

Chapter 24 How Pac Bell and SBC Stole California's Digital Future.

In 1993, Pacific Bell laid out a massive Information Superhighway plan titled "California First". The company stated that they would be spending a whopping \$16 billion to rewire the state with fiber optic technologies, replacing the old, in use, copper wiring. By the year 2000, the company would have 5 million homes rewired, 1.5 million by the end of 1996! According to Pacific Telesis's 1993 Annual Report:³⁴⁹

"In November 1993, Pacific Bell *announced a capital investment plan totaling \$16 billion over the next seven years* to upgrade core network infrastructure and to begin building California's 'Communications Superhighway'. This will be an integrated telecommunications, information and entertainment network providing advanced voice, data and video services. *Using a combination of fiber optics and coaxial cable, Pacific Bell expects to provide broadband services to more than 1.5 million homes by the end of 1996, 5 million homes by the end of the decade.*"

And what would be offered? — Tele-medicine, tele-learning, and "unlimited programming choices", to name a few services.³⁵⁰

- "telemedicine, linking medical specialists across time zones for review of x-rays and medical procedures;
- learning and education programs that connect universities and school districts, whether for information access, or teacher-student and class-to-class interaction;
- unlimited programming choices at flexible times for TV watchers and unprecedented public access for TV producers; and
- multi-media, virtual-reality computer games; and voice-activated home shopping from an infinite variety of vendors."

This wonderland would not just include regular cable or online services, but would also give customers between 70 cable channels and 150 to 300 digital channels, according to Pac Bell's

video dialtone application to the FCC for permission to deploy this fiber-upgraded system. According to the FCC:³⁵¹

“The Commission found that Pacific Bell's proposed platform, consisting of 70 analog channels and between 150 and 300 digital channels, would offer sufficient capacity to serve multiple programmers.”

The speeds of these services would be incredibly fast, according to the Pacific Telesis 1994 Fact Book.³⁵² Fiber optics is a glass wire and has the capacity to deliver speeds about 100 times faster than current DSL, which still travels over the original copper wiring.

Exhibit 53

Pac Bell's Consumer Broadband Hybrid Fiber/Coaxial Direction

(* The speeds are not quite the equivalent to Mbps)

750-50 MHz Forward Direction (to the customer)

5-40 MHz Reverse Direction (from the customer)

Source: the Pacific Telesis 1994 Fact Book

But the main reason the FCC agreed to allow Pac Bell to build this new network was because Pac Bell would be bringing in competition in both cable (video) services, as well as new interactive digital services.³⁵³

“The Commission found that Pacific's proposals will produce new investment in an advanced telecommunications infrastructure, bring additional competition in the distribution of video services, and give consumers in those areas additional choices in video programming and interactive digital services.”

And who was going to pay for this fiber optic wonderland? According to Pac Bell, the expenses would fall to customers.³⁵⁴

“Pacific Bell officials say the whole project will cost about \$1,000 per household. While most of the cost will be covered by telephone rates, Pacific Bell officials were adamant that phone bills would not be increased. “

Pac Bell reiterated this numerous times. In another article, Pac Bell said the fiber upgrades would benefit customers so, of course, it would be paid for by ratepayers.³⁵⁵

"Pacific Bell officials say most of the new network would be paid for by ratepayers because the upgrade would benefit phone customers by improving quality and reducing maintenance costs.”

There were, of course, numerous people who questioned the plan. Some complained that the Bell was creating a schism between the communities that would and would not be wired — the first signs of today’s Digital Divide.

"While hailed by many state and local officials, Pacific Bell's plan has come under fire from Sen. Steve Peace, D-Chula Vista, because South Bay communities were not included in the phone company's initial upgrade program.³⁵⁶

“Peace said his 720,000 constituents, who live south of Interstate 8, primarily in the South Bay, will be economically and educationally disadvantaged by the telephone company's initial deployment of the superhighway in more affluent communities to the north.³⁵⁷

“You're going to have two societies out there — one that's plugged in and one that's not plugged in', Peace said. 'Pacific Bell has carved out where the wealth is in the county, and it's going to give those communities a head start. The gap is going to get wider and we'll never catch up.’”

