

## **I - INTRODUCTION**

The New York wireline operations of Verizon Corporation (Verizon NY) experienced service quality performance problems during plan year one (PY1) of the Verizon Incentive Plan (VIP) Retail Service Quality Plan. These conditions continued to worsen in plan year two (PY2). As a result, Verizon NY has paid penalties (rebates) in the amount of \$55 million dollars to the Verizon NY customers who were affected by these service quality problems. In addition, these issues also prompted a New York Department of Public Service (NYDPS) investigation into the actions being taken by Verizon NY to address these service quality issues. This report is the direct result of this investigation.

The order initiating the Verizon New York Service Quality Proceeding noted that Verizon NY's service quality had dropped below the target levels adopted in the Verizon Incentive Plan. The NYDPS staff's 2003 first calendar quarter service quality report to the Commission expressed serious concern that Verizon NY's efforts would be insufficient to achieve all five of the then current Verizon Incentive Plan (VIP) service quality objectives. This concern was confirmed by Verizon NY's stated expectation that it would not achieve all five VIP objectives in PY2. A brief chronology of events leading up to the issuance of the request for proposal (RFP) is as follows:

- As described in Case 03-C-0971 and Case 00-C-1945, "the Commission sets standards for the quality of telephone service for all carriers. These service standards were last revised in 2000 to increase the focus on the quality of basic telephone service." In addition, "Verizon was also directed to improve its performance for Special Services...relative to Commission guidelines in 2001."
- Cases 00-C-1945 and 98-C-1357, Order Instituting Verizon Incentive Plan, issued February 27, 2002, established an incentive regulatory plan called the Verizon Incentive Plan (VIP). This plan started March 1, 2002, and while part of it expired on February 29, 2004, the Retail Service Quality Plan lasts three years, expiring February 28, 2005. Five service objectives are contained in the VIP. The Retail Service Quality Plan includes customer trouble report rate (CTRR), percent out-of-service over 24 hours (OOS>24), percent installation completed in five days, and NYPSC complaints, all based on statewide averages. The fifth, Outliers, "is a count of the number of poor-performing areas within specific geographic areas of the state in a given plan year" and is designed to provide focus on localized problems that might otherwise be hidden in statewide averages. Annual averages are used for these measurements' objectives to allow for seasonal variations and to negate the need for forgiveness for unusual events. Verizon NY must meet the VIP objectives or pay rebates to its affected customers, as set forth in the plan.

- A May 5, 2003 memorandum from the Office of Communications to the Commission, Subject: Cases 02-C-0543 and 00-C-1945, addressed Verizon service results against service standards noted above and the VIP. It was reported that when comparing the first quarter of 2003 against the same period in 2002, service results generally declined. A review of the VIP results indicated that one of the five targets, percent out-of-service (OOS) over 24 hours, was missed for PY1, which ended February 28, 2003. Furthermore, when reviewing March 2003 one-month results for this plan, the OOS “of 33.1% is well outside the annual target of 20% or less.” Outliers, tied to service inquiry reports (SIRs), also appeared to be in jeopardy after only one month. NYPSC complaints showed improvement because of the way complaints are processed.

The Commission order initiating the Verizon New York service quality proceeding was issued and effective on July 11, 2003. In this order, the Commission stated that retail service quality has fallen below specified levels based on service standard measurements and that the VIP was met in only four of five measurements for the first year. Furthermore, planned force reductions and capital budget expenditure reductions would appear to exacerbate the service conditions. Indeed, Verizon NY stated that it would not achieve all five of the VIP measurements in the second plan year. The Commission noted “productivity improvements are to be the primary focus of the Company’s overall effort. In addition, chronic poor service in specific areas does not appear to be adequately addressed by Verizon’s plans.”

