

Did AT&T, Verizon, CenturyLink & the FCC
Intentionally Make the Wired Utility Networks
Look Unprofitable—Overcharging America at
Least \$1½ Trillion?

Did They Create America's Digital Divide?

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**DIGITAL DIVIDE BY DESIGN:
16 REPORTS DOCUMENTING THE FINDINGS¹**

RELEASED:

- **REPORT 1:** Did AT&T, Verizon, CenturyLink & the FCC Intentionally Make the Wired Utility Networks Look Unprofitable—Overcharging America at Least \$½ Trillion? Did They Create the Digital Divide?
- **REPORT 2:** Verizon New York 2017 Annual Report: An Analysis of Cross-Subsidies and Customer Overcharging
- **REPORT 3:** FILED: Bell Access Line Accounting Manipulation 1984-2018
- **REPORT 4:** AT&T, CenturyLink & Verizon’s Motto: The Big Telco Cook Book for Fun and Profit of the Shareholders
- **REPORT 5. CEO to Investor Transcripts:** The AT&T-Verizon-FCC Wireline Bait-and-Switch with Wireless: Because it Makes the Companies More Money.

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- **REPORT 6:** The Book of Numbers
- **REPORT 7:** The Book of Violations
- **REPORT 8:** Wireline state utilities have been overcharged billions to fund the wireless network build outs.
- **REPORT 9:** AT&T California state utility phone service went up 138% from 2008-2016. Ancillary services went up 60%-525%.
- **REPORT 10:** Verizon New Jersey Local Service Increases, 1982-2014 — 440%
- **REPORT 11:** Verizon New York Basic Phone Service Went Up Over 730% Since 1980. Since 2005, customers were Overcharged over \$2,500.00 per line.
- **REPORT 12:** NJ Ratepayer Advocate’s analysis of Verizon NJ’s failure to deploy fiber optics 1993-1997 and the harms of “Price Caps” and “Incentive” regulations.
- **REPORT 13:** A Case Study: Verizon NJ Opportunity \$15 Billion Failure
- **REPORT 14:** Case Study: Verizon Massachusetts: A Broadband Failure
- **REPORT 15:** Case Study: AT&T California’s Fiber Optic Failure
- **REPORT 16:** The Verizon New York Settlement July, 2018

¹ <https://newnetworks.com/digitaldividebydesign/>

PREVIOUS REPORTS: FIXING TELECOM SERIES, 2010-2018

New Networks Institute and the IRREGULATORS – [FCC and State Filings](#).

VERIZON NEW YORK: EXAMINING THE FINANCIAL SHELL GAME

- [Verizon NY Settlement Story](#), July 14th, 2018
- [NY PSC Proposed Settlement](#) April 16th, 2018.
- [NNI & IRREGULATOR FILINGS](#), 2017

REPORTS AND FILINGS, 2010-

- [Verizon’s State-Based Financial Issues & Tax Losses: The Destruction of America’s Telecommunications Utilities](#) In 2010, NNI started an [investigation of the financial books](#) of five Verizon’s state-based utilities, Published in 2012
- [Verizon Wireless and the Other Verizon Affiliate Companies Are Harming Verizon New York’s \(The State-based Utility\) Customers & the State](#). Examining Verizon NY’s Phone Rate Increases, Income Tax Benefits, Lack of Network Upgrades, Service Quality and Pushing Wireless Deployment
- [Verizon Wireless and the Other Verizon Affiliate Companies Are Harming Verizon New York’s \(The State-based Utility\) Customers & the State](#).
- In September 2013, our next report focused on Verizon New York and was the centerpiece of a filing by Common Cause, Consumer Union, CWA, and the Fire Island Association, which called for an investigation of Verizon’s financials and business practices, Alexander Goldman, Esq. co-authored the report.
- [“It’s All Interconnected”](#), published, May 2014, Public Utility Law Project, (PULP). It relied on unexamined data from Verizon New York using different Verizon supplied financials books.

FIXING TELECOM REPORTS: 2015-

- [Report 1: Executive Summary: Verizon’s Manipulated Financial Accounting & the FCC’s Big “Freeze”](#)
- [Report 2: Full Data Report](#)
- [Report 3: SPECIAL REPORT](#) How Municipalities and the States can Fund Fiber Optic Wireline and Wireless Broadband Networks.
- [REPORT 4: Data Report](#) Verizon’s Wireline Networks Diverted Capex for Wireless Instead of Wiring Municipalities, and Charged Local Phone Customers.
- [Report 5: The Hartman Memorandum](#) proves that the FCC’s own cost allocation rules created massive financial cross subsidies.
- [Report 6: The History & Rules of Setting Phone Rates in America](#)
- Report 7: [SUMMARY REPORT: Verizon Massachusetts & Boston: Investigate the Wireless-Wireline Bait-n-Switch](#), January 17th, 2017
- Report 8: [Full Report: Verizon NY 2016 Annual Report Analyzed](#), June 2017.

INVESTIGATE NOW: WE ARE AT THE TIPPING POINT OF END GAME.

- Did Verizon, AT&T, CenturyLink and the FCC deliberately and intentionally make the entire US state-based, telecommunications, wired utility networks appear unprofitable?
- Did they overcharge America \$½ trillion or more?
- Did they create the Digital Divide and has been used to restructure the America's communications policies to help these companies against the public interest?

We have all been told that wired networks are unprofitable and that the companies need to 'shut down the copper' and move customers to a 5G wireless service. Moreover, the companies and the FCC claim that there are legacy regulations, obligations and arcane accounting rules that 'burden' investment, and are blocking America's economic growth, jobs and 'real competition'.

FROZEN FCC ACCOUNTING FORMULA SET TO 2000: RENEWED TO 2033

Based on almost a decade of research, analysis and the actual financial annual reports of Verizon New York, we now believe that there is at least another \$½ trillion of overcharging that has been created through a financial manipulation of the FCC's cost accounting rules.

As we will discuss, Verizon, AT&T and CenturyLink control the majority of America's state telecommunications wired utilities, and with the help of the FCC, we now believe that they intentionally made to appear artificially unprofitable since 2000. This has allowed the companies to claim that the rural areas were unprofitable, and also receive billions per state in state and federal grants, high cost funds, universal service support and a host of other perks. At the same time, these 'unprofits' were used to raise rates, get changes to state and federal regulations, but also were responsible for a lack of direct competition adding to excess charges for all services. And because the companies used the utilities for their wireless roll outs, they could inflate rates and directly harm customers. Moreover, it also meant that the state utilities were showing billion in losses, resulting in major tax benefits to the companies and harming the state tax base. And, on top of this, the companies can claim that renting to competitors is unprofitable, that having to supply "carrier of last resort" services or even fix broken lines is unprofitable, and that keeping the unions to work on these lines is unprofitable.