However, though there were doubters, Pac Bell decided to go forward, and in 1994, they would start replacing the older copper wiring with the newer fabled fiber optics — as one writer put it, “The Copper Age is over in California”.³⁵⁸

“The Copper Age is over in California. Hundreds of Pacific Bell technicians have begun yanking thousands of miles of twisted-pair copper telephone wire and replacing it with broadband fiber and coax. Lasers and light — that's the future for this Baby Bell's 10 million telephone customers, who will be among the first in the nation to ride on the information highway.”

Also, it was clear from Pac Bell that this was not a test or trial, but full deployment.³⁵⁹

“And there's one crucial difference between what is happening in the Golden State and interactive efforts elsewhere: In California, they're playing with real bullets.

“While other RBOCs and cable companies continue to test market their broadband networks with subscribers, *Pacific Bell has launched into full-scale deployment.*“

As we discuss in other sections, virtually every phone company had plans to roll out fiber optics in the states they controlled. From Bell Atlantic's 8.75 million households by 2000, or Ameritech's 6 million households by 2000, All of America was going to be rewired. As we now know, this was mostly fiber to the press release.

Construction Begins.

In May of 1994, four areas were included in the initial phases of construction:³⁶⁰

- The San Francisco Bay Area in Northern California
- The Los Angeles area
- Orange and Riverside counties
- The San Diego area

In a Los Angeles Times article, titled “Interactive TV Will Come to Valley in '94”, specific neighborhoods were detailed:³⁶¹

“Areas of Canoga Park, Reseda, Sherman Oaks, Northridge, Van Nuys, Calabasas and Hidden Hills have been targeted for Pacific Bell's Los Angeles roll-out of a high-speed fiber optic network that will bring customers everything from phone and cable television services to movies-on-demand, video catalogue shopping and video research libraries.”

Even the starting point, the Reseda area, was outlined by Pac Bell.³⁶²

“The initial Valley beachhead will be part of the Reseda area, where 45,000 households will be wired with fiber optic cable next year. By 1996, when all the targeted Valley areas are connected, 250,000 homes in the Valley will be capable of receiving the new phone and video services.”

The next page is an actual copy of the deployment plan as stated in the Pacific Telesis “Fact Book”, from 1993. It outlines in no uncertain terms, the various parts of California that should be rewired — and when.

Exhibit 54
Pacific Telesis' Consumer Broadband Deployment Schedule for California,
1996-2000.

<i>Consumer Broadband Deployment Schedule</i>			
<i>Geography for 7-year deployment</i>	<i>Regional Areas where Pacific Bell will initially break ground</i>	<i>Cities within regional areas slated for initial deployment in the 1994-1996 time frame</i>	<i>Areas slated for deployment by 2000</i>
San Francisco Bay Area	Silicon Valley and San Jose	Campbell, Cupertino, Los Altos, Los Altos Hills, Milpitas, Mountain View, San Jose, Santa Clara, Saratoga, Sunnyvale	Peninsula, San Francisco, East Bay, Contra Costa
Los Angeles	San Fernando Valley/West LA	Parts of Los Angeles (Canoga Park, Reseda, Sherman Oaks), Calabasas, Hidden Hills, Inglewood	Most of greater Los Angeles area
San Diego	San Diego	Central San Diego, (and other parts of San Diego, including La Jolla, Linda Vista, Pacific Beach and Rancho Bernardo), Del Mar, Poway	Central and eastern San Diego areas
Orange County	Anaheim	Anaheim, Buena Park, Cypress, Garden Grove, Orange, Stanton, Villa Park	Orange County and western Riverside County

Other Promises: The Wiring of Schools

Alongside these promised networks, Pac Bell made other claims that insured that even California's schools and libraries would be entering the future.³⁶³

"Pacific Bell will spend \$100 million during the next three years to hook up more than 7,400 schools, community colleges and libraries to computer and video networks, the company announced yesterday.

"By the year 2000, phone company officials predicted, *every classroom will be wired to handle voice, data and video telecommunications.*"

In fact, Pac Bell would:³⁶⁴

"install four digital lines, called ISDN, free in every public school, community college and public library in its service areas by end of 1996. Costs of installation and one year's usage would be waived.

"Wire two rooms at each school and library for computers and video-conferencing and donate \$5 million in seed money for wiring all classrooms."

Pac Bell said that they would be the ones footing the bill.³⁶⁵

"Pacific Bell President Phil Quigley said telephone rates will not be affected by the company's program because the money is coming from the corporation's regular capital-spending budget.

