BEFORE THE
PENNSYLVANNIA PUBLIC UTILITY COMMISSION

Re: Verizon Pennsylvania, Inc., Petition and Plan for Alternative Form of Regulation Under Chapter 30 2000 Biennial Update to Network Modernization Plan — P-00930715

COMPLAINT REQUESTING AN INVESTIGATION INTO FRAUDULENT ACTS BY VERIZON IN THEIR STATE BROADBAND DEPLOYMENTS --- A "BAIT & SWITCH"

TELETRUTH REQUESTS A "BROADBAND TRUE-UP", REFUNDS, AND PLACING THE FIBER-OPTIC NETWORKS UP FOR COMPETITIVE BIDDING.

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EXECUTIVE SUMMARY
The Verizon Pennsylvania Commitment and Outcome

In 1994, Verizon Pennsylvania (then Pennsylvania Bell a subsidiary of Bell Atlantic) was granted the 'deregulation' of state laws that essentially gave the Bell company financial incentives to rewire the state with fiber optics for broadband services.

The Commitments:

> *"In view of Bell's **commitment to providing 45 Mbps** for digital video transmission both upstream and downstream, we look forward to Bell's providing this two-way digital video transmission at **45 Mbps**."*[1]
>
> *"Verizon PA has committed to making **20%** of its access lines in each of rural, suburban, and urban rate centers broadband capable within five days from the customer request date by **end of year 1998**; **50% by 2004;** and 100% by 2015."*
>
> *"In order to meet this commitment, Bell plans to deploy a broadband network using **fiber optic** or other comparable technology that is capable of supporting services requiring bandwidth of at least 45 megabits per second or its equivalent."*
>
> *"It is apparent that **DSL, as it currently exists today, (March 2002), is unable to provide the broadband availability of 45 Mbps both upstream** and downstream that the Company voluntarily committed to and the Commission approved in 1995."*

What is being promised is the replacement of the older copper wiring with a new, fiber-optic service that has speeds of 45 mbs in both directions. This is 50-100 times the current ADSL service, which goes over the 100-year-old copper wiring and is a mostly one-way product. The agreement also requires Verizon-PA to wire both rural as well as urban areas---- 20% by 1998, 50% by 2004. And this service is fiber-optics directly into the home and office, not ending at the street. Today, there are no homes with this wiring or that delivers the speed.

On March 28, 2002, the Pennsylvania Public Utility Commission rejected Verizon Pennsylvania's compliance with the state Alternate Regulation plan, stating that the Bell company had not satisfied its legal obligations to supply broadband services at 45mbs.[2]

> "…this Commission has a legal obligation to reject Verizon PA's 2000 Update and require it to submit a new update specifying its plans to satisfy its legal obligation to provide a modernized network with broadband capability of at least 45 Mbps upstream and downstream, to be available within five days from the customer request date."

TeleTruth and its members applaud the actions by the Pennsylvania Commission and await their continued analysis of the failure of Verizon, PA to deploy broadband. However, our position is that this situation warrants additional investigations into the possible fraudulent acts by Verizon, among other claims.

We believe:

- Verizon over the last decade make false and misleading statements about proposed 'broadband" services to the Pennsylvania Public Utility Commission, the public and other regulatory bodies in order to reduce regulations and make more profits. They succeeded in getting large financial incentives for a broadband network they could never deliver.
- Verizon lied when it said it could rewire 20% of the state with fiber-optics by 1998, 50% by 2004, including both rural and urban areas, and delivering speeds of 45mbs in both directions.
- Verizon pulled a "Bait-and Switch" promising a new broadband fiber-optic digital future that could change the state's entire economy, and instead Verizon is barely rolling out an inferior ADSL product over the old, already existing wiring.
- Verizon is illegally using ratepayer monies through excess charges on phonebills to fund the DSL business and other businesses, including wireless services and long distance services. Known as "cross-subsidization", services that should be funded for by shareholders are instead being charged to customers.
- Yellow Pages Scam: Verizon also received major financial gains from the shifting of Yellow Pages subsidiary, who's revenues were used to subsidize local phone service. Yellow Page Advertising is one of the most profitable businesses in America – paid for through higher fees from small business advertisers.

- Customers paid for a network they will never receive. We estimate that the Company received $2.1 billion from this deregulation, including an additional $1.5 billion in extra tax deductions the Company received from excessive write-offs of the still existing networks.
- We estimate this cost each household $785, by year end 2002, about $165 in just 2002. Customers are owed refunds.
- There is ample documentation that this scam occurred in most, if not all of the other Verizon states (including Bell Atlantic and NYNEX). Therefore, we believe there was collusion between the Bell companies to not make public the truth about fiber-optic broadband deployments.
- Verizon's failure to deploy broadband in the state (and elsewhere) has had a serious impact on the overall economy, as well as harm to the Tech sector and the value of shareholder stocks.
- Rural Customers have been particularly harmed since the law to deliver them broadband -- like everyone else -- is being ignored.
- The costs for all services have been incrementally increased through deregulation and snake-oil accounting.
- The price for services should be declining because the costs have been decreasing --- in PA alone, 3,400 Bell employees have been let go since 1994 --- a drop of 23%, and construction from 2001 is down 36% in the state.

Therefore, we are calling on the State Commission and Attorney General's office, the IRS and the FTC, and FCC, to:

Conduct a Broadband "True-Up":

Step One: We are requesting a complete audit of the Bell's books to determine exactly what happened to the monies collected through deregulation. While we have used due diligence in going through the annual reports, these are closer to works of fiction than documents to be relied on for minute analysis.

- How much money was collected because of the changes in regulations, including taxes and tax write-offs?
- How much extra charges on phonebills does this equate to?
- How much of this excess profit is being charged through higher rates to competitors trying to offer their own services over the Bell networks?
- How much of this money was spent to roll out ADSL products or other services not related to the Bell's fiber-plans?
- What fiber-optic services are being offered to residential customers? Was anything wired?

TeleTruth is Recommending:

- A complete investigation into fraudulent acts. When did the Bell companies know they couldn't build these networks?
- The Bell company's regulation should reflect its actions and therefore, the company should have the current deregulation plan revoked.
- An estimated $2.1 should be collected in penalties and refunds.
- $1.5 billion should be investigated for improper tax write-offs.
- The state should start proceedings on whether customers should own its own fiber-optic infrastructure, which is built through competitive bidding. This network could be paid for through the current excess rates. It should not be owned by the Bell companies, who have proven to not be trusted with these important matters.

1.0 Bell Broadband Background

Starting in 1991, Verizon (then Bell Atlantic and NYNEX) made outrageous claims that they would rewire America with a fiber-optic wiring plan that would herald in a new era --- A Digital Information Superhighway Future.

Bell Atlantic 1993 Annual Report

> "We expect Bell Atlantic's enhanced network will be ready to serve 8.75 million homes by the end of the year 2000. By the end of 1998, we plan to wire the top 20 markets… These investments will help establish Bell Atlantic as a world leader in what is clearly the high growth opportunity for the 1990's and beyond."

NYNEX, 1993 Annual Report

> "We're prepared to install between 1.5 and 2 million fiber-optic lines through 1996 to begin building our portion of the Information Superhighway."

