

STATE OF NEW YORK

# Public Service Commission

William M. Flynn, Chairman

Three Empire State Plaza, Albany, NY 12223

Further Details: (518) 474-7080

<http://www.dps.state.ny.us>

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## **PSC Orders Independent Audit of Verizon Service Quality Efforts Directs Company to File Plan to Achieve All Service Quality Goals in Second Year of VIP**

New York, NY – 6/18/03 – In response to concerns about the quality of telephone services provided by Verizon New York Inc. (Verizon), the New York State Public Service Commission voted today to initiate a service quality proceeding that will include an independent audit focusing on the adequacy of Verizon’s long-term service quality improvement efforts. Further, the Commission decided to direct Verizon to file tariffs suspending the company’s pricing flexibility and to file a service improvement plan that envisions attainment of all five service quality objectives in the second year of its current regulatory plan, the Verizon Incentive Plan (VIP). The plan is due within 20 days of the issuance of the Commission’s written decision reflecting today’s vote.

“We take service quality very seriously because poor service is not just an inconvenience for customers, but it also negatively impacts economic development and public safety,” William Flynn, Chairman of the Commission, said. “New Yorkers have very high standards and I believe those high standards are reflected in the service quality targets and incentives contained in the VIP. Despite these incentives, I have made it clear that we have serious concerns about Verizon meeting the agreed-upon targets. The investigation we are ordering today will aid in evaluating Verizon’s approach to improving service quality and will serve as a valuable resource as we continue our efforts to ensure that Verizon meets its long-term service quality obligations.”

The State Public Service Law authorizes the Commission to initiate an audit of the company’s operations and to direct the company to implement any recommendations

resulting from the audit that it finds necessary and reasonable. The audit will be part of the proceeding initiated by the Commission and will be conducted under the direction of, and be managed by, the Commission's staff and will be paid for by Verizon.

“Over the past few months, a wide range of interested parties have expressed strong, and sometimes divergent, positions on Verizon's service quality and the efficacy of the VIP,” Flynn said. “In my mind, the most important party is the consumers who are affected by inadequate service quality and who deserve a solution. I expect the combination of the service quality investigation, the independent audit, the improvement plan and the existing incentives contained in the VIP to produce results for those consumers.”

The independent audit will examine, among many of the company's management and operational areas, network investment and resources dedicated to improving service quality, the adequacy of company records to locate and correct deficient equipment in a quick and efficient manner, available work force, expected work load, and worker productivity. Data reviewed by Commission staff indicates that productivity in some areas of New York is below the productivity of other states in the Verizon footprint as measured by the number of trouble reports or service installations completed per employee per day. Staff's analysis of service results shows that Verizon's performance failures under the VIP involve productivity-related measurements associated with the timeliness of responding to consumer concerns about repairs and installations. Verizon's performance on all other measurements has been good to excellent in the first year of the VIP.

“A previous incentive plan won praise for its success in raising service quality between 1995 and 2002, yet Verizon struggled in the early years of that plan to meet the targets. Eventually, New Yorkers benefited greatly from that plan, and we expect the VIP, containing even stronger service incentives, to produce similar benefits,” Chairman Flynn stated. “Arguably, the VIP is one of the strongest service quality plans in the country. However, improved service quality requires dedication to consumer interests and cooperation from management and labor. I urge all parties to dedicate themselves to this effort, and to avoid actions that further frustrate consumer needs.”

### **The VIP, Penalties and Pricing Flexibility**

The VIP, which includes a Retail Service Quality Plan, establishes five key, interrelated service quality targets. The plan is designed to maintain for customers the significant service quality improvements Verizon made between 1995 and 2002 under a previous incentive plan. Failure to meet the targets triggers penalties ranging from \$15 million to \$170 million that are payable to customers. In the first year of the VIP – March 1, 2002, through February 28, 2003 – Verizon missed one of the five service quality targets and issued rebates to customers totaling \$15 million.

When Verizon misses at least two targets during any three-month period after the first year of the plan, the company's pricing flexibility – that is, the ability to increase prices to respond to competitive market changes – for its services and products is automatically suspended. For the twelve-month period ending in May, 2003, Verizon failed to meet two service quality objectives: percent of customers out-of-service for less than 24 hours and a metric measuring how many of its local and regional reporting entities fail to meet Commission service quality targets. Therefore, the flexibility to raise prices has been suspended until Verizon is able to meet all five Commission targets for three consecutive months, on a twelve-month rolling average basis, as required under the VIP. Verizon retains the ability to lower prices in response to competitive pressures.

The Commission will issue a written decision detailing today's vote to initiate a service quality proceeding, including an independent audit. The decision in Commission Cases 02C0543/00C1945, when available, can be obtained from the Commission's website 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, 14<sup>th</sup> floor, 3 Empire State Plaza, Albany, NY 12223 (518-474-2500).