"in the same breath Pac Bell stated that it would 'ask the Public Utilities Commission to set special rates for educational access'."

But the phone company didn't have to worry. The Public Service Commission slapped everyone with the bill.³⁶⁶

“The PUC is developing a \$150 million-per-year grant program for schools, libraries and nonprofit groups to develop telecommunications programs, train personnel and buy equipment.”

Video Dialtone Promises

As in every other state, the phone company also filed with the FCC to offer "video dialtone" services. By 1993, Pac Bell California filed for four locations with 1.3 million households in the initial wave of construction.

Exhibit 55 **Requested Video Dialtone Applications by Pacific Telesis for California,** **Filed 1993**

Date	Telco	Location	Homes	Proposal
12/20/93	Pacific Bell	Orange Co.	210,000	permanent
12/20/93	Pacific Bell	So. San Francisco	490,000	permanent
12/20/93	Pacific Bell	Los Angeles	360,000	permanent
12/20/93	Pacific Bell	San Diego	250,000	permanent
			1,310,000	

Did Promises of the Highway Effect California Customer Phone Rates?

As early as 1988, Pac Bell pushed hard to change state laws that would give them more money to build this wonderous wonderland, as well as roll out ISDN. Based on the Bell's continual assault in the press about how California needed this wonderland, laws were changed to give the Bells more money. The old "rate of return" (which capped the Bells profits, since they were still a monopoly) was replaced with a newer form known as "alternative regulations". Also, known as "price caps", the law capped the price of some services for a while, but not the profits. And considering that the costs to offer telephone service continually dropped, price caps just supplied more profits — i.e., extra billions of pennies, nickels, dimes, and quarters on customers' phonebills.³⁶⁷ In short, Pac Bell received an additional \$600 million.³⁶⁸

"John Gueldner, Pacific Bell's vice president of regulatory affairs, said yesterday's decision on rates 'gives Pacific Bell the funding we need to continue building the information superhighway'.

"'With that \$600 million, we'll be able to accelerate our investment in improving telecommunications in California', said Gueldner."

Another form of monies came in the numerous concessions that the Bell was able to get from the very anxious California cities and counties that wanted their fiber optic networks — ASAP. As the San Jose Deputy City Manager put it: ³⁶⁹

"'We want to get the on-ramps and off-ramps (to the systems) built as soon as possible.... We want it to be clear, from (city) staff to the city council, that San Jose is aggressively pursuing (the high-tech development)', said Greg Larson, deputy city manager."

Though each city and county had a long list of enticements, the major incentives offered were: (Note: It is not in the scope of this report to identify all of the agreements and their terms.)

- loosened regulations and fast-track permitting
- various fee waivers for prospective developers
- waivers for its enterprise zones
- waiver of candidate fees, charges for use of public right-of-ways

We will return to the topic of the financial impacts of these decisions later.

A Dark Secret: The Technology Didn't Work as Advertised.

Unfortunately there was a very dark secret — the system couldn't be built. As discussed in other sections, the technology wasn't available — not for the price that the companies had outlaid for each home, and there were even questions if it could be built for any sum. According to a report titled "The Information Superhighway: Get a Grip", by New Networks Institute, 1994: ³⁷⁰

“Numerous speeches given at a conference titled 'Interactive Marketing', May 1994,³⁷¹ discussed the technological and manufacturing hurdles required to bring to the residential subscriber full-motion, interactive video services. The consensus was simple:

- The boxes required computer chips that were not yet being mass manufactured.
- The initial boxes would cost \$2,000–\$5,000 per unit, since they are, in reality, high-speed computers and not production models.
- The mass market manufacturing price would most likely wholesale for \$1,200–\$1,500 per unit.

“In fact, in most of the interactive TV trials during 1994-1995, the price per set-top box was between \$4,000-\$5,000. The Time Warner trials in Orlando, originally scheduled for spring 1994 (and shut down in 1997) were delayed a year because even the prototypes were not fully operational and the boxes reportedly cost \$5,000. In another trial by Viacom and AT&T in Castro Valley, that was also canceled, the cost was \$4,000 per box. This \$4000-\$5000 box didn't take into account the network upgrades, or the digital switches and servers, which were believed to cost an additional \$1,000 to \$1,200 per subscriber.”