In fact, in Bell Atlantic's 1993 Annual Report, the company announced they were the "leaders" of the Info Bahn, and that they would be spending $11 billion dollars.

> "First, we announced our intention to lead the country in the deployment of the information highway. …We will spend $11 billion over the next five years to rapidly build full-service networks capable of providing these services within the Bell Atlantic Region."

Working with Deloitte & Touche and a group of very high-paid consultants, Bell Atlantic created a series of reports commonly known as "Opportunity New Jersey" and "Opportunity Pennsylvania", that laid out a plan of how this fiber-optic future would change the economy-- not to mention people's lives. According to Opportunity New Jersey, the plan stated broadband was: [3]

- "Essential for New Jersey to achieve the level of employment and job creation in that state"
- "Advance the public agenda for excellence in education"
- "Improve quality of care and cost reduction in the healthcare industry".

This same traveling circus approach also happened in the NYNEX states, where in Massachusetts, NYNEX promised to deploy 330,000 households by 1995. (Testimony from Alternate Regulation 94-50)

> "(In Massachusetts, NYNEX will) deploy a fiber-based broadband network, with initial deployment to approximately 330,000 access lines, by year-end 1995."

The Bell companies also petitioned and then sued the FCC to allow them to offer everything from cable services to healthcare services. [4]

> "On July 8, 1994, NYNEX filed two (Section 214) applications for authority to provide video dialtone service in certain areas of Massachusetts and Rhode Island. The application to provide video dialtone service in Massachusetts proposes a system that will pass approximately 334,000 homes and businesses."
>
> "NYNEX proposes to deploy hybrid fiber optic and coaxial (HFC) broadband networks that will provide advanced voice, data, and video services, including interactive video entertainment, multimedia education and health care services."

Verizon wasn't the only company to make outlandish promises. All of the other Bells made similar claims. Pac Bell stated: (Pacific Telesis 1993 Annual Report)

> "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."

In fact, in the state of California, Pac Bell actually wired some streets in various cities, only to have SBC (who bought Pac Bell) completely stop all construction and sell off the assets -- and in some cases rip up the streets and remove the fiber wiring. For a chronological history of the California failed deployment see this timeline created by the San Diego Tribune.
http://www.newnetworks.com/tauzinfactsheet9.htm

In every case, the Bell was only going to do these wonderful plans if they were 'deregulated" by the state. And in all of these cases, deregulation was the removal of regulations that examined and kept monopoly the profits in check, in exchange for "price-caps", where the price of service is frozen for a few years or is granted small increases.

NOTE: If you freeze the price of a service, and the costs keep going down, then the profits keep going up.

The outcome in most states could be summarized by the Comments made by the New Jersey Ratepayer Advocate: (New Jersey Public Advocate about NJ Bell Atlantic, (4/97))

> "…low income and residential customers have paid for the fiber-optic lines every month but have not yet benefited."
>
> "Bell Atlantic-New Jersey (BA-NJ) has over-earned, underspent and inequitably deployed advanced telecommunications technology to business customers, while largely neglecting schools and libraries, low-income and residential ratepayers and consumers in Urban Enterprise Zones as well as urban and rural areas."

To read an analysis by the Ratepayer Advocate on the New Jersey failure to deploy, see: http://www.rpa.state.nj.us/onj.htm

And for a more complete analysis of the failed deployments and the customer funding involved see "How the Bells Stole America's Digital Future", published by NetAction: http://www.netaction.org/broadband/bells/

NNI estimates that by the end of 2002, customers were overcharged $70 billion for fiber-optic services they will never receive.

But the impact of not doing the wiring doesn't just mean that the customer loses, both in terms of not having next generation products and services, or paying more for local phone service. This entire process helped to create the entire Tech Sector crash, especially effecting the hardware vendors and fiber-optic companies who were betting on the Bells' services.

For example, on July 15, 1996, Bell Atlantic cut a deal with Lucent for a six and a half year contract to deliver fiber-optic services. [5]

> "Bell Atlantic Corp. has selected Lucent Technologies Inc. [NYSE: LU] as a supplier of key network components for Bell Atlantic's initial Full Service Network deployment in the mid-Atlantic region. Bell Atlantic's investment under the contract could reach several hundred million dollars over a six-and-one-half-year period."

And what was the contract dedicated to? The press release focused on the Pennsylvania promise of fiber-optics to 12 million homes and small businesses, with Pittsburgh and Philadelphia as the starting points.

> "The fiber-to-the-curb architecture that Bell Atlantic will build is the next step in the company's ongoing, aggressive network modernization program…
>
> "Bell Atlantic plans to begin its network upgrade in Philadelphia and southeastern Pennsylvania later this year. The company plans to expand this Full Service Network deployment to other key markets over the next

> three years. Ultimately, Bell Atlantic expects to serve most of the 12 million homes and small businesses across the mid-Atlantic region with switched broadband networks."

With a contract extending through the year 2003, Lucent's fortunes were tied to the Bell's promises and commitments. Anyone who has analyzed the collapse of the Tech Sector knows that Lucent and other fiber-optic companies like Corning, have not faired well. For a report by New Networks Institute on the impact the Bells' failed deployments had on the Tech sector see:
http://www.newnetworks.com/fiberopitcfiasco.htm

This scam was so pervasive that the fiber-optic wiring upgrades were part of the equation for the price to competitors for use of the local phone networks. This quote below from a 1997 Opinion states that the 'input' of the price for TELRIC (the costs to competitors for using the networks) in New York was set for 100% fiber (optic) feeder, meaning that all of the network endpoints would be fiber.

New York Public Service Commission[6]

> "We adopted New York Telephone's position and used, as an input, 100% fiber (optic) feeder. In doing so, we …acknowledged the "incontrovertible evidence" that New York Telephone contemplated installing a broadband system and that fiber and associated equipment were needed for that system." (A feeder is the endpoint of the network that connects multiple homes, offices, etc.)

To read an analysis of the New York fiber-optic scam see "The Two Broadbands… How NYC Got Conned and What We Should Do for The City's Broadband and Economic Health," [7] http://www.newnetworks.com/NYCspeechfin.htm

1.2 How Did They Get Away With This Scam? They "Gamed" the System.

It is our belief that the Bell company, Verizon, knew full well that they could not build the networks that they were purporting to deliver and they decided to "game" the Commissions. As with other commissions, Verizon was probably thinking that their statements and promises would never be fully questioned or if they were taken to task, then there would be a nominal fine. They would walk away with billions of extra money and new freedoms. Also, Verizon outspent the other side -- advertising, consultants, campaign contributions, shear legal talent, research --- about 30 to one was the NNI estimation based on 10 years of tracking.[8]

It is also true that the Internet explosion of the 1996-1999 timeframe had customers happy with their new toy --- the email and web-browsers brought to us by the thousands of new Internet companies and Internet Service Providers, and so, the industry never noticed that other commitments were not being met.

Unfortunately, Pennsylvania is not an isolated event occurring in only one state. It may be proven that the Bells were in collusion to block their real intentions from ever being known. For example, Bell Atlantic NYNEX were then separate companies in 1995m though they made identical commitments to rewire their states with fiber and offer then non-existing services. However, it is important to note that Pennsylvania is one of the only states that has held the Bells accountable for their actions, in both these current proceedings as well as the Order and Opinion by the Pennsylvania Public Utility Commission. Some states, such as Ohio, Indiana, and New Jersey, have made more noise but are not questioning the basic misrepresentation to the state -- of its consequences.