This sequence of events led to the RFP to which Doherty & Company (DCI) responded and for which it was selected. The issues to be addressed revolve around the adequacy of Verizon NY’s plans in response to a deteriorating retail service level, including Special Services. In summary, the questions DCI was asked to address included:

- Can customer service be improved while reducing workforce and capital expenditures?
- Are plans in place, with total management backing and credibility, for enough productivity improvements to offset the force loss and improve service?
- Can capital be targeted so that chronic areas can be corrected immediately and others areas are not allowed to become chronic?
- Are there systems, processes, and procedures in place or planned that will ensure that this is accomplished?
- Is there a “best practice” industry-wide procedure or process that provides better approaches to answering these questions?

## **A - OBJECTIVES AND SCOPE OF THE REVIEW**

The overall objective of this engagement is for an independent audit to be performed as a means of reviewing the adequacy of the company's efforts to provide retail service quality that consistently meets the requirements of the system standards and guidelines.

Principal specific objectives that supported the overall objective include:

- Determining the likelihood that Verizon will meet the five VIP objectives of troubles, installation, complaints, and outliers in PY2.
- Determining additional elements that are necessary for incorporation into, or enhancement of, Verizon NY management and operations structures, plans, and processes to achieve all VIP objectives in PY2, if possible. If not possible in PY2, a program and timetable for their achievement is proposed. Evaluation of Verizon NY plans falls under the course of this task.
- Determining the adequacy of Verizon NY's capital program and maintenance budget; including plans for expenditures on jobs specifically identified to improve service and expenditures to reduce workload through proactive cable maintenance and rehabilitation.
- Determining the adequacy of Verizon's current plans to make better use of outside plant workforce; including plans for increased management focus on productivity, additional training, and the use of global positioning equipment and other productivity enhancement tools.
- Comparing Verizon New York's productivity to other telephone companies across the nation (including, but not limited to, Qwest, BellSouth, and SBC/Ameritech) and comparing management practices that deal with labor productivity and its environment. Reporting on Verizon New York's position relative to comparison companies and other Verizon units is also included under this objective.
- Identifying areas for adoption of industry "best practices."
- Determining how best to help ensure that Verizon's long-term performance better meets the needs of New Yorkers throughout the state than it has recently met them.

The order specified that: "The audit should include, but not be limited to, areas of the Company's management and operations, such as: the amount of network investment and resources dedicated to improving service quality, and the mix of these resources; the adequacy of Company records to locate and correct deficient equipment in a quick and efficient manner; available workforce, expected workload, and worker productivity."

The scope of work reviewed Verizon NY's retail service quality efforts from the four perspectives cited in the RFP: performance, analysis, capital expenditures and maintenance, and best practices. To fully address the range of activities that influence retail service quality, DCI structured the project in the following five major work packages:

- **Area 1 – Organization and Management**, which encompasses top-level management decision processes and structure.
- **Area 2 – Capital and Maintenance Planning**, which addresses Construction and Maintenance Planning and Network Planning and Engineering.
- **Area 3 – Customer Services and Field Operations**, which includes call center operations, installation and repair, call center interfaces with field operations, field operations, installation and repair and central office and outside plant construction, and workforce management for these operations.
- **Area 4 – Performance Analysis and Statistics**, which handles performance measurement, analysis, and trends and develops and implements statistical sampling applications, as necessary for the review.
- **Area 5 – Best Practices**, which includes determination of workforce management best practices that might be applicable to Verizon NY, as well as an industry-wide comparison of Verizon NY management practices related to overall retail service quality provisioning.

The focus of our investigations was on service quality performance. Although, to a large extent, our review of service quality performance focused on the service standards contained within the Verizon Incentive Plan (VIP) Retail Service Quality Plan, Verizon's Intrastate Special Services Process Improvement Program, New York State service quality standards for telephone companies, and New York Special Services Guidelines, many other service performance indicators were also reviewed. Our review provided findings and recommendations that took into consideration the business, financial, regulatory, competitive, and technological environment in which Verizon NY operates.