And there were obvious signs that there were problems with the Info highway. For example, Bell Atlantic halted its video service plans in April of 1995.

“Bell Atlantic Halts Plan for Video Services”, *The New York Times*, April 26, 1995³⁷²

“Bell Atlantic Corporation called an abrupt halt to its scramble into television yesterday. Saying it wanted to rethink its strategy for upgrading its telephone network, the company asked the Federal Communications Commission to suspend its application to offer video services to as many as three million telephone customers....”

Meanwhile, an article in *The New York Times*, December 18, 1995, stated that:

"Bell Atlantic revealed that it cost \$17,000 per household to build and deliver a Full-Service network." (in Toms River, New Jersey)³⁷³

The odds that Pac Bell was aware of this at the time this law was passed was high, since Bell Atlantic and US West (two other Bell companies) both started to close down some of their info highway plans months before, citing technical difficulties.

As we discuss elsewhere, statements made by both Verizon and SBC about their new fiber optic plans, including Verizon's FIOS and SBC's Lightspeed, also indicate that it wasn't until 2004 that they were once again discussing their new fiber optic deployments, both claiming that the plans to have fiber-to-the-home was a 'first', with no mention that these identical plans were first announced in 1993!

Construction Expenditures for the Network Came from the Regulated Budget.

More to the point, an examination of Pacific Bell's construction expenditures for the years in question clearly show that there weren't any major increases in network spending. The company spent more money on the telephone network in the mid-1980's.

Exhibit 56

Pacific Telesis Construction & Capital Expenditures, 1984-1996

(In the billions)

1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
\$2.1	\$2.3	\$2.2	\$2.2	\$1.6	\$1.9	\$2.1	\$1.7	\$1.8	\$1.9	\$1.7	\$2.1	\$1.8

Source: Pacific Telesis Annual Reports, 1984-1996.

From these statistics it is clear that Pac Bell's network upgrades for fiber most likely came directly from their normal annual spending, and most likely replaced the upgrades to the copper wiring plant — the same plant that handles DSL.

Also, simple math would dictate that if the company was spending \$16 billion starting in 1994 for a total of seven years, then the 1994, 1995, and 1996 expenditures would have to be at least \$2.3 billion a year above the normal average amount.

The SBC-Pacific Bell Merger: The Hatchet Comes Down on California's Plans.

While Pac Bell at least gave the appearance that it cared, although didn't fulfill any of these obligations, SBC simply pulled the plug on all of these plans.³⁷⁴

"Pacific and Southwestern Video Curtailment/Purchase Commitments — SBC also announced in 1997 that it was scaling back its limited direct investment in video services in the areas also served by Pacific Bell Telephone Company (PacBell) and Southwestern Bell Telephone Company (SWBell). As a result of this curtailment, SBC halted construction on the Advanced Communications Network (ACN) in California. As part of an agreement with the ACN vendor, SBC paid the liabilities of the ACN trust that owned and financed ACN construction, incurred costs to shut down all construction previously conducted under the trust and received certain consideration from the vendor. In the second quarter of 1997, SBC recognized net expense of \$553 (\$346 net of tax) associated with these activities. During the third quarter of 1997, SBC recorded the corresponding short-term debt of \$610 previously incurred by the ACN trust on its balance sheet.

"Additionally, SBC curtailed certain other video-related activities including discontinuing its broadband network video trials in Richardson, Texas, and San Jose, California, substantially scaling back its involvement in the TELE-TV joint venture and withdrawing its operations in territory served by SWBell from the Americast venture. During 1999, SBC negotiated a settlement with its Americast partners related to the withdrawal. The settlement did not have a material impact on SBC's financial condition or results of operations. The collective impact of these decisions and actions by SBC resulted in a charge of \$145 (\$92 net of tax) in the second quarter of 1997."

To demonstrate the total irony of this move, SBC released a press release about Philip Quigley, Pac Bell's president, at the time of SBC-Pac Bell merger. It demonstrates how the hype continued, regardless of the reality. Even though Pacific Telesis stopped all of its major highway plans and never spent the money, the press release (April 1, 1997) stated that Quigley led Pac Tel's \$16 billion broadband Info Bahn project.³⁷⁵

*"During Quigley's tenure, Quigley led PacTel's comprehensive **\$16 billion network redesign program, which involved construction of a broadband information superhighway.**"*

However, as the previous quotes demonstrate, not only did SBC do a wholesale cleanout of the advanced network plans, but, more importantly, Pac Bell never spent the \$16 billion — not even a fraction of it. However, it seems they did write-off whatever was put into the ground. It also seems that customers never benefited from the network, or the write-offs. However, customers did pay for these fabled networks. In fact, some parts of California were wired — but never connected — a true highway to nowhere.

