construction Surcharge applicable to certain retail switched voice-grade local exchange service lines. (N)(1)  
 (N)(1)

(1) See Attachment Page 1, Paragraph 1., following all pages that are a part Section 1 of this Tariff, which sets forth the implementation date as provided for in Section 1, Paragraph A.13. of this Tariff. (N)  
 (N)

Statement of Municipal Construction Surcharge

Monthly Municipal Construction Surcharge      \$0.99 per line

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(N)(1)  
J

(1) See Attachment Page 1, Paragraph 1., following all pages that are a part of this Section, which sets forth the implementation date as provided for in Section 1, Paragraph A.13. of this Tariff.

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(N)