The current plan, in progress, is to dismantle the state utilities, shut off the copper and hand the remaining copper and fiber optic networks to the wireless company as private property for personal use. And without net neutrality and privacy restrictions, they can vertically integrate the content and services, as well as track you, advertise to you and sell your data and information. And these new lines are not open to competitors and the companies can use contractors instead of having the unions do the work.

How It Works

The FCC's cost accounting rules allocates expenses to the different lines of business that all use the same, existing, state utility wired networks. In 2001, with the help of AT&T, Verizon and CenturyLink, the FCC "froze" the rules so that they would reflect the division of expenses for the year 2000, 18 years ago. But, in 2000, Local Service was 65% of the revenues and paid 65% of the expenses. By 2018, Local Service is 21.6% of the revenue but still pays 45%-68% of the expenses in each category.

NOTE: As we discuss, the year 2000 was a peak for the state networks as small, independent ISPs had created 'hypergrowth' of new access lines and second lines that were dedicated to the internet service. (See "REPORT 3: Bell Access Line Accounting Manipulation 1984-2018", which was filed in multiple proceedings.)

Since 2001, the FCC has never audited the impact of these rules. And the beauty of this deception for the companies has been – these rules are ultra-wonk-complicated and require serious accounting expertise, and even the experts are clueless. No one would ever know this one formula was federal, and that it impacted every state utility and all services in America.

And, unfortunately, as of July 27th, 2018, the FCC has a new proceeding to extend this formula (with caveats) for another 15 years, until 2033.

- **Verizon New York Was Overcharged \$3.7 Billion Using these Rules: About \$53 Billion Nationwide, in Just 2017.**

New Networks Institute and the IRREGULATORS have been engaged in a nine-year investigation of Verizon NY and the Verizon state-utilities. In fact, in 2015, an investigation of Verizon NY was started in earnest based, in large part on our research and analysis.

On July 14th, 2018, there was a settlement that requires Verizon NY to install 32,000 fiber optic lines in underserved areas as well as have the state utility be required to do long needed repairs of the copper networks—that are still in use. We estimate this to represent \$300 to \$500 million settlement. Unfortunately, the decision does not fix most of the underlying issues.

On May 31st, 2018, the Verizon New York 2017 Annual Report was published and it gives a very exacting picture of just how corrupted the accounting rules have become and with our previous work, exposes what must be investigated—now. (Verizon NY is the largest New York State telecommunications utility, and it is one of the only states that requires that the incumbent "ILEC", incumbent local exchange company provides financial and business information.)

These are copper and fiber optic networks: The state utilities, including Verizon NY, are not simply the existing copper wired networks, but are the fiber optic networks for FiOS, the wires to the cell sites, as well as the Business Data Services; data lines for banks or competitors to use.

In 2017, Verizon NY had revenues of approximately \$5 billion, Local Service represented about \$1 billion, which are mainly the copper-based POTS, Plain Old telephone Service, representing about 20% of the total. The other \$4 billion are from Business Data Services, (sometimes called “Special Access”) and nonregulated services, which includes FiOS and other phone service VoIP services.

These are not, however, the total revenues for Verizon in New York State. Verizon Wireless is estimated to have \$7-8 billion in revenues, while Verizon Online, Verizon Long Distance, and Verizon Business, among other subsidies, appear to add an additional \$2-\$3 billion in revenues, and they are also using this same utility infrastructure.

But here’s the catch. Verizon New York showed alleged losses of \$2.6 billion, while “Local Service” had losses of \$2.9 billion. But all of these losses are based on the manipulated accounting. Local Service was charged \$1.8 billion in Corporate Operations expenses, 61% of the total expense, and it was also charged \$1.2 billion in Construction & Maintenance, even though Local Service are the copper-based phone lines and Verizon NY spent about \$125 million.

In 2000, Local Service paid 65% of Corporate Operations expense, and in 2017 it paid 61%, even though the revenues for Local Service declined over 75%. In fact, Local Service paid the majority of expenses while these other lines of business paid a fraction of the costs, and the subsidiaries that also use the networks appear to be paying a fraction of market prices. And these actions all made Local Service appear unprofitable.

- **The Freeze Made Local Service Unprofitable and Created Multiple Harms.**

Besides placing the majority of expenses into Local Service, after extensive analysis, this report series concludes that Local Service is profitable if it paid only the expenses it incurred, even with a declining number of lines.

We estimate that in 2017, the Verizon New York’s networks were overcharged \$3.7 billion equating to over \$53 billion, nationwide. (See REPORT 2: Verizon New York 2017 Annual Report: An Analysis of Cross-Subsidies and Customer Overcharging)

Focusing on Verizon New York, the price of basic service should have been in steep decline. Today, basic phone service averages \$57.95 a month, (counting the FCC Line Charge), but should cost the customer \$10-20 dollars a month. We estimate that the local phone customers were overcharged \$2,765 since 2005 when multiple rate increases were applied based on the artificial losses.

And this has been going on for over a decade. Verizon New York showed a total of \$23 billion in losses since 2006, which gave Verizon Corporate a tax benefit of over \$10.3 billion.

- **National Harms Due to Federal Manipulated FCC Rules**

On a national basis, since 2006, this would mean that the Local Service category was overcharged about \$633 billion in expenses, while the overall tax ‘losses’ and savings would be about \$330 billion in losses and \$149 billion in tax savings for the local state telecommunications utilities.

And this is a federal ‘rule’ so these allocations most likely happened in every state. As we detail, the final data available in 2007 for the AT&T, CenturyLink and Verizon utilities all had the same pattern of expenses being disproportionately put into Local Service.

- **All of these Maneuvers Made Rural Areas in Every State Appear Unprofitable, but Created More Profits for the Companies’ Wireless networks.**

In AT&T’s 2012 announcement of its “VIP” plan, AT&T made it clear that 25% of their entire 22 states were not getting a wired upgrade because it was “not economically feasible”. AT&T’s [VIP Announcement](#), October, 2012²

“In the 25 percent of AT&T’s wireline customer locations where it’s currently not economically feasible to build a competitive IP wireline network, the company said it will utilize its expanding 4G LTE wireless network — as it becomes available — to offer voice and high-speed IP Internet services.”

Francis Shammo, former EVP, Verizon, stated at the Goldman Sachs Communacopia Conference, September 22, 2016, that Verizon makes more profits from wireless:³

“But it’s going to be a fixed broadband wireless solution. And if you think about the cost benefit of that, today, if you think about FiOS and what it costs me to connect a prem to FiOS. I have to lay the fiber down the street, but then I also have to then connect the home, go into the home, make sure the wiring is right, put in install the boxes, install the routers.

“If you think about 5G, you put the fiber down the road, which is what we’re doing in Boston. Then all of the labor and the expense of drilling up

² <http://newnetworks.com/attperjuryfcc/>

³ <https://www.verizon.com/about/investors/goldman-sachs-25th-annual-communicopia-conference>

your driveway connecting the OT to your house and all the labor involved with that, all that goes away.”