Show me the Money

If the networks weren't finished, where's all the money? In other sections of the book we outline our belief — overcharging comes to approximately \$2000.00 per household. Without audits it is hard to tell exactly how much money was overcharged in the Pac Bell territories, but it is most likely close to the other phone companies.

Changes in State Laws

Pac Bell stated that the additional \$600 million would be spent on the new networks. As Pac Bell stated the money was on an increasing scale from \$100 million in 1996 to \$300 million in 1998, accrued from changes in state laws.³⁷⁶

"Pacific Bell said the PUC's productivity formula would have required refunds of \$100 million in 1996, \$200 million in 1997 and \$300 million in 1998 — money that it needs to be competitive in the new marketplace."

However, Toward Utility Rate Normalization (TURN) said the refunds were higher and that over \$1 billion was at stake.³⁷⁷

“‘The commission just handed Pacific Bell a billion-dollar Christmas gift’, said Regina Costa, a telecommunications analyst for TURN.”

This extra billion dollars is only a small part of the overcharging picture. The “Regulatory Audit of Pacific Bell for 1997, 1998, and 1999 by the California Public Utilities Commission”,³⁷⁸ just examined the “regulated intrastate revenues”, found that the company made mistakes of \$1.94 billion dollars and that in 1999, the amount of monies that should have been collected, had the law not been changed in 1999, would have been an additional \$457 million.

“The audit of financial results identified 67 corrections to Pacific Bell’s regulated operating revenues, expenses and rate base. Audit corrections to bring financial results into compliance with CPUC requirements increased the regulated intrastate net operating income that Pacific Bell reported during the audit period by \$1.94 billion. This translates into recommended customer refunds under NRF earnings sharing rules of \$349 million for the years 1997 and 1998. NRF earnings sharing rules were suspended by the CPUC effective in 1999. Customer refunds for 1999 would have totaled \$457 million if the sharing rules had been effective. Following are additional key findings and conclusions from the audit.”

And these were simply corrections needed. They do not reflect how much money the phone company made from the changes in state law.

Did Customers Illegally Fund ADSL in California?

As we just discussed, what was promised to Californians was a fiber optic wire, not simply using the old copper wiring.

The difference is of course speed and services. The fiber optic future was of 45 Mbps and hundreds of channels. DSL is about 45-100 times slower. ADSL, which is “Asymmetric” DSL, is only fast in one direction.

However, the Audit of Pac Bell for the years 1997-1999 found that Pac Bell had \$196 million dollars in expenses to develop ADSL and much, it not all of it, was charged to phone customers, which is known as “cross-subsidization”.

According to the Audit.³⁷⁹

“ADSL was introduced in 1998 but was not widely available until after the audit period. During the three year audit period Pacific Bell incurred net expenses of \$196 million to develop ADSL service and placed substantial ADSL plant investment into rate base.... At the end of 1999, at about the time the service was ready to be widely marketed, Pacific Bell transferred ADSL to SBC Advanced Solutions, Inc.. As a result, regulated customers paid a substantial amount for ADSL’s development, but never received the benefit of significant ADSL revenue.”

We need to point out that there have been many fights, legal actions, etc.. over DSL in California, as well as on the Federal level. For example, the FCC ruled that DSL is an Interstate Information service and doesn’t have to be to competitive Internet Providers. If customers funded these networks, then shouldn’t they have remained open to competition? We will come back to this issue in Volume II.

Cross-Subsidization of Other Expenses

A customer is only supposed to be charged for local service when paying a local service bill. However, it seems that every phone company, including Pac Bell, has been able to move expenses to the phone company’s regulated’ side, thus raising the cost of local phone service for ‘ratepayers..

The Pac Bell audit found a host of these improperly added expenses, which can add hundreds of millions of dollars or expenses, such as with ADSL. Here are some examples. In this case, SBC charge Pac Bell customer for their political and legislative lobbying costs.