In many states, such as Massachusetts, the line between the promises and commitments made to the public through thousands of statements, were never fully held accountable in the state commission Order. To read a Complaint filed by members of TeleTruth against Verizon, then NYNEX/New England Telephone) Massachusetts for their failure to roll out their promised fiber-optic services see:
http://newnetworks.com/Masscomplaintsummary.html

Most importantly, in the year 2002, three is still no true broadband deployment in the US. The DSL rollout has proven to be a nightmare, and right now most of the competitors are on life-support, mostly caused through the Bell companies' improper treatment of customer services.

What's worse, the FCC and Congress are contemplating actions that not only reward the Bells with new financial incentives, but also makes customers pay double for networks they will never receive. And it is clear that customers are also the principle de-facto-investors of the Bell DSL products, but they will never receive any value for their investments.

2.0 Background to the Pennsylvania Fiber Campaign, and the Bell's Legal Requirements.

2.1 The Bell Promised Fiber-optic Services to Get Deregulation.

Verizon (Bell Atlantic) made thousands of public statements, from press releases and statements made in the press, to even documents presented to the Public Service Commissions that they would rewire Pennsylvania, and numerous other states, including New Jersey, DC, (Rhode Island, and Massachusetts) with a fiber-optic service that would replace the old copper wiring.

So there is no doubt, we've included the following list -- just a small portion of the stories that surrounded the Bell Atlantic fiber plans of New Jersey and Pennsylvania.

- **PA Senate OKs Fiber Optics Bill**, June 24, 1993, Philadelphia Daily News
- **PA Legislature Compromises On Fiber-Optics Bill. The Measure Calls For The State To Be Wired By 2015**. June 25, 1993, Philadelphia Inquirer
- **N.J. Bell Rewiring Approved By State. About 56 Million Miles Of Wire Will Be Replaced With Fiber-Optic Cable,** December 23, 1992, Page S01, Philadelphia Inquirer
- **Fiber-Optic TV Coming To N.J.** November 17, 1992, Page 27, Philadelphia Daily News
- **Bell Clears A Hurdle In Quest To Offer Video. A Judge Overturned Part Of A Federal Law. Now Bell Atlantic Will Try Offering Video Services Regionwide.** July 28, 1993, Page 19, Philadelphia Daily News
- **A Fiber Field Of Dreams. The Switch In The Way Phone Signals Are Sent Promises Not Only Faster Transmission, But Also Bright New Ideas For Using The Technology** June 2, 1993, Page A01, Philadelphia Inquirer
- **Phone Bill Goes To House. The Pa. Measure Would Limit Rate Increases And Require A Fiber-Optic Network By 2015.**May 24, 1993, Page S01, Philadelphia Inquirer
- **N.J. Bell Will Alter Its Fiber-Optic Plans. A Subsidiary Will Run The Network. Newspapers Wanted A Guarantee That They Would Have Access To It.** February 7, 1993, Page A06, Philadelphia Inquirer

- **Working Together To Build A Highway For Information. A Fiber Optic Network Could Move 25 Trillion Bits Of Information A Second. Today's Rate? 100 Million Bits.** January 18, 1993, Page C01, Philadelphia Inquirer

The call for broadband -- then called the Information Superhighway, was also being hyped by the Bell companies nationally, and so the climate was such that there was little doubt this new technology was a national imperative.

2.2 The Deal and the Law

In 1993, the Pennsylvania state legislature created a new series of regulations added to the existing Public Utility Code, which essentially created a law to accelerate broadband in the state.

> " (1) Maintain universal telecommunications service at affordable rates while encouraging the accelerated deployment of a universally available, state-of-the-art, interactive, public-switched broadband telecommunications network in rural, suburban and urban areas, including deployment of broadband facilities in or adjacent to the public rights-of-way abutting public schools, including the administrative offices supporting public schools; industrial parks; and health care facilities, as defined in the act of July 19, 1979 (P.L. 130, No. 48), known as the Health Care Facilities Act. [9] "

Known as “Chapter 30”, these regulations also lay out the basic requirements for the distribution to be both rural and urban areas.

> "(2) Each local exchange telecommunications company shall reasonably balance deployment of its broadband network between rural, urban and suburban areas within its service territory."[10]

In exchange for this broadband plan, the Bell would petition and receive "Deregulation"--- herein called "alternative form of regulation".

> "(A) PETITION: When a local exchange telecommunications company seeks to be regulated under an alternative form of regulation, it shall submit to the commission a petition requesting the alternative form of regulation. In the petition, the company shall submit its proposal and supporting data for an alternative form of regulation. [11]

The law goes into details about how the regulation is applied. This is how Verizon characterizes their plan. It essentially states that the prices for services are "capped", meaning that the prices have been frozen, but that the regulator no longer examines the profits as they were able to do under the older form of regulation -- 'rate-of-return', which required the Bell to give money back if the profits went too high.

> **"**The plan provides for a pure price cap plan with no sharing of earnings with customers and replaces rate base, rate of return regulation. Competitive services, including toll, directory advertising, billing services, Centrex service, paging, speed calling, repeat calling, and HiCap (high capacity private line) and business services provided to larger customers are price deregulated. All noncompetitive services are price regulated.

Also, this law defined some services as competitive, such as "Directory Advertising", which means that the Bell could charge what it wanted to. Directory Services are the yellow pages and directory assistance, and on average, the Bell companies have a 55+% profit margin on these services, making it one of the most profitable in America.

See Appendix One for the Verizon description of the plans Alternate Regulation.

2.3 The Commitments

In the Executive Summary we included just a few quotes on the various commitments made in the final state Order. The commitments essentially calls for fiber-optic wiring that replaces the older copper wiring, and this new service will have speeds of 45Mps in both directions. 20% of the state, both rural and urban customers, will have service by 1998, 50% by 2004. And this is NOT DSL. To reiterate:

> "In view of Bell's **commitment to providing 45 Mbps** for digital video transmission both upstream and downstream, we look forward to Bell's providing this two-way digital video transmission at **45 Mbps**."[12]
>
> "Verizon PA has committed to making **20%** of its access lines in each of rural, suburban, and urban rate centers broadband capable within five days from the customer request date by **end of year 1998**; **50% by 2004;** and 100% by 2015."
>
> "In order to meet this commitment, Bell plans to deploy a broadband network using **fiber optic** or other comparable technology that is capable of supporting services requiring bandwidth of at least 45 megabits per second or its equivalent."

"It is apparent that **DSL, as it currently exists today, (March 2002), is unable to provide the broadband availability of 45 Mbps both upstream** and downstream that the Company voluntarily committed to and the Commission approved in 1995." (Emphasis added)

2.4 This is NOT DSL--- SPEED and Coverage are the Issues.

It is clear that the Pennsylvania Commission realized that there is a bait-and-switch going on and that what was promised was a Ferrari on the Info-bahn and what the state is getting is a skateboard on a dirt road. Here's the Commissions' reasoning -- DSL is too slow and doesn't even qualify for the definition of broadband, nor does it replace Verizon's obligations. [13]

"In Verizon PA's 2000 Update, the Company also states that DSL is a broadband service consistent with its NMP. There are several reasons why we believe that Verizon PA's current DSL offering is not a broadband service consistent with its NMP.