NOTE: Unfortunately Verizon never told Boston residents that the plan was to have the state utility fund the wires down the streets, then allow the subsidiary, Verizon Wireless, to use these wires—for free, not paying market prices, as well as have the exclusive over wires that were paid for by local phone customers.

But Shammo also told the investors a secret – that the wireless build outs were being dumped into the wireline construction budgets. In 2012, Fran Shammo, [told investors](#) that the wireless company’s construction expenses have been charged to the wireline business.

“The fact of the matter is Wireline capital—and I won’t get the number but it’s pretty substantial—is being spent on the Wireline side of the house to support the Wireless growth. So the IP backbone, the data transmission, fiber to the cell, that is all on the Wireline books but it’s all being built for the Wireless Company.”

Outcome: Verizon Wireless has very high profit margins; the state utility loses billions, customers get rate increases, areas that should have gotten ‘fiber’ are ‘digitally divided’, but these same people—rural folk, not to mention low income families, seniors, etc., paid multiple times.

And this is all because of a basic FCC accounting formula that was frozen to reflect the year 2000 – before there was broadband, or smart phones or streaming video.

- **Why Is This Critical Now? The Deck has been Stacked in Multiple Ways.**

The FCC has created a series of 20-30 different inter-locking proceedings to strip-mine America’s communications rights and remove all remaining regulations and obligations.

The Goal: Dismantle the state utilities, shut off the existing copper infrastructure, kill off the remaining competitors, and then privatize all of the existing wires, especially all of the fiber optic networks, and give them to the wireless company as private property for private use, as well as remove the rights of states or cities to have some oversight.

This is not being done to better serve the public or bring competition but because it makes AT&T, Verizon and CenturyLink more profits.

And these actions are not simply about “voice” phone service or the copper networks – but about the entire future of America’s communications infrastructure—which is also the infrastructure for broadband, internet, phone, cable TV and even wireless service, as well the future of competition in America.

- **This is Regulatory Capture 101**

This current FCC Chairman, Ajit Pai is a former Verizon senior attorney, and FCC Commissioner Brendan Carr worked as a lawyer for Verizon, AT&T, the USTA and CTIA. In fact, while at Wiley Rein, he actually was part of the Verizon legal team to remove the accounting rules in 2007. Commissioner Michael O'Reilly is a friend of ALEC, and asked them for help to block Net Neutrality; ALEC is directly funded by these companies and creates model legislation that is handed to politicians who also receive funding and perks from the companies.⁴

In fact, USTelecom, formerly USTA, the association for the Bell companies, has filed to remove any remaining obligation to allow competitors to use the networks, known as “interconnection”. And there are and have been FCC proceedings to block competitors from using the existing lines as well as new fiber upgrades – for wireless or broadband. And, at the same time, the companies want to force customers – at home – off the wires and onto an inferior, more expensive wireless service—because it makes the company more profits.

And, of course, Net Neutrality is part of this. Getting control over the vertically-integrated services using the wire without interference or competitive issues, is better to track a customer, sell information about them, or give advantages to their own subsidiaries that reinforce all of the advantages they now have.

NOTE: Ironically, wireless 5G requires a fiber optic wire every block or two. This is just another technology bait-and-switch; it will never get to rural areas. But the real profits come from this separate subsidiary having the construction of the wires paid for by the state utility customers using wired services, or not paying market prices to use the networks – all making Local Service look unprofitable.

AT&T's end goal, July 24, 2018, as stated by Randall Stephenson, AT&T's CEO, is to be a “modern media company”.²

“It was an exciting quarter for AT&T as we completed the acquisition of Time Warner on June 14 and created a modern media company built around premium content, 170 million direct-to-customer relationships, advertising technology and high-speed networks.”

⁴ https://www.huffingtonpost.com/entry/the-corporate-takeover-of-the-trump-fcc-is-in-full_us_5a041fb3e4b055de8d096ab0

THREE IMPORTANT FACTS

- **FACT 1: Verizon, AT&T and Centurylink Still Control and are America's State Telecommunications Utilities.**

The current Verizon, AT&T, and Centurylink were created out of the original Bell companies, that were formed as part of the break up of the original Ma Bell in 1984. Unfortunately, through mergers, these three companies that have emerged now control the major state-based incumbent telecommunications utilities (or they sold off the properties). AT&T, for example, now controls 21 state utilities (it had 22 until it sold off SNET in Connecticut); Verizon controls America's East Coast from Massachusetts to Virginia (having sold off the more rural utilities of Maine, New Hampshire and Vermont and other properties previously owned by the former GTE.) CenturyLink now owns the original US West properties that include the more rural western states like Wyoming or Colorado or North Dakota, (and other properties, like former-Sprint-Embarq).

And while they will deny that there are still state utilities or that these state-based utilities matter, they are able to control the telecommunications infrastructure in most states. Verizon New York had almost \$5 billion in revenues in 2017, and this is not all of the company's revenues nor accounting for the underpayments of the affiliates for construction or use of the networks.

- Click to [see the map](#) of the current coverage.
- Click to see the [original Bell local telephone companies](#).
- **FACT 2: Verizon's Fiber to the Home, "FTTP", Is Part of the State Utility and the Existing Telecommunications Networks.**

While there are those who keep repeating that Verizon New York is just the old, copper-based phone lines, sometimes called the "PSTN", Public Switched Telephone Networks, Verizon has been able to have the fiber to the wireless cell sites, or the Business Data Services, or the copper based DSL, all be part of the same state utility and use the utility networks as their funding source: I.e., the majority of construction expenditures have remained in the local state utility, and these other services are being cross-subsidized and do not pay retail rates.

And ironically, the "FTTP" is classified as a "Title II", common carrier network based on the Communications Act of 1934, as stated in thousands of franchise documents in all of the Verizon states. This is how Verizon has been able to charge the fiber optic wires installed, including the wires for their wireless networks, to local phone customers.⁵

⁵ <http://newnetworks.com/wp-content/uploads/FCCFoIStitleII.pdf>

LEGAL AUTHORITY TO CONSTRUCT FIBER TO THE PREMISES

Verizon New York Inc. (“Verizon”), as a common carrier under Title II of the Communications Act of 1934 (the “Act”), constructed its *Fiber To The Premises* (FTTP) network as an upgrade to its existing telecommunications network.

They are not “ISPs”. They are not cable companies. And they should never have been allowed to become entertainment and adtech companies. The overwhelming bulk of their power comes from controlling, state-by-state, the infrastructure. And with the takeover of a federal agency, and unlimited deep pockets by charging those using the networks, the companies’ have proven to be much better in control of the agenda than delivering world-class networks and properly serving their primary utility customers.

In short, they have been able to rewrite the communications narrative and rewrite America’s internet and broadband history and future.

