Before the
Idaho Attorneys General Offices

C O M P L A I N T

ON THE NEED TO INVESTIGATE VARIOUS US WEST BUSINESS TRANSACTIONS DURING THE CREATION AND SALE OF MEDIAONE AND ITS POTENTIAL MERGER WITH QWEST COMMUNICATIONS

AND ON THE NEED TO INVESTIGATE US WEST'S FAILED DEPLOYMENT OF ADVANCED NETWORKS, TREATMENT OF COMPETITORS AND THE IMPACTS ON CUSTOMERS

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EXECUTIVE SUMMARY

DOES US WEST OWE CUSTOMERS FOR ITS SPINOFF OF MEDIAONE OR FOR ITS MERGER WITH QUEST?
AND
DID US WEST'S FAILED DEPLOYMENT OF ADVANCED NETWORK SERVICES HAVE AN ADVERSE IMPACT ON CUSTOMERS?

With all the current talk about MediaOne, a spin-off of US West, (one of the original 7 Regional Bells), and US West's proposed merger with Qwest Communications, it is surprising that few regulators have questioned certain of US West's other recent maneuvers.

In hopes of breaking this silence, we are calling on the state Public Service Commissions and the Attorneys General offices in the 14 states where US West operates to immediately investigate the possibility that certain of US West's actions materially benefited the company's shareholders while illegally costing the company's customers a sum of money that is potentially very large.

We estimate that over $15 billion dollars is in question.

We realize that state regulations vary greatly and it is hard for us to determine which states have addressed these important issues. However, there are no major indications from US West's annual reports to indicate that adequate compensation has been paid to US West customers as a consequence of these maneuvers.

Also, we would like to stress that AT&T is blameless in any and all violations mentioned in this complaint regarding MediaOne. Our Complaint clearly shows that US West is responsible for these actions. As the authors have discussed in other writings, AT&T's purchase of MediaOne may in fact be aiding MediaOne's cable users and the future deployment of broadband services.

Background:

In 1995, US West split itself into two parts, US West Communications and US West Media Group. US West Communications retained the local phone companies while the Media Group received numerous cellular and cable television properties as well as the company's lucrative home directory business. In 1998, US West converted the Media Group into MediaOne, a separate and independent entity. During that same year, US West/MediaOne spun-off its cellular telephone business to AirTouch.

We call for an investigation because:

- We believe that US West may have manipulated the telephone directory business in a manner that gave its shareholders $850 million dollars in dividends. (Directory services are the "Yellow" and "White" pages, as well as ancillary services.) In the complex series of stock transactions the US West Directory business was first transferred to the Media group, then returned to the Communications group, with the shareholders receiving the rewards. We believe this may have been an illegal act. The directory business remains a monopoly with profit margins of over 50%, and it is traditionally a part of local telephone service. We therefore believe that a proper understanding of the US West's maneuver is in the public interest.

- We believe that when US West sold its cellular services to AirTouch for $5.9 billion in 1998, the company failed to repay its customers for the cost of its cellular licenses and the development of the cellular business. In this regard, an examination of the AirTouch case may be useful. AirTouch was formed as a spin-off of Pacific Telesis's wireless businesses. The California Commission, under pressure from Consumer groups, required Pacific Telesis to pay California customers for their role in the financial development of these assets. Similarly, when US West's cellular properties were sold to AirTouch, we believe US West customers should have, but did not, receive similar rebates.

- US West paid almost $4 billion dollars to remove the accumulated debt from MediaOne, and the company was then separated without US West's customers receiving any compensation for their participation in the development of MediaOne's products and services.

In addition to the similarities between the MediaOne deal and Pac Tel's spin-off of Airtouch, audits in California, Ohio and Wisconsin clearly demonstrate that the regional Bell companies used rate-payer monies to improperly fund enterprises as various as the development of the PCS telephone business and the Directory services. ("Audit of the Affiliate Interests of the Pacific Telesis Group, 1994" "Review of Affiliate Transactions at Ameritech Services Inc., May 95" National Association of Regulatory Utility Commissioners)

Pac Bell's audit stated that:

> "Pac Bells Directory Research and development was funded by the general body of ratepayers",

while Ohio and Wisconsin's audit found that:

> "Ameritech charged ratepayers for developing new products, from non-regulated data services and personal communications to video conferencing development."

With these precedents in mind, it is important to discover if US West's customers repaid any or all of the MediaOne debt, and if their monies were used to fund any or all of the products and services that were spun off.

Other Implications:

These issues are being played against a backdrop of other problems and questionable actions, which make the possible case against US West appear to be even more compelling.