"First, DSL, as Verizon PA currently provides it, is too slow to be considered a true broadband service as defined by Verizon PA in its original NMP. The industry generally considers 45 Mbps to be the minimum speed for broadband and in its NMP, Verizon PA committed to this higher bandwidth level as well.

"Second, DSL, as Verizon PA currently provides it, can only reach a speed of 1.5 Mbps, the slowest definition of broadband where the customer is located no further than 12,000 feet from the serving wire center. Only a limited number of Verizon PA's residential customers meet this criteria. Third, currently Verizon PA's ADSL can achieve 1.5 Mbps in only one direction, the downstream direction. In the upstream direction, it is limited to a maximum of 768 Kbps (0.768 Mbps).

"To achieve speeds as fast, or faster, than DSL can currently provide, the wire lines from the serving wire centers to the customers must be replaced with either fiber optic conductors or coaxial cables, or a "hybrid" combination of the two."

And the Bell company also thought that ADSL was an inferior product. They were replacing the copper wiring so that the state would not lag behind others. They called ADSL and interim solution and defined it as **"the most bandwidth-limited section of the network."** Here's a excerpt from the Commission on the topic.

> "It should be noted that the evidence the Company introduced in support of its NMP in 1994 established clearly that modernizing the network meant, among other things, replacing the existing copper distribution system with fiber. The Company's direct testimony asserted that its NMP was consistent with the "moderate infrastructure acceleration scenario" described in the Commission's *Pennsylvania Telecommunications Infrastructure Study* released by Deloitte and Touche and DRI/McGraw Hill in 1993. (Bell statement 1.0, at 7.) Verizon PA placed the study into evidence in its rebuttal testimony. (Bell statement 9.0.) The study makes clear that one of the assumptions underlying all of the acceleration scenarios was deployment of a fiber distribution system. (Vol. I, at 1-96; Vol. IV, at XII-1-XII-19.) In fact, the study indicated that of all the technology changes needed for a broadband capable network, deployment of fiber in the feeder and distribution systems was the change that would lag behind the others if the Commonwealth did not adopt a strategy to accelerate deployment. (Vol. IV, at XII-25, XII-27.) The study described the copper distribution system as "the most bandwidth-limited section of the network." (Vol. IV, at IX-18.) Finally, it described ADSL technology as a "potential interim solution" to allow higher bandwidth services pending construction of a fiber distribution system. "

This issue of speed is complicated. Back in 1993-1995, when broadband was discussed, the speed was 45 Mps. For example, even Newton's Telecom Dictionary defines "Broadband" as a service with a speed of 45 mps.

> "Bandwidth of 45 Mbps or greater is consistent with the definition of "broadband" in *Newton's Telecom Dictionary* (17th Edition, February 2001) ("Broadband ---A transmission facility providing bandwidth greater than 45 Mbps (T3). Broadband systems generally are fiber optic in nature.").[14]

In a political move, the FCC decided to redefine Broadband to 200K in both directions.[15]

> "For purposes of this Report, we define "broadband" as having the capability of supporting, in both the provider-to-consumer (downstream) and the consumer-to-provider (upstream) directions, a speed (in technical terms, "bandwidth") in excess of 200 kilobits per second (kbps) in the last mile. This rate is approximately four times faster than the Internet access

> received through a standard phone line at 56 kbps. We have initially chosen 200 kbps because it is enough to provide the most popular forms of broadband -- to change web pages as fast as one can flip through the pages of a book and to transmit full-motion video."

According to the latest report from the FCC published in July 2003, there were only 5.8 million “advanced services” lines going to homes and small businesses. In the quote below the term “high-speed” is something slower than 200K in both directions and therefore the FCC had to create a new definition, “advanced” services --- which is still at the very low end of ‘true broadband”.

> “About 5.8 million…of the 12.8 million high-speed lines were advanced services lines that provide services at speeds exceeding 200 kilobits per second (kbps) in both directions, and served residential and small business subscribers.”

This, of course, blocks some of the Bells’ ADSL from entering the definition of broadband.

Therefore, the FCC's report can significantly boost the current broadband subscriber statistics, but it is a hollow endorsement because it leaves the country with the old copper wiring as our future.

2.5 The Need For Speed --- and the Two Broadbands.

“The more bandwidth you have, the more bandwidth you will use” is the classical technology analysis. But it is also the more information that can be carried into customers homes and offices. For example, anyone who uses the Internet with a 56K modem and has tried to download large music files, or a movie of TV or DVD-like quality simply can't do it--- it takes multiple hours because movies or even MP3 music files take up enormous amounts of 'bandwidth'. Conversely, if you make your own movie and want to send it to friends --- upload the movie ---- it will also take hours and its most likely easier to give it to them on a VCR cassette or CD.

And that’s not taking into account the slowness of most customers who use the old copper networks. The actual speed of the service can be very, very, slow. Many customers in more suburban areas are getting speed of only 14.4K as their fastest connection.

As the State Commission rightly identifies ---what we have here are two broadbands. The first is dependent on the copper wiring, which will never be able to get to 45 Mps -- enough for sending and receiving movies, and the second is the use of fiber-optic wiring, that can be continuously upgraded to faster speed services as they are developed --- and it’s slow speeds are 50-100 times faster than today’s ADSL.

2.6 The Commitment to Roll Out Universal Networks Means ALL Customers -- Including Rural Customers.

There are many Congressmen concerned with the rural deployment of broadband and considering the Bells, they should be. The Pennsylvania law addressed rural concerns when it made rural customers' rights to be on the same par as urban and suburban customers. The law did not make any extra financial incentives necessary for Universal Access to Broadband.

> "Chapter 30 requires that a LEC make available its broadband network universally. Section 3002 defines universal broadband availability as "access to broadband service by each bona fide telephone customer of a local exchange telecommunications company within five days after a request for broadband service is received by any telecommunications company." 66 Pa. C.S. §3002**. We also believe that, under Chapter 30, universal broadband availability excludes the notion of broadband services being offered at a level beyond the reasonable economic reach of the majority of a LEC's customers."**[16] (Emphasis added)

And it should be noted that the Bell company understood that these rollouts may not be as profitable as if they were doing these purely from a economic model. They were, in part, getting compensated through higher rates to do both rural and urban areas.

> "Thus, Bell's deployment of broadband facilities will take place in locations where conventional economic, financial, business or plain engineering justifications for such deployment may not exist. In this respect, Bell may install broadband facilities and bear the associated variable and fixed costs of the investment without realizing any corresponding streams of revenues in return, especially if such broadband facilities are not going to initially serve significant demand quantities for telecommunications services. Thus, Bell may be called upon to bear the risk of such initially unproductive capital investments."[17]

2.7 When Did The Bell Know It Wasn't Going To Be Able To Build The Network?

There is ample proof that Bell Atlantic/Verizon knew it wasn't going to build (or even could build) their plans as promised. The first sure sign of this was the fact that Bell Atlantic wrote the FCC stating they were pulling, read 'reevaluating' some of their plans. These statements were made against the backdrop of the Bell filing in Pennsylvania committing to the fiber-optic plan.