- **FACT 3: Customers Paid Multiple Times for the Replacement of the Copper Wires with Fiber.**

In “**The Book of Broken Promises: \$400 Billion Broadband Scandal & Free the Net**”⁶ (free PDF download), we estimated that at the end of 2014, \$400 billion had been collected to bring fiber optics to homes, businesses, as well as schools and libraries. This never happened as advertised and the companies were able to take over the entire internet and broadband service with the cable companies, not through competition but by the FCC actions. This new research more than doubles this previous analysis.

THE PLOT: SHUT DOWN THE ACCOUNTING BUT KEEP THE “FREEZE”.

In 2001, the FCC ‘froze’ how the expenses would be allocated to reflect the year 2000—and the impacts of this ‘freeze’ have never been examined or had any major modifications—for 18 years. The majority of expenses were directly put into Local Service, creating these losses, and this is based exclusively on the FCC’s manipulated accounting formula.

- **2004-2008: Major Push to Get Rid of All Burdensome Accounting Rules**

“Forbearance”: A License to Steal.

By 2004, it became apparent that this accounting formula made the ‘intrastate’, state utility-based Local Services appear ‘unprofitable’ and it was able to divert the majority of expenses to be paid by local phone customers. At the same time, it made “interstate” services highly profitable, as they would pay a fraction of the expenses or have the local phone customers pick up the bill.

⁶ <http://irregulators.org/wp-content/uploads/2017/05/BookofBrokenPromises.pdf>

And with the ability to include FiOS and the fiber optic deployments, as Title II no less, the Verizon Wireless construction budgets for the wires to the cell sites were mostly built and paid for via the state utility, while wireless pays a fraction of the expenses to connect to the networks. (Note: Almost all wireless service, including 5G, requires a wire to function.) This wireless cross-subsidy and the lack of payments for use of the networks, caused losses in the state utilities.

To make sure that this plan would stick, around 2004-2008 AT&T, CenturyLink and Verizon filed to no longer enforce (known as “forbearance”) parts of these accounting rules and to keep this formula ‘frozen’ and set to the year 2000.

According to the FCC, forbearance is required under specific conditions:

“The Commission is required to forbear from any statutory provision or regulation if it determines that (1) enforcement of the regulation is not necessary to ensure that charges and practices are just, reasonable, and not unjustly or unreasonably discriminatory; (2) enforcement of the regulation is not necessary to protect consumers; and (3) forbearance is consistent with the public interest.”

And, in 2004, this was the start of a decade+ of filings to remove all regulations, obligations, but most importantly, manipulate the accounting rules so that they would, by design, place the majority of all expenses in the state utility and make Local Service and the wired networks appear unprofitable. At the same time it would be able to have the subsidiaries be cross-subsidized.

- **Commissioner Brendan Carr was One of the Attorneys for Verizon in 2007**

Of course, this is not what Verizon and the other companies told the FCC or how they would phrase it. This is how Verizon and their attorneys, including now-FCC Commissioner Brendan Carr, discussed it and the AT&T petition – there’s plenty of competition and ‘legacy’ rules are unnecessary.⁷

⁷ https://prodnet.www.neca.org/publicationsDocs/wwpdf/041007_9.pdf

Before the FEDERAL COMMUNICATIONS COMMISSION Washington, D.C. 20554	
In the Matter of) Petition of AT&T Inc. For Forbearance) Under 47 U.S.C. § 160 From Enforcement) of Certain of the Commission's Cost) Assignment Rules)	WC Docket No. 07-21 <div style="border: 1px solid black; padding: 2px; display: inline-block;"> April 9, 2007 </div>
REPLY COMMENTS OF VERIZON¹	
<u>Introduction and Summary</u>	
Changes in the communications marketplace and advances in technology obviate the need to continue many legacy regulations that today serve no purpose and operate only to inhibit desirable gains from competitive markets. Contrary to the claims of opponents of AT&T's petition, therefore, for all providers the Commission should move toward eliminating cost assignment rules that are or become unnecessary and concurrently preempt any inconsistent state requirements.	
I. The Emergence Of Competition Has Transformed The Communications Marketplace Since The Commission's Cost Assignment Rules Were Adopted.	
Michael E. Glover, <i>Of Counsel</i> Edward Shakin Christopher M. Miller VERIZON	<div style="border: 1px solid black; padding: 2px; display: inline-block;"> Bennett L. Ross Brendan J. Carr </div> ✕ Marjorie B. Manne WILEY REIN LLP Attorneys for Verizon

Verizon also claimed that the rules were a burden and that the rules should not be placed on a 'small number of price cap carriers', who are just one of many competitors.

“The Commission’s cost allocation rules, designed to separate the costs of regulated and nonregulated activities and to govern the transactions between a carrier and its affiliates were established in the 1980s. The primary purpose of these rules was to determine a carrier's rate base and its rates under rate of return regulation. These rules are unnecessary where there is no reliance on them in ratemaking, and no commenter contends otherwise.

“AT&T's Petition makes clear... these burdens impact only a small number of price cap carriers, which is today just one among many competitors in its territories.”

Verizon never mentions that Verizon et al. are the state utilities, and that they are unique; they control the primary infrastructure, get perks as the state utility, and are not 'competitors' but the monopoly over the infrastructure for telecommunications (as opposed to cable). And, there is no discussion of these financial perks and benefits.

The FCC, in an embarrassing analysis in 2008, clearly shows its negligence to make sure that forbearance was a valid public policy. The FCC writes that because these companies are currently under “price caps”, there is no incentive to “misallocate” funds to the other lines of business, including the non-regulated services. (“LEC” and “BOC” are inside baseball terms for AT&T, Verizon and CenturyLink, mainly.)

“...our ratemaking methods and those of our state counterparts have evolved considerably. As the Commission has recognized, this evolution has greatly reduced incumbent LECs’ incentives to overstate the costs of their tariffed telecommunications services. As the Commission has explained, ‘Because price cap regulation severs the direct link between regulated costs and prices, a carrier is not able automatically to recoup misallocated non-regulated costs by raising basic service rates, thus reducing the incentive for the BOCs to shift non-regulated costs to regulated services’.”

- **The Question of Intent**

Verizon filed in 2006 claiming that the ‘freeze’ would be good because it wouldn’t charge the ‘non-regulated’ and ‘interstate’ services using ‘arcane’ legacy rules.

“In particular, the Commission should immediately extend the separations freeze and confirm that the freeze precludes states from imposing inconsistent separations requirements. In addition, as the states and Commission eliminate economic regulation, the Commission ultimately should eliminate separations requirements altogether, but only if and when it preempts any inconsistent state rules in order to avoid a proliferation of burdensome and unnecessary cost allocation requirements. The Commission also should eliminate archaic rules that artificially inflate the cost assigned to non-regulated operations and affiliates; those rules make no sense in today’s market, where all services are subject to competition.”

