The Book of Broken Promises:
$400 Billion Broadband Scandal & Free the Net.
Fact Sheet

The Book of Broken Promises Resources

The Book of Broken Promises is the third book of a trilogy that spans 18 years and is focused on the phone companies now known as Verizon, AT&T and Centurylink, (including AT&T and Verizon Wireless). However, due to popular demand, we have added sections about the cable companies, Time Warner Cable and Comcast.

Broken Promises is based primarily on the phone & cable companies' own information, including their SEC and state-based financial reports, their funded research, press statements, quotes, filings with the FCC and state public service commissions, state and federal laws and regulations, Congressional testimony, as well as legal and regulatory actions.

Fiber Optic Broadband Deployments, Regulation & Financial Harms

- By the end of 2014, we estimate that AT&T, Verizon and Centurylink collected over $400 billion in excess phone charges and tax perks, which started in 1992 when the companies went state-to-state to get laws changed to fund a new fiber optic future.
    - Though it varies by state, households paid $4000-$5000 extra if they had service since 1992, for an upgrade to the state utility that never happened.
- **The "Information Superhighway"** was a plan to rewire America, replacing the aging copper wires of the state-based phone utilities with a fiber optic wire. Targeted to be completed by the year 2010, it was the centerpiece of the Clinton-Gore plan for America's digital future.
- **Speed of Broadband in 1992: 45 Mbps in Both Directions —** As defined by numerous state laws, as of 1992, "Broadband" was defined as a service capable of speeds of 45 Mbps or higher, in both directions.
- **Massive Bait-and-Switch —** From 1992-2004 there were virtually no major fiber optic deployments, even though more than ½ of America was to be completed by 2000. Instead, America would be based on ADSL, a slow, mostly one-way broadband service that used the original, legacy copper wires that were supposed to have been replaced.
    - **Pacific Bell, California** claimed it would spend $16 billion by 2000 for 5.5 million households to be upgraded.
    - **SNET (Connecticut)** was to spend $4.5 billion and complete the state upgrades by 2007.
    - **Bell Atlantic (Maine to Virginia)** was to spend $11 billion and have 12 million homes completed by 2000 with a fiber optic network.

- **NOT a History Lesson —** Depending on the state, there can be current broadband obligations that started in the 1990's, issues about what was not deployed, or other rate increases and tax perks over the last two decades for broadband.

    - **CURRENT:** Verizon New Jersey was supposed to have 100% of their territory completed by 2010 with a 45 Mbps service over a fiber optic wire. Verizon collected $15 billion and counting from rate increases and tax perks that started in 1993 — In 2014, the State attempted to erase the commitments and in 2015 it is currently being appealed by the NJ Consumer Rate Counsel.
    - **CURRENT:** In 2014, New Networks Institute helped two New Jersey towns get upgraded to fiber optics based on the original law.
    - **CURRENT:** By 2015, Verizon Pennsylvania is supposed to have completed 100% of their territory for wired broadband in rural, urban and suburban areas equally. (This is also a bait-and-switch as Verizon got the required speed lowered from 45 Mbps to 1.5 Mbps.)
    - **CURRENT:** AT&T's entire U-Verse network in 22 states is based on the existing, aging copper wires for a 'copper-to-the-home' service, another bait-and-switch. AT&T claims it is 'fiber-based', but the fiber can be ½ mile away.

- **FCC Video-Dialtone filings —** From 1993 to 1995 almost every phone company filed plans for fiber optic deployments with the FCC. Tied to the state-based fiber optic deployments, twenty-four applications were filed to wire almost 10 million households in 43 major US cities, as well as other areas of the US, mostly by the year 2000. Virtually none of this was ever done.

    - **Pacific Bell:** 490,000 homes in San Francisco
    - **Ameritech:** 501,000 homes in Chicago, IL
    - **Bell Atlantic:** 1,200,000 homes in the Washington DC metropolitan area
    - **Bell Atlantic:** 2,000,000 homes including Baltimore, Philadelphia and Pittsburgh
    - **NYNEX:** 334,000 homes in Massachusetts, including Boston and Cambridge

- **America's Broadband Speeds vs the World —** According to numerous sources, the US is not first or even 10th in the world in broadband. Though each speed analysis has multiple caveats:

    - According to **Ookla's Net Index**, America was 27th in the world in broadband download speed by end of 2014, 40th in upload speed.
    - According to **Akamai**, the US was 22nd, in the world in broadband.