1) US West Failed To Deploy Advanced Networks In A Timely Fashion. By its own accounting, US West was supposed to provide almost 3 million households with 500 channel full motion video interactive services. The US West 1993 Annual Report states:

> "In 1993 the company announced its intentions to build a 'broadband', interactive telecommunications network... US West anticipates converting 100,000 access lines to this technology by the end of 1994, and 500,000 access lines annually beginning in 1995."

This is not ADSL, the Bell’s current “advanced network” service. What was promised instead was an interactive broadband fiber-optic based digital service about 700 times more powerful than ADSL. In Omaha, Nebraska, the case of Cottonwood vs US West clearly outlines how US West had promised over 500 digital channels, but instead rolled out cable services. In return for the promised network, US West received a number of accounting changes that were highly advantageous to the company. The network was never deployed. The advantageous accounting changes remain in place.

2) US West's Overall Profits are Outrageous---Why? US West's local phone service remains a monopoly and as such is supposed to produce profits that are "fair and reasonable", as are the services of all other utilities. However, US West has now become one of the most profitable companies in America..

A comparison of the earnings of US West Communications and the earnings of five well-known publicly traded companies, Nike, Exxon, McDonalds, Walt Disney, and Dow Jones, shows that US West outperformed the latter group by 155% in industry-standard return-on-equity, by 181% in earnings per share, and by 106% in net profit.

3) Outrageous Profits From Not Delivering Advanced Networks? It is a little known fact that most states gave the Bells massive financial incentives based on promised deployment of advanced network, as we document elsewhere. The issue of profits also begs a question--- were specific acquisitions made and services and products developed with monies that was supposed to be used in the construction of new networks?

4) Did US West Write-off a Network it Never Replaced And Take Over $3 Billion Dollars in Deductions? In 1998, New Networks Institute filed a complaint with the Criminal Justice Division of the Internal Revenue Service (IRS), against all of the Bell companies, including US West. Our finding was that US West and the other Bells took over $21 billion dollars in write-offs, claiming they were replacing the older copper wiring with new fiber-optic wiring. The wiring was never replaced, though we contend the Bells took the deductions.

US West's total one-time deduction was $3,123,000,000.00.

In November 1999, NNI refiled this complaint with additional information that supports our original claim.

5) Customer Services Issues Numerous Public Utilities Commissions, including those in New York and Ohio, have found a drop in the Bells' performance of customer services, i.e. everything from answering inquiries to making sure that customers receive installations and repairs in a timely fashion. Caused mainly through massive staff cuts to save money, these problems continue today. In May, 1999, the Colorado Public Service Commission issued this formal notice:

> "PUC staff outlined possible violations of Commission rules concerning repair response time, the number of allowable customer trouble reports, speed of answering calls to the company's business offices and the provision of timely service."

6) Anti-Competitive Behavior and Sub-Standard Customer Services being provided to Internet Service and local phone competitors. In recent testimony before a Congressional hearing on Rural Telecommunications, (9/9/99) numerous Internet Service Providers and competitive local exchange companies (CLECs) testified that US West had created a series of roadblocks to competition, including failure to deliver on service orders and the use of anti-competitive practices to lure customers away from smaller internet providers. More recently, 10/13/99, the USISPA (United States Internet Service Providers Association) held a press conference and members from Washington, Arizona, New Mexico, Wyoming, and Utah all told horror stories about US West's behavior. (For more info go to http://www.usispa.org)

NNI independently documented the problems through interviews and a survey of Internet providers. The problems are widespread and need immediate attention.

7) Executive Compensation. There are a number of issues surrounding executive compensation for various affiliate transactions. In the transactions surrounding Directory, certain of the company's top executives received substantial holdings of stock and substantial stock options, in return for which no services were performed--except the moving about of the company's directory services in an opportunistic fashion that appears to have been designed to further the personal enrichment of the relevant executives. We believe that, at best, a major conflict of interest may have occurred. For example, at the end of the complex but puzzling maneuvers involving the Directory business, Messers Lillis and McCormick received a dividend of 1.5 million shares. In addition, Mr. McCormick received 212,230 stock options. The customers, whose monies were presumably used to develop the directory services, received nothing. At no point can we discover any services that Messers Lillis and McCormick performed to earn this reward. Indeed, a suspicion is raised that the maneuvers were performed precisely so that Messers Lillis and McCormick would receive this reward, and for no other reason. We ask that this be investigated.

Last, Mr. McCormick received $19 million in severance pay. In view of the constraints on profits and executive compensation under which US West, a monopoly business, is supposed to operate-but under which it does not appear to operate-we ask what possible justification exists for the payment of this staggering sum.

Conclusion

We believe that investigations will show that US West's business practices have rewarded the company's shareholders and executives while costing its customers considerable monies and failing to serve the public interest.