"Bell has taken recent action before the FCC which clearly brings into question whether the Company has a plan for accelerated modernization of its network. With respect to its video dialtone construction applications submitted to the FCC for its review and approval, the Company originally sought permission to construct a HFC network as the platform. However, the FCC applications were voluntarily suspended by the Company in May of this year. (1994) Yet, the direct nexus between the pending 214 applications and the Company's NMP filed before this agency is not developed. The Company's official transmittal to the FCC stated that "In the months since the applications were filed, however, significant technological and other developments have occurred which caused us to reevaluate our plans. Until this reevaluation is completed, we request that you hold these applications in abeyance." [18]

"The Company's press release elaborated that "The suspension is required because 214 applications must specify the exact equipment used in building such networks. Bell Atlantic said as new technology becomes available, the company wants to build the most cost effective network."

In a related story from the Boston Globe from April, 1995, it's clear that the public was being told that broadband plans were being slowed in Philadelphia and Pittsburgh

"It will take years before the technology becomes widespread, though, and the phone companies have been pushing back their timetables. Just this week, Bell Atlantic asked the federal government to withdraw its application to deliver fiber-coaxial - or so called broadband - services to as many as 3 million homes in Philadelphia, Pittsburgh and nearby centers. It said it wants to reconsider its technology strategy. [19]

In another article dated earlier, Feb. 27, 1995, the writer speculates that "Bell Atlantic is keeping its options open to deploy cable services by wireless.[20]

"Bell Atlantic is one of the more aggressive Bell companies in the cable industry, Baring said, adding that the CAI loan appears to be an attempt by Bell Atlantic to keep all its options open for future cable TV services. While the wireless cable industry was abuse over the CAI loan, Baring said Bell Atlantic has invested huge sums of money in other areas, such as its plans to construct a nationwide interactive network worth $5 billion.

However, one thing is clear -- the Bell of PA Commission was firm that the proposal for 45mbs was binding contract". [21]

> "When the Commission accepted Bell's proposal, that proposal became binding on the Company. Any modifications or deviations from a 45 Mbps two way interactive network must be approved by this agency, since such would constitute a modification to the June 28, 1994 Opinion and Order which ruled on the Company's original Petition and Plan."

2.8 Holding Pennsylvania Accountable For Their Statements.

The Pennsylvania Commission has taken a bold step to hold Verizon accountable for their actions taken under their jurisdiction. They are one of the few Commissions to have required, in writing, obligations for deployment in their deregulation plans.

However, TeleTruth feels that the Bell companies should also be held accountable for their statements about deployment. We argue that the thousands of statements made by the companies should be considered fraudulent because they could not build the networks at the time of the statements. In most of the Verizon states, the Bell company has not been held accountable, even for their public statements.

In short, we believe that the Bells should be help accountable for their speech since the promises they made were the reason the state laws were changed.

We are also like to point out a recent California Supreme Court Decision against Nike, Inc., which states that a company must speak truthfully about its products.

> "Our holding, based on decisions of the United States Supreme Court, in no way prohibits any business enterprise from speaking out on issues of public importance or from vigorously defending its own labor practices," the court wrote. "It means only that when a business enterprise, to promote and defend its sales and profits, makes factual representations about its own products or its own operations, it must speak truthfully."[22]

2.9 Competitive Issues

This complaint brings us a number of competitive issues.

1) The FCC and Congress have been putting forth numerous laws that in effect block the competitors use of new broadband networks. If customers paid for these networks in the form of higher prices, then why is the FCC giving away customer funded networks to a private company?

2) Are customers, who may never use DSL, funding ("Cross Subsidizing") a competitive, long distance product, ADSL?

3) Was the discounts to the competitive companies offering service also inflated based on the promises to deploy this broadband network?

The Rest of this Complaint outlines the financial case against Verizon PA.

3. The Outcome Of The Pennsylvania Plan --- An Independent Version Corroborates Our Findings.

We'd first like to present findings from a study and testimony that was done on the track record of the Pennsylvania plan by Economics and Technology, a highly respected research and consulting firm.

The company created a report in 1998 on this topic, and presented updated information in testimony presented in September 2002.

The 1998 report titled "Broken Promises A Review of Bell Atlantic Pennsylvania's Performance Under Chapter 30", is a scathing, but accurate review of the Opportunity Pennsylvania plan clearly showing that the Bell company made excessive profits, failed to increase investment in the state's telecommunications network, did not meet its commitments for fiber-optics in 1998, and "has actually extracted capital out of Pennsylvania for use elsewhere".

> "Having made its commitment and been granted its alternative regulation reward, Pennsylvania's largest local telephone company Bell Atlantic-Pennsylvania (BA-PA) has paid more attention to escaping from, rather than fulfilling, the terms of its promised upgrade. This study demonstrates that, despite strong financial performance and earnings growth in Pennsylvania, as well as a generous and flexible regulatory framework, BA-PA has failed to increase investment in the state's telecommunications network and, in fact, has actually extracted capital out of Pennsylvania for use elsewhere. At the same time, BA-PA has been extremely successful in protecting its monopoly from competitive encroachment. Without the discipline of actual, effective competition, the incumbent has been permitted to charge excessive prices and earn excessive profits, while confronting no business incentive to undertake new investment in Pennsylvania. As we approach the end of 1998 a point by which BA-PA is supposed to have broadband available throughout 20% of its rural, urban and suburban areas there is no sign of any broadband service being offered to Pennsylvania's residential customers."
>
> "As a result, and contrary to the PUC's expectations, Bell Atlantic's shareholders have been the real beneficiaries of the Alternative Regulation Plan."

To read this report go to http://www.econtech.com (registration required). One of the exhibits from this report shows that the "Return-on-Equity", a standard for measuring profitability, went from 13% in 1993, which is about average for a regulated monopoly, to more than double the amount, directly after the law was put into effect in 1994. For example, in 1995 and 1996 the return was a 139% increase from pre-alt-reg. returns.

Pennsylvania Bell's Return on Equity, 1993-1997

	1993	**1994**	**1995**	**1996**	**1997**
Return on Equity	13%	26%	31%	31%	29%

(Source: Economics & Technology., Bell 10Ks)

Economics & Technology also showed that the Bell company was **"Disinvesting"** after the deal went through, meaning that the company was writing-off more than they were spending on construction.

Pennsylvania Bell's Disinvesting, 1993, 1997
(in the millions)

	1993	**1994**	**1995**	**1996**	**1997**
Return on Equity	$-57.9	$-133.9	$-91.3	$ -54.6	$39.9

(Source: TeleTruth, Economics & Tech., Bell 10Ks)

2002 Update:

According to testimony by Dr. Lee Selywn at the Commonwealth of Pennsylvania Senate Communications and High Technology Committee meeting on “Chapter 30 and the Telecommunications Industry in Pennsylvania”, September 10th, 2002, Verizon made about $4 billion dollars from the changes in this state’s deregulation and profits increased.

> “Verizon Pennsylvania has realized gains of $4 billion as a direct result of Chapter 30 Alternate Regulation.”
>
> “Verizon PA’s return on equity is significantly higher than it would be under rate of return regulation (nominally set at 15.15% ROE) Alternate Regulation has been a windfall for Verizon.”