This review was not an "audit" of the service quality performance in the strictest sense of the word. DCI consultants relied on much of the financial and statistical information provided by Verizon NY in conducting this review of service quality performance. Although we did question some of the numerical information as it was presented to us and we have questioned how some of the numbers are calculated, we did not conduct any form of transaction sampling or testing (traditional auditing techniques) to verify this financial or statistical information.

Our review is prospective in nature; that is, analysis of historical practices and performance was used only to the extent that results of analyses of such practices and performance offer substantive input to the development of findings and recommendations that are focused on the improvement of current service quality plans and practices.

## **B - APPROACH AND STUDY METHODOLOGY**

### **REVIEW STRUCTURE**

DCI's assessment of Verizon NY's retail service quality addressed the four areas of project scope described in the RFP, as follows:

- "The Company's performance with respect to the Service Standards and Guidelines generally;
- The Company's performance to date in PY2 of the VIP specifically;
- Company workforce reductions in 2002 and further reductions planned for 2003; and
- A significant reduction in past and planned investments in the network, particularly with regard to service improvement investments."

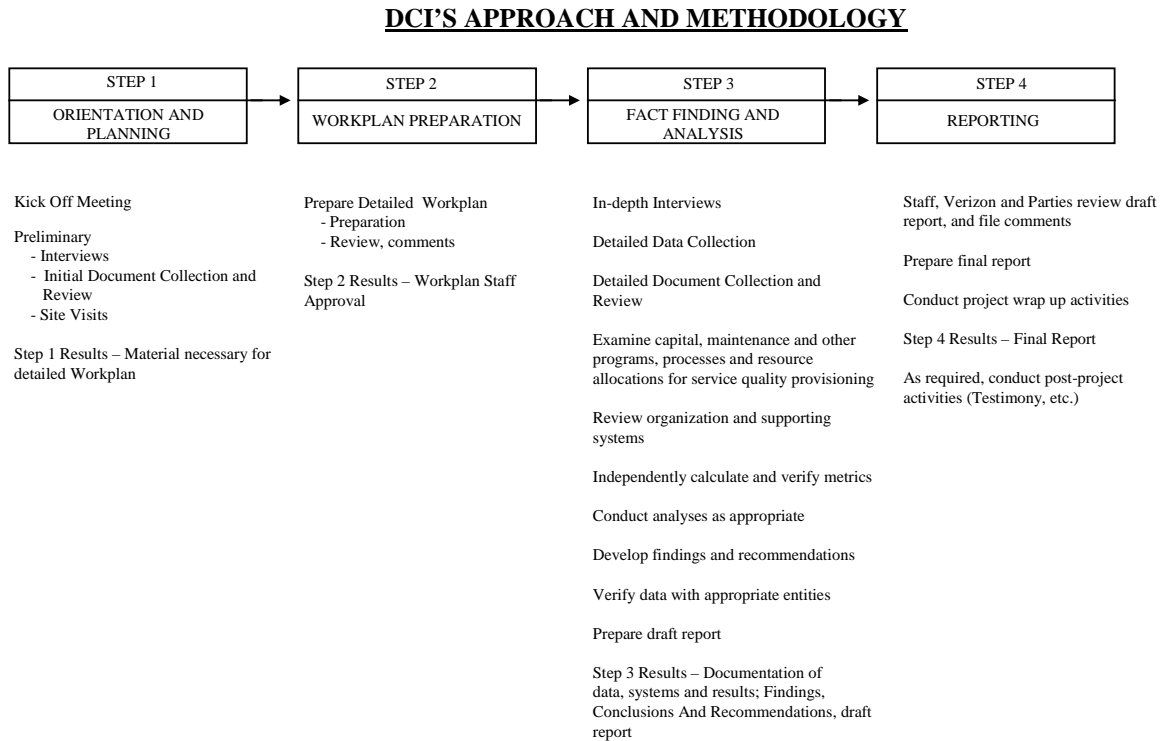
To implement our approach and to satisfy the specific requirements of the Verizon NY retail service quality review, DCI followed a four-step process in a manner that was designed to:

- Provide an overall evaluation of the company's service quality programs, processes, and resource allocations
- Identify any existing deficiencies or potential problems within the scope of the review
- Develop recommendations for the resolution of any problems identified
- Quantify improvements associated with specific recommendations

DCI's four-step approach was used to provide an efficient, effective process for the review, placing an initial comprehensive data collection step as the first step. The second step included development of a detailed work plan that served as the guideline for the conduct of the project. Parties to the proceeding were allowed to provide input to the work plan. Step three included in-depth fact-finding and analysis. Over 240 interviews of Verizon personnel were conducted and over 600 information requests were submitted and reviewed. This step also included development of the Draft Report. Step four focused on development of the Final Report.

DCI's four step approach is illustrated in *Exhibit I-1*.

**Exhibit I-1**

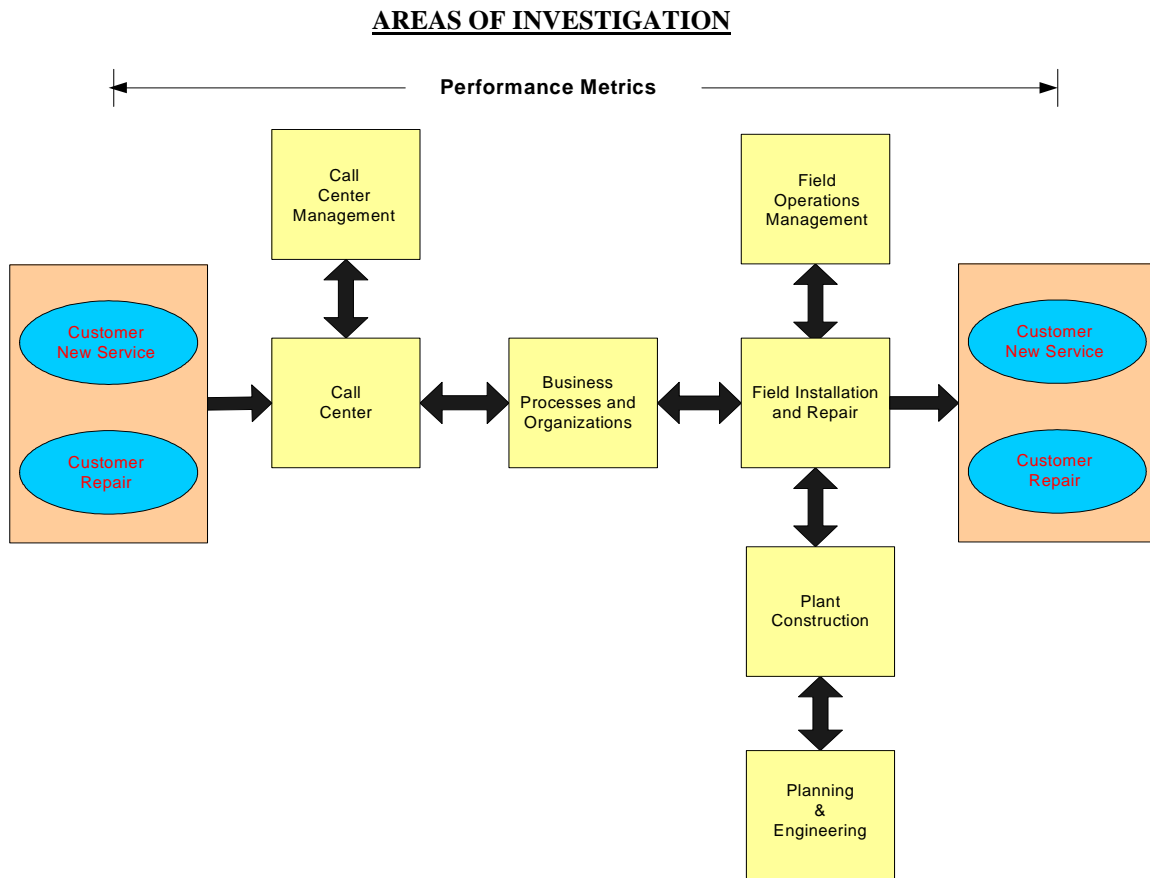


When service quality problems occur, they are usually the result of multiple reasons rather than one simple factor. Many elements are tied into the provision of high-quality service including, but not limited to, the following:

- Proper network and outside plant planning to meet customer demand
- Trouble report analysis for directing targeted maintenance
- Adequate levels of staffing in both the call centers and the field
- Adequate levels of materials and supplies that are readily accessible to service technicians
- Proper training of employees in the latest technologies, their installation, and their repair
- Proper coordination of field assignments and efforts to ensure the most efficient use of technician resources and equipment

These various elements are all interrelated as presented graphically in *Exhibit I-2*.

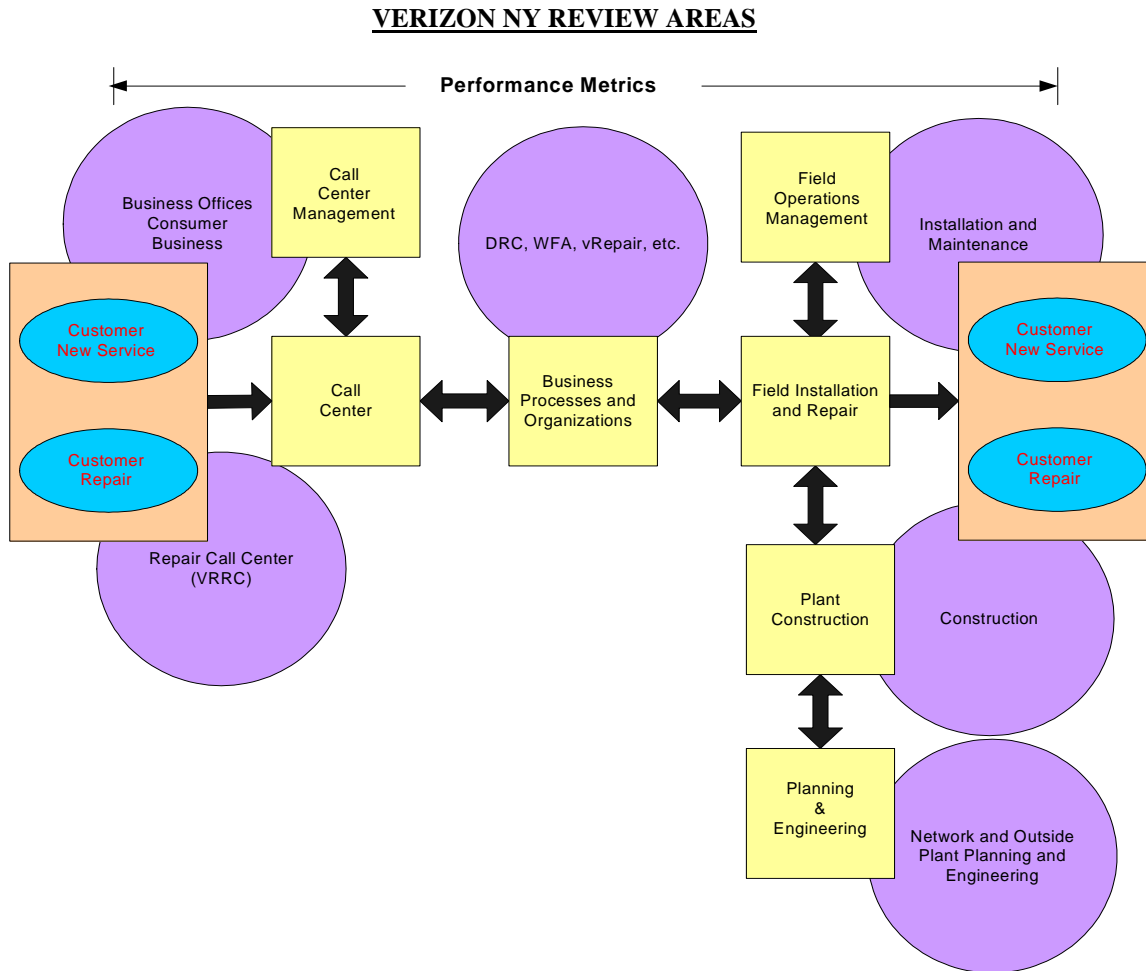
**Exhibit I-2**



Whether a customer is ordering new or additional services, reporting a repair issue, or making a billing inquiry, the first interaction with Verizon NY is through contact with a call center. Based on the nature of the concern, the customer’s request is routed through the appropriate processes and systems within Verizon NY. Such customer inquiries usually result in a field request being made to an installation & repair (I&R) organization. An I&R organization is typically the organization responsible for providing the new services or repair to the customer; however, I&R activities are dependent on: a Network Planning and Engineering organization that ensures suitable plant facilities exist (planned for and engineered); a Construction organization that actually builds much of the required facilities; a Central Office Operations organization that installs and maintains the central office facilities; and an Infrastructure Maintenance organization that is responsible for planning and ongoing maintenance of telecommunication facilities.