- **$400 Billion is the Low Number —** We did not include the billions per-state in cross-subsidies charged to local phone customers over the last decade, but more importantly, in the previous accounting for **$200 Billion Broadband Scandal,** (through 2004) we left out an additional $206+ billion of previous overcharging, including:

    - $80 billion related to the FCC's audits of the Bell companies' Continuing Property

Records, which found $18.6 billion of ‘vaporware’ — network equipment that was on the books but could not be found. These audits only represented ¼ of the potential audits for a total of over $80+ billion; the other audit areas were stopped as being ‘too damaging’.
    - $40.5 billion in “special item” tax deductions
    - Over $15 billion in various merger write-offs, starting in 1996

- **The Overcharging Continues to be Collected and Double-Downed as Well.**

    - **No state has ever stopped the extra charges** that had been applied, or went back to get refunds for the failure to upgrade the state utility, or ‘re-regulated’ the companies going forward. In short, this excess is built into rates and continues to be collected.
    - **Multiple, additional rate increases**. Many states added additional increases to the bills over the last two decades for broadband. Verizon New York received multiple rate increases on local phone service, totalling 84% since 2006, for a ‘massive deployment of fiber optics’; all customers paid rate increases even though most will never get any upgraded service.

- **Time Warner Cable & Comcast’s “Social Contract” on America —** In 1995, the cable companies cut a deal with the FCC called the “Social Contract“ that allowed them to charge up to $5.00 extra a month to fund network upgrades and wire the schools. This ‘Contract’ ended in 2001 but there is no sign the companies stopped billing the extra fee nor that they wired the schools.

    - We estimate that cable customers paid approximately $61 billion from 1996 through 2014, because of these agreements.
    - On average, customers paid about $60 a year or about $840 extra from 2001 through 2014.

- **Time Warner Cable’s Profit Margin on High-Speed Internet was 97% in 2014 —** Time Warner Cable’s SEC-filed financial reports show an obscene profit margin on High-Speed Internet. It appears that Time Warner Cable is putting most, if not all of the High-speed Internet expenses into the cable service accounting, as 25% of TWC’s cable rates are regulated, thus inflating expenses so that they can charge customers higher rates.
- **Schools & Libraries Scandal —** Though it varies by state, we were all charged about 9 times by the phone & cable companies to wire America's schools & libraries. Many of the fiber optic state plans included wiring all schools and libraries, the cable “Social Contract” was to wire the schools, and various taxes are also applied, both state and federal, such as the Universal Service Fund, not to mention separate state funding for broadband projects.
- **The Broadband ‘Carrot’ —** AT&T’s 100 City Gigapower roll out or Comcast’s 2-Gig service to 18 million households, are, like these other commitments, “Say Anything” deployments and are used to help get rid of regulations or push through a merger. AT&T wants to merge with DirecTV and Comcast with Time Warner Cable.

- **Harms to Economic Growth —** Using the Bells' projected timeline of when services were to be deployed vs the actual deployments, with the economic growth models provided by Criterion-Brookings and Gartner, we estimate that from 1993-2013, America lost big-time:
    - **America lost $6.7-7.1 trillion dollars in economic growth.**
- **Lack of Cable Competition —** Using the exact methodology of ALEC and the Phoenix Center, we found that from 1995 through 2012, because the phone companies never showed up and therefore there was a lack of competition:
    - The total excess cable rates caused by these companies' failure to compete came to between $117 billion to $155 billion.
    - Customers paid, on average, $1,627 to $1,920 in excess cable charges.
    - Customers paid, on average $51.91 to over $243 annually.