“We found other cross subsidies flowing from Pacific Bell’s customers to SBC shareholders. Examples included parent company political and legislative

influence costs and secondary cost allocations of parent company “management fees” charged to Pacific Bell’s customer (above-the-line) accounts.”

SBC extortion charges? SBC charged more money to California in the form of building the SBC Corporation.

“Pacific Bell’s operating expenses increased because of a substantial increase in corporate charges. Pacific Bell’s corporate charges increased from less than \$120 million in 1996, the year before the merger, to nearly \$300 million in 1999. *Most of the increase was due to new and higher cost levels billed by SBC’s Texas-based corporate organization, which was added to the California-based PTG organization that existed prior to the merger.* Pacific Bell’s corporate charges continued to climb in 2000. This occurred in part because cost allocations from Management Services Inc., SBC’s Texas-based parent organization, were layered on top of costs being charged by PTG’s parent organization prior to the merger”

And there are loads of areas that are impacted. Here are 9 different items totaling \$463 million. To sum up a few — the company incorrectly charged \$38 million for local number portability, (the ability to take you phone number when you go to a competitive service), \$49 million for local competition costs, \$35 million for not adding the merger savings, etc. However, the author’s personal favorite was \$41 million for the “Shut down of an Advanced Communication Network that was never placed into service,” — the fabled fiber optic deployment.

“We identified and calculated nine audit corrections to operating expenses. These include 1) removing \$138 million in local number portability (LNP) costs from intrastate operating expenses that the FCC explicitly ruled should be assigned directly to the interstate jurisdiction; 2) removing \$49 million in local competition implementation costs that should have been deferred and amortized over the period of CPUC-authorized surcharge recovery that began in 2001; 3) reducing operating expense by \$35 million to reflect the allocation of merger savings between ratepayers and shareholders ordered in the CPUC decision that approved the merger of SBC and Pacific Telesis; 4) removing \$41 million in cost associated with the shut down of an Advanced Communications Network that was never

placed into service; 5) reducing operating expenses by \$44 million to correct Pacific Bell's accounting for a December 1999 software buy-out agreement; 6) removing \$103 million of unsupported and unauditable litigation and regulatory accruals from operating expense; 7) reducing incentive compensation accruals by \$29 million to reflect the actual payout levels for the 1997, 1998 and 1999 performance years; 8) reducing 1997 and 1998 operating expense by \$42 million to remove the cost of settlements paid to contract billing customers for an increase in uncollectible amounts attributable to 1996 operations; and 9) increasing operating expense by \$19 million to correct the classification of traffic bound for internet service providers for separations purposes. In total these nine corrections reduce audit period intrastate regulated operating expense by \$463 million."

An Additional \$3.6 Billion in Tax Deductions Is Tied to Changes in State Law.

In 1995, the company took a massive one-time deduction of \$3.6 billion using the excuse that they were replacing the older copper wiring with the fiber optics, which, of course, did not happen. We discuss this deduction in our construction and depreciation analysis of the Bell companies, as every other Bell also took a similar deduction tied to the changes in state regulations for their broadband announcements.

(NOTE: In 1999, New Networks Institute filed a \$3.6 billion Complaint against Pac Bell with the IRS, contending that the copper wiring was still in use and had not been removed. This saved the company over a billion dollars in Federal taxes.)

Without a full audit of the monies directly related to the changes in state law that were made for their fiber optic promises, it is impossible to tell the full extent of the costs to customers and the economy.

Other Business Indicators

Because of the mergers with SBC, the various write-offs, etc., it is impossible to go into complete detail about how the fiber optic promises played out in each state. But a few things are clear — in 1992, the company's overall return on equity, a standard business measure, was then 16.1% and went to 46% in 1996, an increase of 186%. And one of the reasons for this increase

was the massive staff cuts. There were 57,000 staffers in 1992. By 1996 there were only 48,300 — a drop of 8,670, or 15%.

Exhibit 57

Pacific Telesis Return on Equity, Staff, 1992-1996

	1992	1994	1996	
Return on equity	16.1%	22.0%	46.0%	186%
Staff	57,023	51,590	48,330	-15%

Clearly, changes in regulation that allowed for massive staff cuts, and a lack of large increases to construction, as previously discussed, all added up to major increases in the companies' profits.

Coda: So Much for California's Digital Future.