Verizon Bell Atlantic Pennsylvania
Return on Equity
1993-2001

1993	1994	1995	1996	1997	1998	1999	2000	2001
13%	26%	31%	31%	29%	30%	30%	27%	22%

Dr. Selywn estimates that:

"Excess earnings in real dollars --- is $1.7 billion dollars."

Another point of contention was the removal of the highly profitable directory (including Yellow ages) business from the calculations. According to Selwyn, the yellow page business in Pennsylvania was valued at $2.6 billion dollars.

> "In addition, during the adoption of its Chapter 30 regulatory regime, Bell Atlantic-Pennsylvania asked the PUC to classify it's yellow pages directory business as Competition, and shortly after receiving a PUC action on that request, Verizon transferred this valuable business asset out of the Pennsylvania company altogether and into a non-regulated Bell Atlantic affiliate operating entirely outside of the PUC's jurisdiction….worth approximately $2.57 billion dollars."

As you will see in the next section, our analysis not only confirms these findings but we believe that other monies are also at stake, including tax write-offs.

To read the testimony in full see: http://www.teletruth.org/docs/SelwynPA_BBND.pdf

4.0 Overcharging by the Numbers

We've attempted to do a number of different models to discuss what we consider to be overcharging.

NOTE: Because the information for 2002's annual results are not in (and this report was begun in June 2002), some of the information reflects full year results, ending in 2001.)

The big picture is as follows:

Verizon Pennsylvania has made a windfall from the Alternate Regulations. Almost all business indicators shows a growth in revenues and services, expenses were slashed, including drops in employees and construction, and cash flow went up.

Revenue and Services Up:
- The Bell's overall revenues were up 27%.
- Number of lines is up 23% since 1993, Number of minutes up 59%.
- Directory Profits are 55% --Making it one of the most profitable businesses in the US.
- The Bell of PA's return on equity since the Alt. Reg has averaged 115% higher than before the changes in regulation.
- Dividends to Verizon since 1999 have risen 41%.

Expenses Were Slashed:
- Construction Expenditures since 2001 down 36%.
- The "Construction-in-progress" for 2001 is the lower than 1994 --- down 38%.
- The Bell's expenses continued to drop with 3,400 (23%) of the workforce was cut.

Cash Flow Is Up:
- The Bell overall expenses (excluding special items and depreciation expense) went up only 6% and cash-flow increased from 41% to 55%.

Meanwhile, we estimate that:

Extra Profits and Write-Offs:
- An extra $2.1 billion was collected under "Deregulation".
- The Bell improperly took a one-time write-off deduction of $1.2 billion dollars.
- The Bell accelerated depreciation expenses $281 million -- saving on taxes.
- If you factor in the all of the write-offs, the Bell company has wrote off more than they've replaced with new construction -- a 'disinvestment' of construction.
- We estimate this cost each household $785, by year end 2002 (about $165 per household in 2002 alone.)

Harm to Customers:

- Customers paid for the ADSL development and implementation through higher rates.
- Customers received Inferior services.
- The state's economy has been hurt by job losses, higher phone rates, and lack of growth.

Appendix One gives our overall analysis and an exhibit of the statistics used.

In examining the issues we relied on Bell/Verizon annual reports. This material comes with its own problems because the minutia of information necessary simply does not exist. Therefore, we consider this analysis as an overview, and are asking the regulators for audits.

The rest of this section highlights important facts we used to do the overall analysis, including staff cuts, tax write-offs, directory profits, DSL costs to customers, etc.

NOTE: In 2002, New Networks Institute published a series of reports on the Regional Bell companies' revenues, expenses, profits, executive compensation, and overseas losses and writeoffs. See: http://www.newnetworks.com/profitreport2002.htm

4.1 Overall Growth in Lines and Minutes of Use

There has been a slowdown in the growth of the Bell's network usage in 2001, however, it is clear that since the Alternate Regulation plan went through, the Bell company's services have increased a healthy 23% overall growth of lines and a growth of 59% of the minutes used on the network (minutes of Use --- that's 26 BILLION minutes of use.

Pennsylvania Bell's Residential and Business Lines, Minutes of Use, 1993-2000

(In the thousands)

Phonelines	**1993**	**2000**	
Residential	3,708	4,211	14%
Business	1,773	2,357	33%
Total	5,481	6,568	23%
	(In the 000,000)		
Minutes of use	16,523	26,341	59%

Also, as we have shown in our other reports, the published number of lines and minutes of use are not fully accurate. They are missing any resale, UNE-p or DSL lines, and doesn't include the DSL – minutes-of-use either. The more accurate method of analyzing the data is to use Line Equivalents (which the state data didn't provide.

The exhibit below gives the details. According to the Verizon's overall Annual Reports, the number of "phonelines" decreased less than 1% from 2000 through 2001. However, a closer examination of the number reveals that the Bell's statistics cover over a healthy growth in their number of "Voice Grade Equivalents", up 12%

Bell Residential and Business Access Phone Lines, 2000-2001
(ooo)

	2000	**2001**	**change**
phonelines	62,902	61,551	Less than 1%
Equivalents	116,883	132,126	12%

According to SBC, voice grade equivalents that include data circuits are a more accurate approach to growth than compared to simply looking at the installed lines:

> "Given the growing importance and magnitude of data revenue streams and circuit volumes, access line growth has become less than a comprehensive measure of strength in the market. The development of Voice Grade Equivalents (VGEs), which include data circuits, provides a consistent and quantifiable means for bridging the gap between access lines and data services."

4.2 Dividends Are Up

With all the talk of competition, how can Pennsylvania Bell increase its dividends to Verizon, the parent company? However, from 1999-through 2001, Bell of PA increased its dividend payments to Verizon b 41%.

Dividends Paid To Verizon from Bell of PA, 1999-2001

	1999	2000	2001	Increase
Dividends paid	$218	$261	$ 308	41%

The answer: Staff cuts and cuts in construction have raised profits. .

4.2 Massive Staff Cuts

Massive staff cuts made the network much cheaper to operate and under price caps, the more cuts the Bell makes, the larger the profits. According to Bell of PA annual reports, since 1993 there has been a 23% decrease in the staff at the company.

Verizon, Pennsylvania Staff and Reductions, 1993-2001

Year	Staff	
1993	15,140	
1995	12,900	
1999	12,200	
2001	11,700	
SREDUCTION	**3,440**	**23%**

Source: Bell of PA annual reports, 1993-2001

Over the last year Verizon, the parent company, announced still further cuts for 2002. Verizon has cut 34,000 staffers from last year, an additional 12% of all staff, and almost all of the cuts are from workers who deal with local phone services.
See: Regional Bell Revenues, Expenses and Profits, 2002
http://www.newnetworks.com/profitreport2002.htm

4.3 Massive Tax Write-offs

In 1994, after the Alternate Regulation went through, Bell of PA took $1.2 billion dollars in pre-tax write-offs, claiming that they were doing it because of the alternate (incentive) regulation and the company's "technology deployment plans".

Bell of PA's Special Tax Write-off, 1994

“Total pre -tax increase in plant and equipment depreciation reserve ---$1,184.8[23]”

The company makes clear that this massive one-time deduction is to speed up the 'depreciation' of the copper networks. This deduction was to make room for the fiber-optic wire replacement because the copper wiring was no longer going to be in use.