COMPLAINT

DOES US WEST OWE CUSTOMERS FOR ITS SPINOFF OF MEDIA ONE OR FOR ITS MERGER WITH QUEST?
AND
DID US WEST'S FAILED DEPLOYMENT OF ADVANCED NETWORK SERVICES HAVE AN ADVERSE IMPACT ON CUSTOMERS?

Did US West pull a fast one with the creation of MediaOne? Did US West play fast and loose with 14 states' Directory Services, costing customers almost $1 billion dollars? Did US West fail to properly compensate phone customers for products and services developed using ratepayer financing?

And was the US West customers harmed when the company failed to deliver on its promises of advanced network services?

With all the talk about MediaOne, a spin-off of US West, (one of the original seven Regional Bells), or with US West's potential merger with Qwest, it is surprising that few regulators have questioned the various stock deals for their impacts on local phone subscribers.

We are calling on the State Public Service Commissions and the Attorneys General in the 14 states where US West operates to immediately investigate the following claims. Did US West's actions serve shareholders before ratepayers and did these actions directly cost customers money?

- Did US West shareholders manipulate the directory business to give shareholders $850 million dollars in dividends, while not paying customers?
- Did US West pay of the debts of MediaOne, almost $4 billion dollars, to make it attractive to sell, even though customers had financed many of its properties?
- Did US West senior executives make excessive millions in these deals?
- Did US West give low-interest loans to the Media Company based on the regulated monopoly's credit lines, a clear violation of the public interest and the public trust?
- Did US West promise to deliver advanced fiber-optic networks and receive lucrative financial incentives in its service area, yet never deployed them?
- When US West sold its cellular services to AirTouch, did they fail to pay back customers for the cellular licenses and development of the cellular business?

STATEMENT OF INTEREST

New Networks Institute ("NNI") was founded in 1992. Its mission is to explore, on a totally independent basis, the impact of the break-up of AT&T and the creation of the Regional Bell Operating Companies ("RBOCs") on both the telephone subscribers and on the deployment of new and advanced telecommunications networks. Since that time, the NNI has conducted extensive research on these topics. Titled “The Future of the Information Age,” this seven-year analysis consists of over 1,900 pages in 14 volumes, with over 910 exhibits, two computer databases, and data from more than 2,000 consumer interviews conducted independently through Fairfield Research. We have recently updated this research in the form of a book, *The Unauthorized Biography of the Baby Bells & Info-Scandal*, published March 1999. NNI’s research is independently funded from the sales of books, reports and databases. No company, lobbying organization, trade association or political party had any input, either editorial or financial.

LJ Davis is an internationally-known writer, novelist and reporter whose work has appeared in publications as various as the New York Times and Harper’s Magazine. His books include *Bad Money*, 1981; *Aristotle and Christina*, 1986; and more recently, *The Billionaire Shell Game*, 1998, which tells the story of the failed deployment of advanced telecommunications networks. His numerous awards include “Gerald Loeb”, 1984; “Champion-Tuck”, 1986; and “National Magazine”, 1986. LJ Davis is a landowner in Idaho, a US West state.

Conclusion

We believe that these investigations will show that US West's business practices have rewarded shareholders with significant monies, while costing customers and violating the public interests.

We realize that state regulations vary greatly and it is hard for us to determine which states have addressed these important issues. However, there are no major indications from US West's Annual Reports to indicate that adequate compensation had been paid to US West customers.

Also, we would like to stress that AT&T is blameless in any and all violations mentioned in this complaint regarding MediaOne. Our Complaint clearly shows that US West is responsible for these actions. As the authors have discussed in other writings, AT&T’s purchase of MediaOne may in fact be aiding MediaOne’s cable users and the future deployment of broadband services.

The US West and MediaOne Story

US West is one of the original seven Regional Bells comprising of 14 states, including Arizona, Colorado, Idaho, Iowa, Montana, Minnesota, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Wyoming, and Washington,

In 1995, US West divided itself into two parts, moving the cable, wireless, and Directory businesses into a "Media" company, while the majority of revenue producing (and profitable) business, the regulated phone business, was put into US West Communications Group. In short, US West took most of its relatively new acquisitions, many of which were losing money, and offset their losses an underperforming assets with the very profitable Directory's profits. The Directory was supported and underwritten in significant measure by the company's ratepaying customers.

In fact, NNI’s *"The Unauthorized Biography of the Baby Bells & Info-Scandal"* found that while the media group of US West has generated 3% of the company's profits, the phone side of the business generated 97% of all profits. The exhibit below, developed directly from information supplied in US West's 1995 and 1996 Annual Reports, gives a simple model of the two companies’ revenues and profits.