Thus, Verizon knew; they wanted the “freeze” continued as it would block costs to be assigned to all of the other lines of business that are using the state utility infrastructure, budgets, etc., and it would move most of these expenses into Local Service.

However, Verizon’s own financials supplied to the FCC in 2007 showed that some of the state utilities, including Verizon New York, were losing money and Local Service was responsible in all cases. And a closer examination of these financials showed that more and more expenses were being allocated to Local Service while the revenue was in decline.

Thus, Verizon must have known that it was creating losses for the networks. More importantly, Verizon had to know that local phone customers would be essentially charged for these other expenses. The idea that the costs were set to the year 2000 when Local Service was the majority of the revenue—is never mentioned by the FCC or Verizon or any other phone company.

- **They Attempt to Erase Their Tracks**

At the same time, in 2007, the FCC erased the publication of “Statistics of Common Carriers”, (“SOCC”). These “SOCC” reports were started in 1939 and they supplied a state-by-state financial and business report—everything from revenues by different lines of business or by different services, to the expenses of running the state utility.

Erasing the main source of information would cover the phone companies’ tracks, it would cover over the fact that by the state utilities were all becoming unprofitable via expense dumping and the other lines of business were paying a fraction of the expenses—cross-subsidized by Local Service.

- **Fast Forward: A Decade of Deregulation of the Monopoly**

At the onset of the Republican takeover of the FCC, Chairman Ajit Pai was [interviewed by Re/Code](#) and he explains that it is time for ‘weed whacking’ – i.e., eliminating the cost accounting rules that remain.

Re/Code: *“In the early days, you had said that you wanted to take a weed-whacker to remove the rules that are holding back investment. What did you mean by that?”*

FCC Chairman Pai:

“What I had in mind were some of the regulations that we’ve had on the books for a while that stand in the way of investment in networks...”

“Our Part 32 accounting rules — exceedingly boring, I recognize — but just the fact that companies have to maintain two different sets of books, literally one for their business and one for the FCC’s purposes, and the FCC hadn’t relied on any of that paperwork in years. I asked our staff, ‘When was the last time you looked at these reports?’ They said, ‘Pretty much never.’ We wanted to relieve some of those. Those are the kinds of regulations I had in mind because I want every dollar that a company has to be spent on building out networks, not on paperwork or regulatory requirements that aren’t relevant in 2017, whatever relevance they might’ve had back in 1934 or 1996 or 2015 or whatever.”

Ignorance is not bliss. The FCC has never examined any of the state utility financial reports; it has never audited the books or examined the cross-subsidies that are clearly visible. And it has never examined the impacts of making Local Service look unprofitable or the impacts on public policies. Thus, the FCC has helped to erase the basic cost accounting rules, all in order to help a few companies strengthen their monopoly controls over the infrastructure. Brendan Carr, currently an FCC Commissioner, is helping to push through these changes.

- **Keep the “Freeze” in Place for Another 15 Years, Until 2033**

On July 27th, 2018, [the FCC released](#) a new proceeding, kicking off its proposal to extend the jurisdictional separations freeze for 15 years.

(b) Effective July 1, 2001, through December 31, 2033, local exchange carriers subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign costs from the part 32 accounts to the separations categories/sub-categories, as specified herein, based on the percentage relationships of the categorized/sub-categorized costs to their associated part 32 accounts for the twelve month period ending December 31, 2000. If a part 32 account for separations purposes is categorized into more than one category, the percentage relationship among the categories shall be utilized as well. Local exchange carriers that invest in types of telecommunications plant during the period July 1, 2001, through December 31, 2033, for which it had no separations category investment for the twelve month period ending December 31, 2000, shall assign such investment to separations categories in accordance with the separations procedures in effect as of December 31, 2000.”

- **The FCC made no attempt to resolve the issues that needed to be resolved.**

“A. Further Extending the Separations Freeze

17. Completion of comprehensive separations reform by the expiration of the freeze on December 31, 2018 is highly unlikely. Most fundamentally, we would prefer not to move forward on separations reform without a Joint Board recommendation on an approach to such reform, and the Board is not close to reaching a recommendation. As Commissioner Michael O’Rielly, Chairman of the Joint Board, recently observed, “the viewpoints” within the Joint Board “are so vastly different on this complex issue that finding commonality is not going to [be] possible in the near term.”

“Moreover, even if the Joint Board were to offer a recommendation for our consideration, we would then likely seek comment on that recommendation before issuing an order revising the separations rules. Therefore, as a practical matter, we must choose between extending the separations freeze and allowing long-unused separations rules to take effect on January 1, 2019.”

This, of course, is just a total embarrassment, considering we filed multiple times to have the FCC start investigating that their deformed ‘frozen’ rules were having, as documented by the Verizon New York annual reports.

TIMELINE TO KEEP THE NETWORKS UNPROFITABLE

In 2001, the [FCC “froze” the calculations of expenses](#) that are used in every state, based on the year 2000—and this freeze will continue until the year 2017. It now assigns the majority of all expenses to the Local Service category, making it look unprofitable. There have been no audits or investigations by either the state commissions or the FCC for the last 15 years. And the kicker — this same phrase has appeared in some form since 2000— **“until comprehensive reform could be achieved”**.

Timeline:

- **2000:** “On July 21, 2000, the Joint Board issued its 2000 Separations Recommended Decision, recommending that, **until comprehensive reform could be achieved**, the Commission should freeze the expenses.
- **2001:** “The Commission ordered that the freeze would be in effect for a five-year period beginning July 1, 2001, or until the Commission completed **comprehensive separations reform, whichever came first**.
- **2006:** “On May 16, 2006, in the “2006 Separations Freeze Extension and Further Notice”, the Commission extended the freeze for three years or **until comprehensive reform could be completed**, whichever came first. The Commission concluded that extending the freeze would provide stability to LECs pending further Commission action to reform the... rules, and that **more time was needed to study comprehensive reform**. The freeze was subsequently extended by one year in 2009, 2010, and 2011 and by two years in 2012.”
- **2010:** “March 30, 2010, the State Members of the Joint Board released a proposal for interim and comprehensive separations reform... On September 24, 2010, the Joint Board held a meeting with consumer groups, industry representatives, and state regulators to **discuss interim and comprehensive reform...**“
- **2011:** “In addition, in 2011, the Commission comprehensively reformed the universal service and intercarrier compensation systems and proposed additional reforms. The Joint Board is considering the impact of the reforms proposed by the USF/ICC Transformation Order and any subsequent changes on its analysis of the various approaches to separations reform.”
- **2014-2017:** “On March 27, 2014, the Commission sought comment on extending the freeze once more. We extend through June 30, 2017.... We conclude that extending the freeze will provide stability to carriers that must comply with the Commission’s jurisdictional separations rules **while the Joint Board continues its analysis of the jurisdictional separations process.**“

An Eerie Resemblance to the “General Motors Streetcar Conspiracy”

After explaining the findings to another analyst, he asked (we paraphrase):

“This entire story appears to have played out just like the General Motors Streetcar Conspiracy—where the company bought up ‘light rail’ networks to shut them off so that they could sell more buses.”