*Exhibit I-3* shows the areas of Verizon NY that were most relevant in our review of service quality performance. The shaded circles identify the organizational areas within Verizon NY that comprised the scope of our review.

Exhibit I-3



From a customer's standpoint, service quality might be seen as more of a process (i.e., the customer places a call to Verizon NY and a technician appears at the premise to resolve the issue). However, there are many steps in between these two events (calling Verizon NY and the technician appearing) that are the responsibility of different functional organizations within Verizon. Each of the boxes shown in *Exhibit I-2* is actually one or more different "functional" areas.

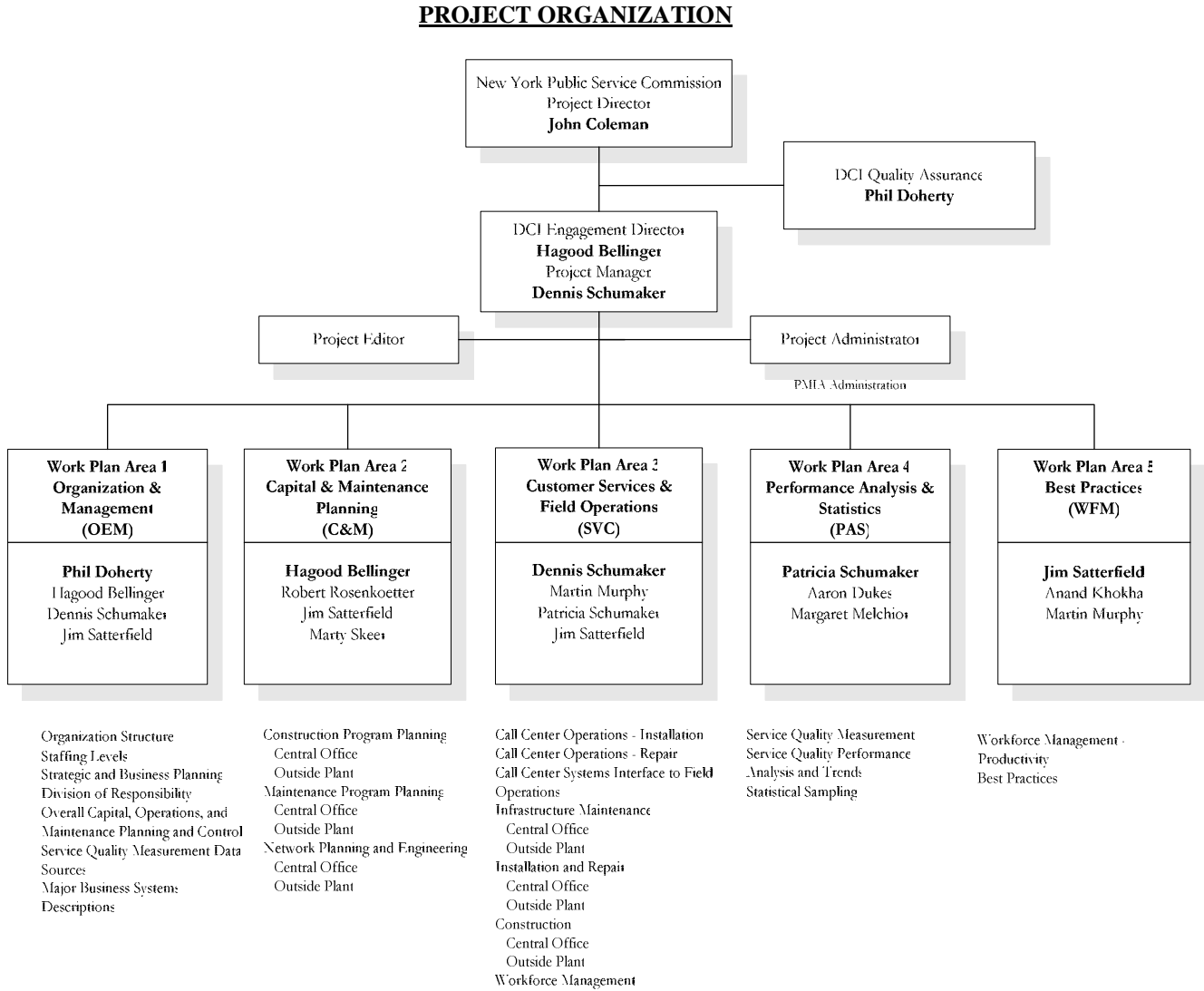
A problem in one of the areas can manifest itself as a problem in a totally different area. For example, a deficiency in the area of Network Planning activities could surface in the future as the inability to provide customers with service because of a lack of network capacity. Therefore, any review must be multidisciplinary in its scope and must look at the myriad elements that contribute to the provision of good customer service. All of these organizations play a significant part in both the service quality performance experienced by the customer and the performance metrics that are collected to measure service quality.



