

STATE OF NEW YORK

Public Service Commission

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PSC: Verizon New York to Rebate \$40 Million for Targets Missed Last Year - Service Quality Improves in First Quarter of 2004 -

Rochester, NY – 5/19/04 – As part of its regular, quarterly review of Verizon New York Inc.'s service quality performance, Department of Public Service staff reported to the Commission that Verizon will issue approximately \$40 million in rebates to its customers as a result of missing two annual service quality targets during the second year of its Retail Service Quality Plan, and that the company's performance improved substantially during the first three months of 2004.

The \$40 million in rebates will be issued in the form of credits on bills starting in the June billing cycle, resulting in a total of \$55 million in rebates paid by the company under the Retail Service Quality Plan during the last twelve months.

"High service quality is the very foundation of effective, efficient telecommunications services in New York, and the Commission is committed to ensuring that companies operating in this state meet customer expectations," Public Service Commission Chairman William M. Flynn said. "With respect to last year's performance, the \$40 million in rebates reflect but one strategy among many the Commission has initiated in recent years to protect the public interest in maintaining excellent telecommunications services. I am pleased to see that Verizon began 2004 with solid service quality performance numbers, and I believe we have put the proper incentives in place to ensure that Verizon continues to meet or exceed our carefully designed service quality targets."

All telephone companies offering local exchange service in New York State are subject to the Commission's service quality standards. These standards measure a company's maintenance of its local network based on customer trouble reports, timeliness of customer-requested installation work, answer-time performance when customers call a business office, proper network development to handle customer calling capacity, and efforts to minimize major service outages. In addition to measuring these individual service quality elements, the Commission established a comprehensive service quality measurement category that evaluates "localized service" at central offices, installation districts, call centers or repair service bureaus

designed to prevent service from slipping on a regional basis. Separate from the service quality standards, the Commission tracks complaints it receives as an independent measure of local telephone service quality.

Verizon New York, the largest local exchange company in the state with approximately 10.1 million access lines, is subject not only to the Commission's general service quality standards but also to a special Retail Service Quality Plan. That plan, effective March 1, 2002 through February 28, 2005, provides customer rebates ranging between \$15 million and \$170 million if the company does not meet a set of specific service quality targets on an annual basis.

For the Retail Service Quality Plan year ending February 29, 2004, Verizon missed Commission targets for restoring service to customers within 24 hours – the "service restoration target" – and for the "localized service" comprehensive category target. Verizon's failure to meet the annual service restoration target results in a \$20 million rebate. The company will issue a one-time credit of about \$35.70 on bills, beginning in June, to about 627,000 customers throughout the state who experienced a service outage lasting longer than 24 hours between March 1, 2003, and February 29, 2004. Verizon's failure to meet another Commission standard – the "localized service quality" target – also will result in a \$20 million rebate, which will be paid to all of its customers throughout the state in the form of a bill credit of about \$2 per access line (approximately 10.1 million lines).

In a related matter, the Commission today voted to approve a revised service quality target in the Retail Service Quality Plan governing Verizon. The Commission previously determined that the complaint rate target contained in the Plan needed to be recalibrated so that it would be accurately aligned, and consistent with, the Department of Public Service's complaint resolution process – the Quick Resolution System (QRS) – that was implemented in June of 2002. The QRS is designed to improve customer service provided by the state's regulated utilities in the state and provide more timely resolution to those consumers who experience a utility-related problem.

Under the Commission's old complaint handling procedures, the Retail Service Quality Plan for Verizon contained an annual customer complaint performance target of 5.5 complaints per 10,000 lines. Based on extensive public comment and analysis, the Commission voted today to recalibrate the annual complaint rate target to 0.94 per 10,000 access lines. Since Verizon, and other New York utilities, needed time to adapt to the new complaint-handling process, and given the fact that the company's performance (0.97) during the transition year was sufficiently close to new target, the Commission determined that it would not be reasonable to strictly apply the new target to the company's performance for Plan Year 2. Therefore, the new target will apply to performance during Plan Year 3, which runs from March 1, 2004 through February 28, 2005.

The Commission will issue a written decision detailing today's vote. The decision in Commission Case 00-C-1945, when available, can be obtained from the Commission's Web site at **<http://www.dps.state.ny.us>** by accessing the Commission Documents section of the homepage. Many libraries offer free Internet access. Commission orders can also be obtained from the Files Office, 14th floor, 3 Empire State Plaza, Albany, NY 12223 (518-474-2500). The First Quarter 2004 Service Quality Report will be available today on the Commission's Web site and in the Files Office