Has there been a conspiracy to make the copper wires look unprofitable, to shut off the copper wires and dismantle and move the state utility infrastructure and customers business to wireless? Is this just another version of the “General Motors Streetcar Conspiracy”?

[Wikipedia](#) writes:

“The General Motors streetcar conspiracy refers to convictions of General Motors (GM) and other companies for monopolizing the sale of buses and supplies to National City Lines (NCL) and its subsidiaries, and to allegations that this was part of a deliberate plot to purchase and dismantle streetcar systems in many cities in the United States as an attempt to monopolize surface transportation.”

In this case, the wired networks are the rails and the mobile-bus is ‘mobile’ service.

EXCERPT FROM REPORT 4: “THE BOOK OF VIOLATIONS”**1) THEY HAD TO KNOW: THEY ARE SMART PEOPLE.**

AT&T, Verizon and CenturyLink decided to remove the basic accounting rules and requirements of the entire industry starting in 2004 (though there were earlier attempts). They had to know that ‘freezing’ the rule to the year 2000 was making their state utilities appear unprofitable and dumping the expenses into one category, “Local Service”, the basic copper-based phone service. At the same time, they had to know that their other ‘interstate’ services were being cross-subsidized by this financial accounting.

2) VIOLATIONS OF THE FORBEARANCE PETITIONS ON MULTIPLE FRONTS.

According to the FCC, forbearance is required under specific conditions:

“Commission is required to forbear from any statutory provision or regulation if it determines that (1) enforcement of the regulation is not necessary to ensure that charges and practices are just, reasonable, and not unjustly or unreasonably discriminatory; (2) enforcement of the regulation is not necessary to protect consumers; and (3) forbearance is consistent with the public interest.”

And after these agreements were in place, the FCC still required a letter of compliance each year to make sure that the companies were not violating the basic laws.

3) VERIZON HAS CLAIMED THERE ARE NO CROSS-SUBSIDIES.

On September 19, 2008, Verizon submitted a “compliance plan” that it was not violating Section 254(k) of the Telecom Act which prohibits cross-subsidizing other services with local service.⁸

“The Commission has already determined for some carriers that an annual certification is a suitable indicator of compliance. See 47 C.F.R. § 64.905. Thus, the attached certification itself largely satisfies Verizon's obligations under section 254(k) and the conditions of forbearance in the Recordkeeping and Reporting Forbearance Order and the AT&T Cost Assignment Forbearance Order. Section 254(k) provides that “[a] telecommunications carrier may not use services that are not competitive

⁸ Re: Petition of Verizon For Forbearance Under 47 U.S.C. § 160(c) From Enforcement of Certain of the Commission’s Recordkeeping and Reporting Requirements, WC Docket No. 07-273; Petition of AT&T Inc. For Forbearance Under 47 U.S.C. § 160 From Enforcement of Certain of the Commission’s Cost Assignment Rules, WC Docket No. 07-21

to subsidize services that are subject to competition." 47 U.S.C. § 254(k). The Commission has previously indicated that this requirement is intended to prevent ILECs from gaining an unfair advantage in markets for services that are competitive by assigning excessive costs to non-competitive services.

"As an initial matter, it is difficult to identify an ILEC service that today is still not subject to competition. More important, the Commission's price cap regime eliminates any incentive to assign excessive costs to non-competitive services. Price caps 'sever[ed] the direct link between regulated costs and prices' long ago."

4) CLAIMING THERE ARE NO FINANCIAL ADVANTAGES TO THEIR OWN SUBSIDIARIES.

Verizon also is supposed to not give financial advantages to their own subsidiary 'interstate services' for access to the networks.

"IV. COMPLIANCE WITH SECTION 272(e)(3) AND THE NON-DOMINANT ORDER.

"Verizon ILECs are required by section 272(e)(3) Of the Act and the Non-Dominant Order to charge affiliated interexchange carriers amounts for access services that are no less than the same charges to unaffiliated interexchange carriers. 47 U.S.c. § 272(e)(3); Non-Dominant Order,~ 100. Today, Verizon long distance affiliates provide in-region long distance services; these services are not integrated with Verizon ILECs. As a result of the Non-Dominant Order, such long distance affiliates no longer operate as fully-separated affiliates under 47 U.S.C. § 272(b). Verizon charges such affiliates rates for tariff- or contract-based access services that are no less than rates charged to unaffiliated interexchange carriers for such services."

5) DIRECT CONTRADICTION: VERIZON NY DATA.

As previously mentioned, starting in 2015, there had been an investigation of Verizon New York which ended with the settlement on July 14th, 2018.

The CWA consultant in the Verizon New York investigation corroborated our findings about the cross-subsidies and that the company has been not maintaining (or upgrading) the existing Verizon New York utility harming the state's telecommunications users.⁹

⁹ Direct Testimony of Randy Barber for CWA , NYPSC Case 16-C-0122, March 24th, 2017

“Verizon New York has consciously, methodically disinvested in its copper network, even though [BEGIN CONFIDENTIAL-- [END CONFIDENTIAL] of its voice customers continue to rely upon it. This is to the detriment of its customers, the communities it serves, and the ability of its employees to adequately and safely provide an acceptable level of service. Indeed, the deterioration of the copper system is Verizon New York’s clear policy. The company is substituting its own policy for one which requires it to keep the copper network in a state of good repair.”

“Moreover, there are strong indications that Verizon New York, and its parent Verizon Communications, engage in practices which misallocate expenses and revenues to the detriment of the regulated New York operations.”

Our findings and the related Verizon NY investigations clearly shows that Verizon most likely has violated various parts of Section 254(k) as well as Section 272, among other violations of state and federal laws pertaining to cross-subsidies and unjust and unreasonable rates, and the FCC has made no attempt do its own investigation, but has accepted and rubber-stamped the companies’ ‘compliance’ filings.

This is not just about New York and this is not just about Verizon, but as we discussed Verizon New York is a model of every AT&T and CenturyLink state.

6) PRICES ARE NO LONGER JUST & REASONABLE.

We put together three mini reports about telephone charges from our previous research, based on using actual bills and more importantly done with our auditing group; professional telecom auditors with 30+ years of experience, each. These reports supply the overall history of the price of basic service as well as focuses on post-2004 when the AT&T-Verizon-CenturyLink forbearance petitions started and were granted.

- AT&T California state utility flat rate phone service went up 143%; measured local phone service went up 273%, from 2004-2017
- AT&T California ancillary services went up 60%-525%.
- Verizon New Jersey Local Service Increases, 1982-2014 — 440%
- Verizon New York basic phone service went up over 90%+ since 2005, tied to ‘losses’. Customers were overcharged over \$2,765. per line since 2005 as these losses were artificial and not directly related to offering Local Service.