The US West companies had $12.2 billion dollars in revenue, with the media company—directory, wireless, cable, information services, international, etc—providing only 22% of these revenues. This is in contrast to the telecommunications services provided to local subscribers, which produced 78% of the revenues. On the grand scale of things, the media company only represented 3% of the total net profits (% of Net), while the phone company made $1.2 billion and accounted for 97% of the total profits.

US West Communications Group and US West Media Group, Revenues and Net Profits, 1995-1996

(in the millions)

	Revenues	% of Rev	Net	% of Net
Telephone Company	$ 9,558	78%	$1,233	97%
Media Company	$ 2,665	22%	$ 35	3%
Total	$12,222		$1,268	

MediaOne was formed when US West renamed the Media group and the Directory business was returned to the parent company. The official version, as stated in the US West's 1998 Annual Report, discusses these transactions, though trying to follow the various twists of the story is not simple.

> "On October 25, 1997, the Board of Directors of our former parent company, herein referred to as "Old U S WEST," adopted a proposal to separate Old U S

> WEST into two independent companies. Old U S WEST had conducted its businesses through two groups: (i) the Communications Group, which included the communications businesses of Old U S WEST, and (ii) the Media Group, which included the multimedia and directories businesses of Old U S WEST. On June 4, 1998, stockholders of Old U S WEST voted in favor of the Separation, which became effective June 12, 1998. As part of the Separation, Old U S WEST contributed to us the businesses of the Communications Group and the domestic directories business of the Media Group known as Dex. Old U S WEST has continued as an independent public company comprised of the businesses of Media Group other than Dex and has been renamed MediaOne."

With all this movement, a question is begged--aren't the Bells regulated monopolies? And what about the products and promises made by US West to its customers in 14 states?

We argue that many customers had a serious financial stake in many of these transactions and should be compensated accordingly.

Directory "DEX" Transfer

Let's start with the transfer of the Directory business from MediaOne to US West. Directory is historically a monopoly product. In fact, in many states the profits from Directory are used to subsidize the cost of local phone service. That is because the directory, as a monopoly product, has no serious competitor to lower the price. The directory business produces profit margins of OVER 50%---and continues to do so today, according to the US West 1998 Annual Report. We suggest that these profits should have been shared with the customers.

What exactly is Directory and what exactly is Directory services? They are the common “White” and “Yellow” pages. US West calls them "Dex".

> "Through Dex, we publish approximately 270 White and Yellow Pages directories in our (14 state) Region. Dex's business scope includes all facets of directory-related publishing services such as market identification, analysis and planning, advertising and sales, customer service, directory design, printing and distribution, billing and collection, and product service promotion. Dex's customers include businesses that purchase advertising in its directories and other related products, and consumers who use directories and other advertising and information services. Dex also provides directory publishing services to other telephone companies on a contract basis and electronic directory services. Dex is expanding its directories business onto the Internet by marketing innovative and interactive listings and advertising, primarily through existing sales channels throughout our Region. Our revenue from the directory services business accounted for 10% of 1998 revenues."

In the transfer of the Directory from MediaOne back to US West, the shareholders were paid $850 million dollars, seemingly a handsome sum. But remember: directory services had started as a US West product, were moved into the Media group, the Media Group became MediaOne and MediaOne then, puzzlingly, gave Directory services back to US West. We suggest that the purpose of all this to-and-fro was the material enrichment of certain US West executives, and that it served no other purpose.

> "In connection with the Dex Alignment, under the Separation Agreement, (i) Old US WEST distributed, as a dividend to holders of MediaOne common stock, approximately 16,341,000 shares of our common stock (net of the redemption of approximately 305,000 fractional shares) with an aggregate of $850 (million) in value (the "Dex Dividend") "

This appears to be a simple transaction. US West transferred the Directory business back and forth, and the shareholders--including senior officers of the company--received almost a billion dollars. In the argot of the company, it was called the "DEX Dividend".

- Is it legal to play football with a regulated asset? (or even a deregulated asset?)
- Did the executives transfer an asset and pocket the money in a "Dex" Dividend?
- As a public asset and a monopoly product, why wasn't any of this extra money given back to ratepayers to lower directory prices?

US West Pays MediaOne's Debt of $4 Billion Dollars

Then we have another interesting fact. When MediaOne was spun off, US West paid its $4 billion in debt.

> "The Separation was implemented according to the terms of the Separation Agreement between U S WEST and MediaOne. (ii) we refinanced $3,900,000,000 of Old U S WEST debt, formerly allocated to Media Group"

In short, US West paid almost $5 billion dollars to spin off MediaOne, making the property vastly more attractive to any potential acquirer.

Discussion of the Ratepayers' Stake

Are customers entitled to refunds for products they paid to develop?