Mergers & Competition

- **The Previous Mergers Harmed Broadband and Competition in America —** Larger is not better and **Broken Promises** supplies the complete history of the mergers and broken promises that created AT&T, Verizon and Centurylink — and what to expect from the current mergers.
    - **SBC-Ameritech Merger —** The company committed to compete in 30 cities outside their region by 2002 and spend $6 billion on "Project Pronto".
    - **Regulatory Capture —** There was no serious competition outside the companies' territories. The FCC's commitments only required **"at least 3 unaffiliated customers"** in a market. Project Pronto was never completed.
    - **Pacific Bell California** was supposed to spend $16 billion to upgrade 5.5 million households by 2000. After the SBC-Pac Bell merger, all plans were halted and the company rolled out DSL over the existing copper wires. State laws were changed as well to charge customers for upgrades.
- **Customers have Lost the Right to Choose their High-Speed ISP —** The Telecom Act of 1996 opened the local phone networks to direct competition which allowed customers to choose their own High-speed Internet or even cable provider over the phone wires coming into their homes. However, after a number of maneuvers, by 2005, now-AT&T, Verizon and the cable companies conned the government (with the help of then-FCC chairman Michael Powell (now head of the cable association, NCTA)), into protecting their monopolies by reversing or forbearing (keeping the regulation but not enforcing) parts of the Act.
- **Closing the Networks Killed off the 7000 Independent ISPs** and blocked the large and small competitors from offering service. In 2001, there were about 9,500 independent ISPs in America that handled over 50% of all US Internet customers; by 2007 there were less than 2,400 independent wired ISPs.
- **Net Neutrality was Caused by Closing the Networks to Competition —** Regardless of what you have heard, Net Neutrality issues came into being only after the incumbent phone

and cable companies killed off your right to choose a competitive ISP/broadband service over the wires that go into your home or office.

Financial Hanky-Panky

- **Massive Cross-Subsidies —** Verizon New York, and the other incumbent phone companies that control the state's utility networks, (commonly known as the 'PSTN', Public Switched Telephone Networks), have been able to divert billions of dollars through massive cross-subsidies that were supposed to be used for upgrading and maintaining the utility networks to fund the companies' other subsidiaries. This includes Verizon NY charging local phone customer to pay for the wires to the cell towers for Verizon Wireless. And this is happening in every state to varying degrees.
- **Verizon NY and Other Verizon States Paid No Income Taxes —** Using this financial shell game, Verizon has made the local networks look 'unprofitable' and paid virtually no state of federal income taxes for years. Though it varies by state:

    - From 2009-2012 Verizon New York showed losses of over $2 billion a year, and the losses started at around 2005 and creating billions in 'tax deductions'.

- **Verizon's Entire Fiber Deployments are Based on "Title II" to Charge Local phone Customers —** Even though Verizon claims in its Net Neutrality filings that the application of Title II harms investment, Verizon's entire fiber (FTTP) networks are Title II, including the wires to the cell towers or FiOS. This allows the company to charge local phone customers for the construction and use the state utility's rights-of-way, all documented from Verizon NY's own state filings.
- **Special Excess —** There is a secret network known 'special access' (or sometimes called "middle mile" or "backhaul") which is not special but is part of the network used for broadband and wireless traffic, including the wireless competitors. While some analysts peg the revenues at $12 billion with profit margins of 100%, recent revelations peg the market at almost $60 billion.

    - In the 1990's, special access was regulated at 11.25%, the last FCC authorized 'rate of return'. By 2007, a few sources claim it averaged 101% profit for the incumbents AT&T, Verizon and Centurylink. — An 800% increase.
    - Economics & Technology estimated that from 2003-2006, Verizon, AT&T and Centurylink overcharged purchasers of special access service almost $28 billion, about $9 billion a year. By 2015, this would be over $100 billion.
    - Verizon is charging its own subsidiaries a fraction of what competitors, like Sprint, are paying.

Rewriting Broadband History & Erasing Future Data

- **Rewriting the History of Broadband in America —** The FCC ignored tens of thousands of documents about the proposed fiber optic deployments in every state, including the commitments made via state laws, but most importantly, that customers have been 'defacto' investors in the networks via rate increases and tax perks.

  - **FCC Slowed Down the Speed of America —** The FCC also ignored the definition of broadband in the state laws and changed the speed to “200 Kbps in 1 direction” (1000 kbps equals 1 Mbps), 225 times slower than the state laws’ definition of 45 Mbps in both directions in 1992.

- **Erase All of the Data —** There have been no audits or investigations of any of the cross-subsidies for at least a decade and no state has audited the books about the monies collected in the name of broadband. However, there has been a concerted effort to erase any ability to examine the companies’ financials, either at the FCC or by the states.

  - **No FCC Data:** By 2007, FCC stopped publishing “Statistics for Common Carriers” that detailed the phone companies’ financials; The FCC started publishing this in 1939.

A Lot More: The National Broadband Plan, Universal Service Fund, state-based cable franchise agreements, billing issues including made up fees, taxes and surcharges, etc., are all covered in **“The Book of Broken Promises”.**