> "The Company's determination that it was no longer eligible for continued application of the accounting required by Statement No. 71 was based on the belief that the convergence of competition, technological **change (including the Company's technology deployment plans),** actual and potential regulatory, legislative and

> judicial actions, and other factors are creating fully open and competitive markets. In such markets, the Company does not believe it can be assured that prices can be maintained at levels that will recover the net carrying amount of existing telephone plant and equipment, which has been depreciated over relatively long regulator-prescribed lives. **In addition, changes from cost-based regulation to a form of incentive regulation contributed to the determination that the continued application of Statement No. 71 is inappropriate."**

NOTE: In 2000, New Networks Institute filed a complaint with the IRS to disallow this write-off because the phone networks that were supposed to be replaced under the deployment plan were never replaced.

However, there is also the issue of the annual increases to "depreciation", which are tax deductions.

4.4 Overall Depreciation ---- More Disinvesting

As Economics and Technology discussed, from 1983-through 1997 Bell of PA consistently wrote off more than it invested in new plant. Updating this information 1997-through 2001, though there were increases in construction (some of which is related to Y2K and other items) overall, the Bell company over the last 9 years spent LESS per year than they wrote off. If you were to add up all of the depreciation expense and compare it to the construction expenditures, what you find is that the Bell took more deductions than they paid in construction expenditures --- by $588 million

Comparing Pennsylvania Bell's Depreciation and Construction Expenditures, 1993-2001, (in the millions)

One Time Write-off	$1,158
Total Deprec.	$7,678
Total Construction	$7,090
Excess depreciation	**$ 588**

Calculation: Excessive Depreciation

If the rate of return was maintained, the rate of depreciation would have been slowed. In our analysis of comparing historical depreciation from 1988-1992, if we use the average depreciation based on the total construction expenditures, we find that over the period from 1993 through 2001, the Bell took approximately $281 million dollars in excessive write-offs. See Appendix 5 for the exhibit by year.

4.5 "Construction in Progress" Shows Little Progress.

If the Bell was planning to roll out new wiring, the "construction-in-progress" would show the activity. From these numbers we can see that construction is at its lowest point in 2001 since the Alt. Regulation was put into place.

Pennsylvania Bell, Construction in Progress, 1993-2001

1993	$ 115
1994	$ 111
1995	$ 77
1996	$ 99
1997	$ 88
1998	$ 126
1999	$ 145
2000	$ 196
2001	$ 71
9 Year Avg.	$ 114
2000-2001	-38%

More recently, the overall construction budgets have been slashed 36% since 2001. Below are the 3rdQuarter Construction expenditures for 2001 and 2002.

Construction Expenditures 2001-2002
(000,000)

3rdQ 2001	3rdQ 2002	Decrease
$739	$468	-36%

Another question these construction budget statistics brings up is --- What is Verizon spending the money on? Is it to roll out DSL, a competitive long distance product? Is it to enter long distance, which they have been working towards since the mid 1990's?

4.6 The Yellow Page Business Should Never Have Been Deregulated.

In the Pennsylvania Order, the Bell companies convinced the Public Service Commission to declare Yellow Pages a competitive service and therefore, no longer part of the jurisdiction of the Commission's regulations or to have the Yellow Page profits as part of the subsidizing local phone service. [24]

A Scandal Waiting to Happen

Historically, Yellow Pages has been a scandal waiting to happen because it is a little known secret that Yellow page advertising is obscenely profitable. It could be one of the most profitable businesses in the US. According to the Bell of PA Annual Report, in 1996, the last year it was included in the Annual Report, out of $367 million dollars, 55% was pure profit.

Directory Revenues, Expenses and Profits, 1996

Expenses	$ 164,700,000	45%
Profits	$ 202,000,000	55%
Revenues	$ 366,700,000	100%

Based on the New Networks analysis of Bell revenues and profits, in 2001, the overall EBITDA for the Yellow Pages business was 57%, up from 55% in 2002.

In many states, the Yellow Pages is still a total monopoly for its category or at best a duopoly. And so, according to the Verizon annual reports, the Bell company has continually been able to raise prices because no one competes, or they simply adopt the Bell's pricing.

Directory Competition Does NOT Lower Prices

Imagine a business where you can print money. Welcome to your local Yellow Pages. When the phone company needs to make more money they simply raise rates.

In Pennsylvania, when the Public Service Commission determined that Directory was 'competitive', they simply did not take into account that small businesses depend on Directory as a major connection with their customers -- or potential customers.

Here's the simple proof that there is no competitive force that lowers the Bell companies' rates: In virtually every year Verizon was able to raise its prices or saw growth in the Directory print product and was able to cut expenses --- and all of these profits were at one time part of the regulated monopoly and contributed to the costs of service.

"1995 Annual Report Growth in directory publishing revenues was principally due to **higher rates charged** for these services..."

"1996 Annual Report The increase in directory publishing revenues was due to **higher rates charged** for directory services."

"1999 Bell Atlantic Annual Report: Operating revenues from our Directory segment improved by $74 million or 3.3% in 1999 and $49 million or 2.2% in 1998, principally as a result **of increased pricing** for certain directory services."

"2001 Verizon Annual Report Operating revenues from our Information Services segment increased $169 million, or 4.1%, in 2001. The 2001 revenue increase was due primarily to growth in directory advertising revenues and extension revenues.

…Operating revenues from our Information Services segment improved by $58 million, or 1.4%, in 2000. The 2000 revenue increases were primarily generated by growth in print directory advertising revenue and expansion of our Internet directory service, SuperPages.com(R)."

We also need to point out that Directory is also getting less expensive to offer because of staff cuts, the Bell mergers, etc.

OPERATING EXPENSES
"In 1999, total operating expenses declined $33 million or 2.9% largely due to lower work force levels. Lower spending for maintenance, repair and other costs of services also contributed to the decline in operating costs in 1999." [25]

"In 2001, total operating expenses decreased $60 million, or 2.9%, largely due to the execution of cost reduction initiatives and merger synergies." [26]

These quotes about lower operating expenses reveals that after this subsidiary was set free, it could cut staff – which equates to more money and less service. This is also having serious ramifications for those left at the company. An email from a staffer at Verizon Directory shows the disregard by upper management of the workforce to create more profits. [27]

> "I don't know if you are aware or not but Verizon is also turning against its employees to create more profit. I work in Pennsylvania for the Yellow Pages. Our yearly incomes have dropped 30-40% under this great new pay plan they came up with. The turnover has also topped about 70%. I have only been here 8 months and I am considered a seasoned veteran."

Historically, Directory has always been part of telephone service regulation.

Historically, Directory has always been part of telephone service regulation. In fact, small business customers who order Yellow page advertisements in many states have the price of the service attached directly as a phone charge on their phone bill (the author is not aware or Pennsylvania's practices)

In the original order, the Administrative Law Judge (ALJ) overseeing the case stated that Directory was unique and that removing it from the rate base will have "substantial, harmful effects upon protected services."