First, who paid for the development and creation of many of the assets being spun off? Well, if US West in any way resembles Pac Tel or Ameritech, then the scant audits conducted in California, Ohio and Wisconsin a few years back clearly show that many of the telephone company products, from PCS development to Directory, were funded by the customers.("Audit of the Affiliate Interests of the Pacific Telesis Group, 1994" "Review of Affiliate Transactions at Ameritech Services Inc., May 95" National Association of Regulatory Utility Commissioners)

Pac Bell's audit stated that

> "Pac Bells Directory Research and development was funded by the general body of ratepayers",

while Ohio and Wisconsin's audit of Ameritech found that

> "Ameritech charges ratepayers for developing new products, from non-regulated data services and personal communications to video conferencing development."

(For a full discussion of the audits, see *"The Unauthorized Bio of the Baby Bells*")

Therefore, customers do have a stake, especially if their money was used to develop products only to have those products spun off. In California, the spin-off of Pac Bell's AirTouch cellular telephone operation is a case in point. When Pac Bell established AirTouch as a separate company, Pac Bell had to refund millions to its customers.

However, the value of the AirTouch transaction was in the billions and the primary shareholders received hundreds of millions of dollars. This is a classic maneuver. In business, there are only two explanations for a maneuver that is either too complicated to understand or that appears to make no sense: to throw off any possible pursuit by baffling any possible pursuers, or because stupidity has come into play. Because company insiders received substantial financial benefits at the apparent expense of the customers, we suggest that stupidity was not involved.

Wireless Transfer to AirTouch

There is also the issue of the transference of US West Cellular properties to AirTouch. According to the MediaOne 1998 Annual Report, some $6 billion in assets were moved, and so was a great deal of cash.

> "Investment in AirTouch Communications $ 5,919,000,000"
>
> "GAIN ON SALE OF DOMESTIC WIRELESS INVESTMENT. On April 6, 1998, MediaOne Group sold its domestic wireless businesses to AirTouch. Consideration under the AirTouch Transaction consisted of (i) debt reduction of $1,350,(000,000) (ii) the issuance to MediaOne Group of $1,650(000,000) in liquidation preference of dividend bearing AirTouch preferred stock (fair value of $1,493), and (iii) the issuance to MediaOne Group of 59,314,000 shares of AirTouch common stock. The transaction resulted in a pretax gain of $3,869 (000,000), ($2,257 (000,000) net of deferred taxes). MediaOne Group is accounting for its investment in AirTouch under the cost method of accounting, as available for sale securities."

Other Issues:

The Dex Dividend, the debt paid by US West for products that were spun off into MediaOne, and the movement of cellular licenses are only part of the problem. While these issues are disturbing, they are being played against a back-drop of other substantial issues, including:

- We believe that the Bells (including, but by no means exclusively US West) have failed to deliver on their promises of advanced network services.

- Did excess profits come from US West's promises to deploy advanced networks? It is a little-known fact that in exchange for promises of massive deployment of a new fiber-optic, 500 channel, information super-highway state regulators granted the Bells massive financial incentives. This money was supposed to be used for new construction.

- We believe that the US West may have taken over $3 billion dollars in improper network deductions

- US West Telecom has become one of the richest companies in America. How is this possible if it is still regulated? Were the abundant profits of US West used to fund MediaOne's products and services?

- There have been customer service problems, including problems of timely installations or difficulty in getting a customer service representative on the phone.

- US West has been blocking and harming CLECs (Competitive Local Exchange Companies) and Internet Service Providers by delivering sub-standard customer services.

- Executive Compensation - with massive payments being made to key executives. Were the mergers and affiliate transactions based on the needs and desires of corporate executives rather than the legitimate rights of the customers?

- Other questions about Bell activities leave open issues. The recent audits of the Bells by the FCC, showing 5-19 billion dollars in missing equipment, as well as horror stories told by former executives, indicate that our claims have merit.

To summarize some of the data about US West:

1) Failed to Deploy Advanced Networks in A Timely Fashion

By its own accounting, US West was supposed to supply almost 3 million households with 500 channel full motion video interactive service. The US West 1993 Annual Report states:

> "In 1993 the company announced its intentions to build a 'broadband', interactive telecommunications network... US West anticipates converting 100,000 access lines to this technology by the end of 1994, and 500,000 access lines annually beginning in 1995."

This is not ADSL. This is interactive broadband, about 700 times more powerful than ADSL. Also, ADSL stands for Asymmetric Digital Subscriber Line, which means that the speed of the network is in one direction. Interactive broadband was supposed to deliver incredible network speeds two-way over fiber-optic cable.

The fact that these networks do not exist today, and the fact that funds given to these companies to create these new networks were never spent are serious, yet unexplored issues in many states. In New Jersey, the Consumer Advocate found that "Customers paid for fiber-optics every month, but had yet to benefit."