## C - PROJECT TEAM ORGANIZATION

DCI's project team organizational structure is shown in *Exhibit I-4*.

**Exhibit I-4**



## **D - REPORT ORGANIZATION**

This report is presented in eight chapters, an appendix, and a glossary, as follows:

- I – Introduction – This chapter presents a history of and an introduction to the project, the objectives and scope of the review, the approach and study methodology, the project team organization, and the report organization.
- II – Executive Summary – This chapter presents highlights of the entire report, traces its origination, restates the objectives and scope of the audit, briefly describes DCI's approach and methodology, and presents the key findings and a listing of the resultant recommendations.
- III – Organization and Executive Management – This chapter discusses the organizational structure for Verizon NY management decision making, labor relations, and corporate/strategic planning.
- IV – Performance Analysis & Statistics – This chapter addresses the collection and analysis of relevant performance statistics for Verizon NY operations and associated performance results.
- V – Capital and Maintenance Planning – This chapter discusses the capital and maintenance planning processes used within Verizon NY when developing annual budget estimates for both capital and expense budgets.
- VI – Customer Service – This chapter discusses the customer service functions for Verizon NY organizations serving residential customers, small businesses, medium businesses, and/or premium businesses.
- VII – Field Operations – This chapter discusses the field operations of Verizon NY including the functions of installation and maintenance, network construction, network design and outside plant engineering, central office, and the Infrastructure Improvement Program,
- VIII – Best Practices – This chapter provides a general discussion on best practices, the identification of activities being undertaken in Verizon NY that are considered best practices, and a summation of those best practices identified from other industry sources.
- Appendix A – Associate Issues – This section presents a summary of the issues that were raised by Verizon NY associates at the three after-hours meetings that were held across the state.
- Glossary – This section presents a listing of the various acronyms that are used in the report and their definitions.