There were some customers that did notice. The San Diego Tribune wrote what amounts to an obituary for the fabled highway.³⁸⁰

"San Diegans continue to shake their heads in disbelief over the sudden cancellation of a project that promised to bring meaningful competition to the local cable market — and much more.

"It was a little disappointing to hear about all these marvelous things that they were going to provide us with, and then, with no communication with us, they just came through and started yanking (the new boxes) out again.' said Gordon Buck, a Claremont resident. 'I'm just puzzled by it,' said Lou Quayle, another Claremont resident. 'They had an army up here for almost three years.'"

More to the point, there's a network to nowhere sitting in various California neighborhoods.³⁸¹

"Late last year, the company quietly sent word out in the industry that it is willing to sell its cable operation in San Jose as well as its unfinished networks in San

Diego, Los Angeles and Orange County – a total of 2,733 miles of fiber optic and coaxial cabling.

“Since that announcement in June, Pac Bell has disconnected cable customers in San Jose and has spent months tromping through San Diego neighborhoods to disable household boxes and reconnect customers to the old copper phone network.”

In fact, the fabulous Information Superhighway is now nothing more than another version of POTS — plain old telephone network.³⁸²

“Pac Bell's video network here, begun in May 1994, had included more than 73,000 homes in Pacific Beach, Mission Beach, Clairemont, Mira Mesa and Scripps Ranch when it was canceled last year.

“Although the network never carried video service, about 3,500 local customers in the beach areas had been receiving phone service over the high-tech network. To date, all but 946 phone customers here have been reconnected to copper wires.”

The San Diego Tribune encapsulated the failed deployments in 1998 with a timeline titled “A plan that failed,” highlighted on the next page.

Exhibit 58**San Diego Tribunes' Year by Year: A Plan that Failed
(Summary of the Pac Bell Deployment of the Information Superhighway.)**

- November 1993 — Pacific Bell unveils plans to spend \$16 billion over seven years to upgrade its California network to handle interactive services like home shopping and compete against cable companies with video channels and movies-on-demand.
- May 1994 — PacBell begins network construction in Pacific Beach and Mira Mesa in San Diego. Construction also begins in San Jose and in Orange and Los Angeles counties.
- October 1994 — City of San Diego considers proposal to require that Pacific Bell pay franchise fees and abide by other requirements imposed on cable companies if it gets into the video business.
- October 1994 — Pacific Telesis, Bell Atlantic Corp. and Nynex Corp. form TELE-TV, a joint venture to provide the companies with video programming, entertainment and information to sell to residents.
- January 1995 — PacBell and city of San Diego sign "landmark" agreement, with PacBell pledging to give the city 5 percent of gross revenues from voice, video and data services sold over new network. City agrees not to regulate PacBell as a cable company.
- April 1995 — PacBell buys Cross Country Wireless Inc. and announces plans to offer "wireless cable" service to 5 million-customer service area covering San Diego, Riverside, Los Angeles and Orange counties.
- September 1995 — PacBell slows network construction to save \$1 billion in capital costs over five years for statewide project, but accelerates network construction in San Francisco.
- January 1996 — PacBell halts fiber/coaxial network construction in Los Angeles County. Network projects continue in San Diego, San Jose and Orange County (briefly).
- April 1996 — SBC Communications of Texas signs deal to buy Pacific Telesis.
- May 1996 — Network construction halted in Orange County.
- June 1996 — San Jose City Council awards PacBell a cable franchise, giving the company official standing as cable operator.
- September 1996 — PacBell begins selling video service in San Jose over its new network.
- April 1997 — SBC's purchase of Pacific Telesis becomes final.
- April 1997 — TELE-TV, jointly owned by Bell Atlantic Corp., Nynex Corp. and Pacific Telesis Group, cuts staff in half and abandons all joint video projects in favor of individual company efforts.
- May 1997 — PacBell launches 'wireless cable' service in Los Angeles and Orange counties.
- June 1997 — SBC abandons almost all attempts to compete with cable, announcing immediate ends to Pac Bell's video network project as well as a smaller test in Texas. The decision halts construction in San Diego and pulls the plug on 8,000 PacBell cable customers in San Jose. SBC writes off \$500 million investment in both ventures.
- November 1997 — PacBell sends out requests for bids on various components of the partially built video network.