The plan that was supposed to deliver these new networks to Bell Atlantic’s customers was called Opportunity New Jersey. It materially benefited the company and served no other purpose. The advocate wrote:

> "Since the time of the adoption of the ONJ Plan, BA-NJ has received enormous financial benefits, greatly in excess of the Company's original projections. The gains captured by BA-NJ, which probably would not have been achievable but for the Plan, as set forth immediately below, involve earnings, dividends, return on equity, cost of debt and additional benefits."

US West is not exempt from these charges. In Omaha, Nebraska, the case of Cottonwood vs US West clearly outlines how the company promised over 500 digital channels but instead rolled out ordinary cable services. In Cottonwood, it seems that US West's failure to deliver on its promises has caused the company to attack small companies who speak out and who, unfortunately, can not financially support themselves in lawsuits.

Therefore, every state should investigate US West's claims of promised technology and its alleged spending on same.

2) The Bells' Profits are excessive. It is possible that they are outrageous. Why?

Probably the most disturbing issue is that of Bell profits---the pennies, nickels, dimes and quarters customers pay every month. The Bells are monopolies and as such are supposed to have profits that are "fair and reasonable", like all other utilities. However, the Bells are now among the most profitable companies in America..

The chart below compares the Bells' earnings with five well-known, publicly traded companies: Nike, Exxon, McDonalds, Walt Disney, and Dow Jones. The result? US West outperformed this group by 155% for the industry standard return-on-equity, generated 181% in earnings per share, and produced 106% in higher net profits.

Comparing Well Known Competitive Companies to the Bells

	net	roe	EPS
Nike, EXXON, McDonalds, Walt Disney, Dow Jones Avg	5.92	11%	$1.00
US WEST, COMMUNICATIONS	106%	155%	181%

(Source: Business Week's S&P, 3/1/99)

NET- Net profit, ROE- Return on Equity, EPS-earnings per share

Overall, the Bells' return-on-equity was over 200% higher than the S&P 500's Utilities for 1998.

And how does it effect the customer bill? Call Waiting costs less than one cent to offer yet customer prices range from $3-7 dollars----a 50,000% markup. Many states still charge for Touchtone, even though it costs the company nothing.

3) Outrageous Profits From Not Delivering Advanced Networks?

There have been a few independent studies performed that clearly show a direct relationship between the failed advanced network deployments and the Bells' increased profits. Economics and Technology, Inc., a respected Massachusetts-based consulting firm, documented these problems for Bell Atlantic of Pennsylvania in its report, *"Broken Promises: A Review Of Bell Atlantic's Performance Under Chapter 30"* It clearly demonstrates the same broken promises common throughout the US West territories.

> "In 1993, the Pennsylvania legislature added Chapter 30 to the Public Utility Code with the specific goal of assuring that all areas of the state will be provided with a modern, state-of-the-art broadband telecommunications infrastructure. Basically, Chapter 30 offered Pennsylvania's incumbent local exchange carriers (ILECs) a quid pro quo: In exchange for a firm commitment to provide broadband service capability throughout its entire

> network by the year 15, each participating ILEC would become subject to an alternative form of regulation providing substantially greater pricing and earnings flexibility than the traditional rate of return form of regulation under which the ILECs prices and earnings had been set.
>
> "Having made its commitment and been granted its alternative regulation reward, Pennsylvania's largest local telephone company Bell Atlantic Pennsylvania (BA-PA) has paid more attention to escaping from, rather than fulfilling, the terms of its promised upgrade. This study demonstrates that, despite strong financial performance and earnings growth in Pennsylvania, as well as a generous and flexible regulatory framework, BA-PA has failed to increase investment in the state's telecommunications network and, in fact, has actually extracted capital out of Pennsylvania for use elsewhere. At the same time, BA-PA has been extremely successful in protecting its monopoly from competitive encroachment. Without the discipline of actual, effective competition, the incumbent has been permitted to charge excessive prices and earn excessive profits, while confronting no business incentive to undertake new investment in Pennsylvania. As we approach the end of 1998 a point by which BA-PA is supposed to have broadband available throughout % of its rural, urban and suburban areas there is no sign of any broadband service being offered to Pennsylvania's residential customers"

The issue of profits also begs the question--- were specific acquisitions, services or products developed with monies that were supposed to be used for new construction?

4) Did US West Write-Off A Network In Never Replaced And Take Over $3 Billion Dollars In Deductions?

In 1998, New Networks Institute filed a complaint with the Criminal Justice Division of the Internal Revenue Service (IRS), against all of the Bell companies, including US West. Our finding was that US West and the other Bells took over $21 billion dollars in write-offs, claiming they were replacing the older copper wiring with new fiber-optic wiring. The wiring was never replaced, though we contend the Bells took the deductions.

