

STATE OF NEW YORK

Public Service Commission

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PSC Outlines Broad Regulatory Authority Over Telephone Service Quality -Combination of Regulatory Oversight and Competition Will Drive Service Quality-

Albany, NY - 3/7/05 - In testimony today before the New York State Assembly Committee on Corporations, Commissions and Authorities, Public Service Commission Chairman William M. Flynn outlined the PSC's continuing role in the oversight of telephone service quality and emphasized the Commission's broad regulatory authority to enforce the state's Telephone Service Quality Standards.

"The New York State Public Service Commission continues to place a high priority on its oversight of telephone service quality for all New Yorkers, most notably those served by Verizon," Flynn said. "We retain significant authority via our existing service standards, our active review of service quality performance, and our role in implementing the service quality audit recommendations which the Commission recently acted on."

In discussing the Commission's views on service quality oversight after the recent expiration of the Verizon Incentive Plan (VIP), Chairman Flynn noted that the telecommunications industry has undergone dramatic changes in the past ten years. In fact, the industry today bears little or no resemblance to the industry that was still dominated largely by monopoly providers before the passage of the Telecommunications Act of 1996. In the face of increasing competition from cable companies, cellular telephones, and phone service provided using Voice over Internet Protocol (VOIP), traditional wireline phone companies like Verizon

must continue to focus on meeting customers' service quality expectations or face the very real prospect of losing significant market share.

"The Wall Street Journal recently reported that the Yankee Group, a noted research organization, predicts that more than 80% of households nationwide should be able to get phone service from a cable company by the end of 2007, and we believe New York State is ahead of the nation," said Flynn. "These trends offer consumers real choices. Verizon's incentive to maintain appropriate levels of service quality no longer need be primarily driven by fear of regulatory penalties because the market penalties for failure to retain and grow their business are much more severe – that is, the loss of its customers."

Chairman Flynn testified that the VIP was a negotiated, three-year plan that was voluntarily entered into by Verizon, New York Inc. and approved by the Commission in 2002. While the VIP included provisions for automatic rebates to customers for failure to meet certain service quality targets, the rebates were by no means the only tool available to the Commission to enforce the Telephone Service Quality Standards it established in 1973. The Commission also recently exercised its authority to ensure that Verizon's long-term strategy is to maintain adequate service performance when it initiated an independent service quality audit. The audit was conducted by an independent consultant, Doherty and Company, and the report containing 59 recommendations for maintaining and improving service was issued last November.

"The actions we may take in the future will need to recognize the development of the competitive market and the limitations that may place on traditional regulation," Flynn said. "However, we do not subscribe to some naive view that market competition is sufficiently robust or secure everywhere to justify the elimination of our service quality protections. Any regulatory policy that relies exclusively on the increasingly competitive market may jeopardize service quality in areas where choice is not yet prevalent, or could overlook generally poor performance

across the state by the industry as a whole. Thus, we will continue our vigilant efforts to maintain telephone service quality for all customers."

Going forward, Chairman Flynn told the Committee that the Commission will rely on a four-tiered approach to ensuring acceptable levels of service quality for New York's consumers. The Commission's four-tiered approach will include: continued aggressive oversight of service quality performance; implementation of recommendations contained in the independent Service Quality Audit; other available regulatory actions, including hearings, investigations and service improvement plans; and, competitive choices available to customers.

"The bottom line is service quality has been, and will continue to be, a high priority for the Commission," Flynn said. "Our strong commitment to maintaining service quality and our broad regulatory authority in this area remain intact."

The full text of Chairman Flynn's testimony - as well as the testimony of Robert Mayer, Director of the Department of Public Service's Office of Telecommunications – can be obtained through the Department of Public Services Web site. The Web site address is www.dps.state.ny.us and the testimony can be accessed by clicking on the "What's New" icon on the homepage.