In fact, all states we examined had major rate increases for this timeframe, but more importantly, the basic utility rates haven’t stopped climbing for 30+ years. Competition requires lower rates and that did not happen. And this happened in every state. These are just states we had previously done phone bill auditing and our “Send Us Your Phone Bill” campaigns.

7) VERIZON NY HAD MULTIPLE RATE INCREASES DIRECTLY TIED TO THE ARTIFICIAL LOSSES.

In Report 2, we highlight the Verizon NY rate increases since 2005 that are directly attributed to “losses” and “massive deployment of fiber optics”.

This is from the NY State Department of Public Service, June 2009.¹⁰ Notice that the Order specifically states that Verizon needs financial relief, meaning rate increases, because of the losses.

“Verizon’s financial condition is ‘relevant’ when the Commission considers pricing changes because “the state has an interest in a viable company....There seems to be little question that the company is in need of financial relief; Verizon reported an overall intrastate return of a negative 4.89% in 2006 and its reported intrastate return on common equity was a negative 73.6%.”

“For 2007, Verizon reported an overall intrastate return of negative 6.24% and a return on common equity of negative 46.0%.”

Thus, these losses are directly tied to the price of service—which is not supposed to be the case under ‘price caps’. Moreover, the losses are created by the ‘freeze’ placing the majority of expenses into the “Local Service” intrastate category, including expenses such as “Corporate Operations” expense, or construction expenses that were for the wireless deployment.

¹⁰ CASE 09-C-0327 – Minor Rate Filing of Verizon New York Inc. to Increase the Monthly Charges for Residence Local Exchange Access Lines (1MR and 1FR) by \$1.95 per month, State Of New York Department Of Public Service , June 18, 2009

LET'S GO OVER A FEW POINTS**▪ WHY DID THEY DO IT? A LITANY OF OTHER REASONS**

Why did AT&T, Verizon and CenturyLink, (the “Bell Companies”) holding companies that control the majority of America’s local telecommunications utilities, make the local phone networks look unprofitable? Here’s a partial list.

- It makes them more money.
- It gets rid of the unions and jobs.
- If the company is “losing money” – it doesn’t have to build out rural areas.
- It gets rid of customers in rural areas and obligations.
- The “losses” are used to raises rates and harvest existing utility customers.

Shut Off the Copper: Force onto Wireless

- It transfers the entire ‘utility customer’ base to wireless.
- It uses the existing ‘fiber’ builds to do a bait-and-switch with wireless.
- It allows the wireless company to illegally cross-subsidize their build outs.
- It gives one company, Verizon, who owns the critical utility infrastructure, exclusive rights to publicly funded Title II fiber optics.
- It transfers ‘intrastate’, utility customers to ‘interstate’ no-regulation customers.
- Verizon Wireless is not unionized; it can use independent contractors.
- Wireless gets wireline customers to fund the wireline networks used for wireless.
- They can use “5G” and “IP” as ‘innovative solutions against ‘old’, legacy wires.

Subsidies, Grants, Tax Benefits, and Cross-Subsidizing All Other Businesses

- It gets government grants, Universal Service, High-Cost Funding,
- The company doesn’t pay many taxes and get tax benefits.
- The “corporate operations” expense gets dumped into Local Service, and
- The foundation grants, which are part of these expenses, are given to politicians so that they can ‘show off’ these ‘community grants to their constituents,
- The grants are also used to buy the loyalty of the non-profits.
- The charges to Local Service are funding all of the other lines of business
- The companies know there will be no audits or investigations by the state or federal government.

Control Competition and Play with Public Policies

- Showing competition when none exists means that they can eliminate competition and use of the networks.
- This transfers customers away from public service commission protection to “contracts” and forced arbitration.

- They can slowly whittle away all of the obligations, such as “carrier of last resort”, -- i.e., that they have to provide service in their utility area.
- They can play state regulation off of federal regulation.
- They can put out stories so as to confuse the public at every turn.
- Killing off the copper—and use the manipulated access line accounting, kills off competitors, who depend on the copper.

Vertically Integrate the Wired Business, Wireless and Adtech

- Killing off the copper without acknowledging the other ‘active’ fiber lines, or even the copper wire lines for Business Data Services (or AT&T’s U-Verse), allows them to maneuver the wires in the state to control wireless.
- They also get to charge all of the wireless competitors more via ‘special access’ – or for any build outs for competitors.
- Major increases to profits of all of the other lines of business, like wireless.
- Control of the infrastructure brings revenue from customers that use a competitor.
- They can control the prices to competitors and give discounts to their own affiliates, including wireless.
- Use the utility rights of way, even for these nonregulated services, as most claim that they are ‘part of the state utility.’

“Title Shopping” and Investor Fairy Tales.

- Being able to ‘shop’ for the best regulatory framework by playing the state regulations off of the FCC.
- Getting the perks of being a utility while telling everyone that they are free market companies.
- Knowing that any penalties or fines if they are caught are ‘chump change’.
- Controlling politicians and votes for ‘state-based’ ALEC created bills using the “foundation grant” money as perks for their ‘districts’.
- Hiring hundreds of paid consultants, academics, lobbyists, non-profits, astroturf groups to spread questionable data, analysis or stories – to reinforce the message.
- “Utilities” are just not ‘sexy’; new technology needs cheerleaders—and deep pockets makes sure that the companies’ plans outspend the other side—whether it be against the state commissions, the state advocates or other groups.
- This has been happening for over a decade.

Making the Utilities Unprofitable through the Manipulation of the Accounting of “Access Lines”

- **REPORT 3: Bell Access Line Accounting Manipulation 1984-2018** which was filed in one of the current FCC proceedings and it discusses how the accounting

of “access lines” has been manipulated to leave out the majority of lines and only supplies the ‘Local Service’ access lines.

WHY DO IT? IT MAKES THEM MORE MONEY.

To read a collection of quotes from Verizon and AT&T, SEE:

- **REPORT 5: Investor Transcripts: The AT&T-Verizon-FCC Wireline Bait & Switch with Wireless: Because it Makes the Companies More Money.**

The biggest reason for all of this financial manipulation, as we documented, is that the companies have an end goal – get rid of all regulations, obligations and claim that there are no longer any state-based utilities. At the same time, they have been actively claiming that they are going to ‘shut off the copper’ and replace it with wireless, but the secret is – they are dismantling the utilities so that the wires will be used for wireless as private property for private use.

And this end goal is what the FCC has been working on—to help AT&T and Verizon. And even if they do or do not roll out 5G wireless, people will have no memory of what was promised past the next news cycle and this will be just another bait-and-switch in a long line of deceptive acts.

- **Verizon’s Statements to Investors**

In 2012, “Cut the copper off,” said [Lowell McAdam](#), Chairman and CEO of Verizon Communications, speaking at the Guggenheim Securities Symposium, June 21, 2012.