US West's total amount was $3,123,000,000.00

In October 1999, NNI refiled this complaint with additional information that supports our original claim.

5) Customer Service Issues

Customer Service issues have also been a problem, since most of the Bells have made massive cuts in this area. For example, in May, 1999, the Colorado Public Service Commission stated that US West not only had problems answering phones in the past, but that it was still having the same problem today.

> "The Colorado Public Utilities Commission issued formal notice to U S West Communications today that it believes the company has violated the Commissions quality of service rules. In a letter from Director Bruce Smith, PUC staff outlined possible violations of Commission rules concerning repair response time, the number of allowable customer trouble reports, speed of answering calls to the company's business offices and the provision of timely service."

However, the problem doesn't simply impact regular phone customers. It also applies to specialized customers wanting high-speed services. Here's an e-mail NNI received in August, 1999 from a US West customer seeking help. Notice that the customer not only couldn't and didn't get what was advertised, but he was also given false information about prices.

> "This story is the so ridiculous I would love to try to embarrass the management at US West. They may not care.
>
> "I recently ordered an ISDN line for my home office. I was unaware that my ISP would increase my monthly fee to $100 per month to provide 128 ISDN service.
>
> "The US West rep had told me that US West was starting their own ISP. I've never done anything with US West that I wasn't perturbed by the time I got finished so I didn't even consider it when he brought it up.
>
> "Due to a $75.00 per month increase by my current ISP, I thought I better check it out. August 16, I called their 800 number and ordered their ISP service. I was told it would be $19.95 for unlimited service or for $34.00,
>
> "I would get 5 e-mail boxes and a static web site for 5 pages or so (I was surprised in that it was about the same price I was paying for my non-ISDN service).
>
> "I said I would do this. Rather than e-mail the information I needed to get started, they wanted to send a C/D disk.
>
> "Well I thought this was pretty unusual. But even more unusual was they told me I shouldn't expect it for 5 days.(We are certainly into high speed now, HA HA) I said please overnight as I need immediately. They absolutely would not do this even if I paid for it. I said I would come pick it up in Fargo somewhere. They would not do that either.
>
> "I confirmed the price at least 3 times and made sure they new I had a Macintosh computer. Well with this start I knew I was in for disappointment when I am dealing with one of the largest communications company in the US and it takes five days minimum to get on the internet.

"As expected in 5 days I didn't get the C/D. I did receive two on the sixth day. The C/D is for a PC instead of the Mac OS. It mentions nothing regarding the ISDN line and after calling the guy I ordered the ISDN line from he says the ISP cost will be $44 or $49 per month for the ISP for ISDN.

"BOTTOM LINE- 6 days to get the C/D; wrong operating system, wasn't for the ISDN line and of course I am now a week later and I have to start the process all over again."

We believe that in regards to US West’s handling of Advanced network services, testimony should be solicited from Internet Service Providers, CLECs and their customers.

6) Sub-Standard Customer Services for CLECs and ISPs.

While the residential customers are experiencing a declining quality of service, US West has shown almost a willful pattern of mistreatment to its local phone and data competitors, as well as the Internet Service Providers.

Since mid-1999, New Networks Institute has been surveying Internet Service Providers and CLECs about obtaining customer services that the RBOCS promised to provide. Preliminary results showed that over 50% of all ISPS were experiencing relatively serious problems in obtaining adequate services--- and that competition was thus being stifled.

This is a serious problem in the US West territories. A recently convened Congressional meeting, "CEO Summit on Rural Telecommunications: Closing the Digital Divide", 9/8/99, clearly showed that US West's treatment of its competitors was stifling independent Internet providers and CLECs.

Dan Languth, CEO, Black Hills Corporation, which is a mostly rural energy company that has entered the telecom market with a new fiber-based 10 megabit service, stated that his company built an entire new network, but it can't finish it because US West hasn't delivered basic services---in over a year.

> "So let's talk about some of the problems that we've seen. We've put in a whole new fiber optic service, with a Sonet ring extending for over 200 miles, in one year, yet we still can't get the basic trunking requirements from US West.
>
> "It seems a little ironic that we can build a brand new system, with procedures, policies and times and US West can deliver on just, just trunking.
>
> "If we can deliver a whole new system and US West can't even do the trunking, we have a serious problem."

Susan Ashdown, CEO of Xmission, a Utah ISP stated US West was even slamming her customers.

> "In many regions where competition doesn't exist, which in our service territory is US West, we have faced a much greater difficulty to offer high speed Internet services.
>
> "In Utah DSL was rolled out very unfairly. It's a bottleneck situation where our customers have to go to US West and they are discouraged at that point to use an independent service provider or they are outright slammed.
>
> "In the long term, US West will get the lion's share of the market through no better marketing, for just being the incumbent monopoly provider."

On October 13th, 1999, the USISPA (United States Internet Service Providers Association) held a press conference focusing on Bell abuses of Internet providers. Members from Washington, Arizona, New Mexico, Wyoming, and Utah all told horror stories about US West's behavior. (For more info go to http://www.usispa.org) Unfortunately, neither the FCC nor the states have yet to enforce the basic tenets of the Telecom Act of 1996, which protects competitors from this sort of behavior.

7) Executive Compensation

Compensation for the primary shareholders reveals that US West's recent activities have been very rewarding for the company's principal executives. Besides the dividend from the DEX Directory business, Charles M. Lillis, President, CEO and Chairman of the Board received 974,558 shares of MediaOne, not to mention shares of US West, while Richard D. McCormick, Former President, CEO and Chairman of the Board, got 779,074 shares. As the MediaOne 1998 Proxy Statement states:
(and the company's Schedule 14 A)

> "In February, 1998, the Committee also granted to Mr. McCormick, a stock option grant on 4,000 shares of MediaOne Group common stock, a stock option grant on 4,000 shares of U S WEST Communications common stock and 150,000 Dividend Equivalent Units in accordance with the U S WEST Communications Long-Term Incentive Plan. The MediaOne Group stock option grant was subsequently adjusted to cover 212,230 shares of MediaOne Group common stock in connection with the value transfer of the "Dex" domestic directories business."

This is of course, not counting $18,927,904 severance pay.

8) Other Questions About Bell Activities Leave Open Issues.

Why should you take this complaint seriously? First, the authors came to the conclusions presented independently. Secondly, the recent FCC audits of US West and the other Bells, found $5-19 billion dollars' worth of unanswered questions about network equipment that couldn't be found, suggesting strongly that something is seriously amiss. This immensely expensive suggestion begins to bear the tone of prophecy when one considers this letter from a former staffer at one of the Bells which showed that Directory profits in general have been manipulated over the last decade.

> "For the first 7 years at The Bell I was the General Accounting Supervisor for The Bell Directory Publishing and The Bell Marketing Group. One of my responsibilities during that period was to oversee the preparation of the financial reports that the Directory Publishing subsidiary of The Bell was required to provide to the various PUC's in their XXX state region. As you might well have guessed, these numbers were being used to impute what the profitability of the communications operation might have been, had not the directory business been spun off to the unregulated side of the company in 1983. This information was then factored into the rate setting calculations by the PUC's staff.
>
> "You are absolutely correct when you state that The Bell has been allowed to overcharge for local phone service, because I know for a fact that the numbers we reported to the PUC were false. The instructions I received from my manager were that we had to back out all new sources of revenue created since the divestiture from AT&T in 1983, with the stated intention of providing as bleak a picture as possible to the regulatory agencies. This meant that what the PUC's received was a false picture of the true profitability of the directory business, which then helped to skew the rate calculations in favor of the Bells' contention that they were losing money on local phone service.
>
> "It is very frustrating to me to listen to the Bell's statements to the media concerning how they are willing to compete with other companies for the local phone market, but that it has to be on a level playing field."

IMPACT

It is difficult to overestimate the negative impact of US West's behavior. By placing the interest of the shareholders above those of the customers, and by failing to keep its commitments to build and make available the new network, US West has held the State's digital future hostage in the following ways:

1. US West's role in the global economy has been stifled, as have the legitimate business activities of a number of its customers. Had US West provided services as promised, the company could have been in the forefront of the global digital revolution. The benefits to the Western economy would have been substantial, and the lost opportunity is immeasurable.

2. US West consumers paid for a network that was never delivered. The public trust and confidence in the telecommunications industry and those responsible for its regulation is at risk of severe damage unless the Attorneys General take steps in now to make consumers whole.

3. US West's take-the-money-and-run attitude has cost customers substantial but unknown sums and rewarded them with a worsening of services.

4. Competitive local exchange carriers and Internet service providers complain of unfair treatment by US West. Unless the Attorney's General can effectively monitor and assure a level playing field for all local carriers, some will go out of business and US West consumers will be denied the widest array of competitive choices

5. Widening the Digital Divide: Some broadband alternatives are being offered by a limited number of competitive providers in select areas of US West's service area. However, US West's more general failure has widened the gap between the digital haves and the have nots.

CONCLUSION

The clear implication of the data we present herein is that US West willfully made broad misrepresentations to its consumers and regulators. The company's motivation for doing so appears to be simple greed. If our allegations are correct, US West has perpetrated a massive fraud against every telephone user in its service territory. We call upon Attorneys General and Public Service Commissions to launch an immediate and thorough investigation and to assure that US West consumers are made whole.

Respectfully submitted,

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