“And then in other areas that are more rural and more sparsely populated, we have got LTE [Verizon Wireless] built that will handle all of those services, and so we are going to **cut the copper off** there. We are going to do it over wireless. So, I am going to be really shrinking the amount of copper we have out there, and then I can focus the investment on that to improve the performance of it.”

And in the current Verizon FiOS build out in Boston, the company told the city it was doing a fiber-to-the-home, FIOS deployment to the entire city and yet, what Verizon told investors is a bait-and-switch to save money. According to Verizon, this is not about building infrastructure of the state utility, but is being done because wireless is cheaper and gets rid of the labor costs; i.e., get rid of the unions.

Francis Shammo, former EVP, Verizon, stated at the Goldman Sachs Communacopia Conference, September 22, 2016:¹¹

“But it’s going to be a fixed broadband wireless solution.

“And if you think about the cost benefit of that, today, if you think about FiOS and what it costs me to connect a prem to FiOS. I have to lay the fiber down the street, but then I also have to then connect the home, go into the home, make sure the wiring is right, put in install the boxes, install the routers.

“If you think about 5G, you put the fiber down the road, which is what we’re doing in Boston. Then all of the labor and the expense of drilling up your driveway connecting the OT to your house and all the labor involved with that, all that goes away, because now I can deliver a beam into your - into a window with a credit card size receptor on it that delivers it to a wireless router, and there’s really no labor involved and there’s no real hardware other than the router in the credit card. So the cost benefit of this is pretty substantial, at least, we believe it is.”

- **AT&T’s Use of “Unprofitable” Areas – More Money for Wireless and Government Subsidies.**

AT&T has been discussing their plans to not upgrade the rural areas but to give them ‘wireless’ since 2006, which was used to push through the AT&T-Bellsouth merger. Yet, the company agreed to a requirement to have 100% of its 22 states upgraded to provide broadband, albeit slow, by 2007—and never finished the job. This had a provision to allow 15% of the territories to use wireless as a substitute.

(Note: 200Kbps in one direction was then the FCC’s official broadband speed.)

This is an excerpt of the actual text from the [AT&T-BellSouth merger agreement](#).

¹¹ <https://www.verizon.com/about/investors/goldman-sachs-25th-annual-communicopia-conference>

Promoting Accessibility of Broadband Service

1. By December 31, 2007, AT&T/BellSouth will offer broadband Internet access service (*i.e.*, Internet access service at speeds in excess of 200 kbps in at least one direction) to 100 percent of the residential living units in the AT&T/BellSouth in-region territory.² To meet this commitment, AT&T/BellSouth will offer broadband Internet access services to at least 85 percent of such living units using wireline technologies (the “Wireline Buildout Area”). AT&T/BellSouth will make available broadband Internet access service to the remaining living units using alternative technologies and operating arrangements, including but not limited to satellite and Wi-Max fixed wireless technologies. AT&T/BellSouth further commits that at least 30 percent of the incremental deployment after the Merger Closing Date necessary to achieve the Wireline Buildout Area commitment will be to rural areas or low income living units.³

And yet, in 2012, we learn that 25% of AT&T’s 22 state utilities were not upgraded.

In AT&T’s 2012 announcement of its “VIP” plan, AT&T made it clear that 25% of their entire 22 states were not getting a wired upgrade because it was not “economically feasible”. AT&T’s [VIP Announcement](#), October, 2012

“AT&T plans to expand and enhance its wireline IP network to 57 million customer locations (consumer and small business) or 75 percent of all customer locations in its wireline service area by year-end 2015.”

“In the 25 percent of AT&T’s wireline customer locations where it’s currently not economically feasible to build a competitive IP wireline network, the company said it will utilize its expanding 4G LTE wireless network — as it becomes available — to offer voice and high-speed IP Internet services.”

Then, the May 19th, 2014 [AT&T-Direct TV merger press release](#) claims that a major reason for the merger is that it will bring broadband to 15 million customers in AT&T’s territories that do not have high speed service today.

“15 Million Customer Locations Get More High Speed Broadband Competition. AT&T will use the merger synergies to expand its plans to build and enhance high-speed broadband service to 15 million customer locations, mostly in rural areas where AT&T does not provide high-speed broadband service today, utilizing a combination of technologies including fiber to the premises and fixed wireless local loop capabilities.”

In 2015, [Seeking Alpha](#) detailed that AT&T would be getting an additional almost \$3 billion in government subsidies to build out rural unserved areas with broadband – which was now, again, a wireless replacement.

“AT&T’s accepted \$428M per year of Connect America Funding (Phase II) over six years, with an option on a seventh -- meaning [almost \\$3B in subsidies](#) it could receive to provide rural broadband in underserved areas.... As with the other recipients of the second tranche of funds, the company's committing to provide 10 Mbps downstream and 1 Mbps up -- in its case, for more than 2.2M people across 18 states.”

And yet, in September 2017 [Ars Technica revealed](#) that only 1.1 million customers were going to be given services for the \$3 billion.

“AT&T got nearly \$3 billion federal subsidy to connect 1.1 million rural customers.”

“The 1.1 million customers is also a far cry from the amount that AT&T said its fixed wireless service might cover a few years ago. In 2014, AT&T [said](#) that in order to get its DirecTV merger approved, it would commit to bringing "fixed wireless local loop broadband to 13 million new customer locations, largely in underserved, rural locations" within four years of the merger closing. About 85 percent of those 13 million wireless locations would have been outside AT&T's traditional wireline telephone territory; the deadline for that commitment would have been July 2019.”

And it gets worse as the speed is only 10Mbps down, 1Mbps up.

AT&T spent \$133 billion dollars -- \$48 billion on DirecTV and \$85 billion on Time Warner, but in 21 states it has not been able to properly upgrade the state utility over decades and made the rural areas ‘unprofitable’.

▪ **THERE ARE MANY QUESTIONS**

The question isn’t simply whether the companies manipulated the cost accounting rules to make this happen. We know they are manipulated and that is easily provable.

The question is – Did they “know” and was this manipulation to make the wired networks appear unprofitable done intentionally.

- Did they cause the Digital Divide?
- How many cities and rural areas should have been upgraded, multiple times?
- Did they get paid hundreds of billions extra in government subsidies, high-cost funded, USF funding?
- Was every rate increase of every POTS service a violation of the “just and reasonable” statutes?
- Did the companies underpay by hundreds of billions of dollars in taxes?

- Did the affiliate companies underpay by hundreds of billions of dollars due to this financial manipulation?
- Did the inflated rates harm businesses, low income families, rural areas?
- Did the inflated rates harm government agencies, schools, libraries and hospitals?
- Did the lack of broadband and internet services, and all of these other harms, put a drag on economic growth and jobs?

There is a litany of other questions, which we bring up and address in the other reports.