> "The ALJs recommend rejection of Bell's basic premise that the service is competitive because that, while Yellow Pages competes with other forms of advertising to some extent, "no other medium combines advertising and directory assistance and access to comparison shopping in one convenient format." In addition, the ALJs agree with the Office of Consumer Affairs (OCA) that the existence of other competitors does not demonstrate the existence of effective competition and that the evidence of high profit levels and dominance of the relevant directory advertising market present in this record demonstrate that other directories have very little, if any, impact upon Bell's dominant monopoly position in Pennsylvania.
>
> "Furthermore, the ALJs state that no one disputes the fact Directory Advertising revenues have subsidized Bell's jurisdictional services for many years and that the parties have amply demonstrated that any action declaring Yellow Pages as competitive and moving it "below-the-line" will have substantial, harmful effects upon protected services."

Unfortunately, the Commission ruled in favor of the Bell company. As we argued in other documents, every small business has been unduly harmed by having to pay exorbitant rates, and Directory should have been declared the monopoly it is and regulated for profits, or at worst, make the subsidies that have been built into the original pricing be used to either lower all rates or be used for Universal service or other funds.

Directory Profits and the Price of Local Phone Service

Removing highly valuable (read obscenely-profitable) services from the rate-of-return has been a serious breech of the term “fair and reasonable”.

How much money is involved? The exhibit below shows that if the Bell's Directory services were kept (using the Verizon Annual report growth rates), by 2001 Directory was bringing in about $400 million dollars and more than half, $218 million would be profit.

Pennsylvania Bell's Directory Service (projection), 1997-2001
(in the thousands)

	Retail	After expenses	Bell of PA Portion?
1997	$ 366	$ 202	$101
1998	$ 374	$ 206	$103
1999	$ 381	$ 210	$105
2000	$ 389	$ 214	$107
2001	$ 396	$ 218	$109
Total	$1,908	$1,051	$525

If customers got their share of the monopoly profits, which TeleTruth believes should have continued, Pennsylvania customers could have had an additional $525 million paid back in either lower rates or savings.

There is another way of looking at this --- Because of the deregulation of Directory based on the false promise to deliver broadband, the Bell company received approximately $1.1 billion dollars in profits from 1997 through 2001 on revenues of $1.9 billion in sales— a 55% profit margin. There has been no benefit to any customer, since they are paying higher prices.

4.7 Who Paid For ADSL Rollout? Customers Or Shareholders?

Was there a $60 million dollar Bait and Switch that got Pennsylvania ratepayers to fund a competitive DSL product?

It seems clear that Verizon Pennsylvania did not get outside investment for their ADSL roll out but has used ratepayer funds that were supposed to be for high-speed fiber-optic based services. According the Verizon PA annual Report, Verizon Pennsylvania transferred an asset that was valued at $60 million dollars directly to the Verizon Advanced Data Inc.--- VADI.

> "In December 2000, we transferred our advanced data assets, with a net book value of approximately $60 million, for a 48.13% indirect ownership interest in Verizon Advanced Data Inc. (VADI). VADI is an affiliated company which provides new exchange access services. Our ownership interest has been reduced to 26.67% as the result of the issuance of additional stock by VADI. In connection with our investment, we record equity income/(losses)."

A common sense reading indicates that Pennsylvania Bell, which is almost solely funded through rate-payer services offered by the local Bell company, was able to charge customers to build this asset and then, when it was worth $60 million dollars, was transferred it to the shareholders.

DSL is supposed to be a competitive service where the shareholders, not the monopoly customers, pay for the development and deployment. From the point of the customers who may never use the service (approximately 50% of the US still is not even using dial-up internet services), they are secretly paying for it in the form of higher rates.

This customer financing for DSL was also not part of the original Alternate Regulation plan. DSL is not a substitute for the promised fiber deployments. And ironically, DSL has been reclassified as a Long Distance Information service. Therefore, customers are funding long distance services on their local phone bill, which violates numerous laws pertaining to the separation of state and federal telecommunications laws.

4.8 Major Expenses Which Need to be Excluded From the Analysis.

If the rate of return was continued, then specific expenses, such as the change of the name of the company, or expenses related to the mergers, would not have been included in the calculations, thus lowering the price of service. Here is a discussion of those additional expenses.

Merger Expenses

From the renaming of the company from Bell of Pa to Bell Atlantic to Verizon, the state of Pennsylvania’s telephone company has paid numerous renames. Also, the parent holding company, now Verizon, has been involved in the various mergers. And these name changes and mergers created specific expenses.

These include:

- Pennsylvania Bell being renamed to Bell Atlantic
- The Merger of NYNEX and Bell Atlantic
- The Merger of Bell Atlantic and GTE

- The Rename to Verizon
- Severance pay for the workers let go

This chart represents some of the major expenses for these topics. Appendix Two highlights some of the merger related expenses. From 1997 to 2000, the NYNEX Bell Atlantic merger had $217 million dollars of expenses in the state.

Some Pennsylvania Bell Expenses, 1997-2001

	1997	1998	1999	2000	2001
Severance				$15	$169
Merger BA-GTE				$52	$40
NYNEX/BA extra	$103	$66	$55	$53	
Y2K		$202	$209		
Y2K Split		($167)	($159)		
Venture III					$130
Total	$103	$268	$264	$120	$339

Another major expense was the Y2K expenses-- approximately $411 million dollars.

> "From the inception of Bell Atlantic's Year 2000 project through December 31, 1999, and based on the cost tracking methods it has historically applied to this project, Bell Atlantic incurred total pre-tax expenses of approximately $230 million, and it has made capital expenditures of approximately $181 million. For 1999, total pre-tax expenses for Bell Atlantic's Year 2000 project were approximately $108 million and total capital expenditures were approximately $101 million."

Another expense was a CLEC venture called “Venture III”, which showed a $130 million in costs for 2001.

These are by no means a comprehensive examination for there are hundreds of related charges that occurred in the mergers and other related charges.

We consider almost all of these charges as expenses that SHOULD NOT be paid for by customers and therefore we include almost all of them in our final expense analysis. However, to be fair, we spilt the charges on Y2K so that only 1/2 the expense was taken into our calculations.

A full calculation of our overcharging model can be found in Appendix Four. As we pointed out previously, without a more detailed report than the filed quarterly and annual reports, it is hard to make any final determination of charges and consequences.

Appendix 1

STATE REGULATION, BASED ON VERIZON-PA ANNUAL REPORT, 2002

State Regulation of Rates and Services

The Pennsylvania Public Utility Commission (PPUC) regulates our company under an Alternative Regulation Plan approved in 1994. The plan provides for a pure price cap plan with no sharing of earnings with customers and replaces rate base, rate of return regulation. Competitive services, including toll, directory advertising, billing services, Centrex service, paging, speed calling, repeat calling, and HiCap (high capacity private line) and business services provided to larger customers are price deregulated. All noncompetitive services are price regulated.

The plan:

- permits annual price increases up to, but not exceeding, the GDP-PI minus 2.93%;
- requires annual price decreases when the GDP-PI falls below 2.93%;
- caps prices for protected services, including residential and business basic exchange services, special access and switched access, through 1999;and
- permits revenue-neutral rate restructuring for noncompetitive services.
- The PPUC's order approving the Bell Atlantic-GTE merger extended the cap on residential and business basic exchange services through 2003.

  The plan requires us to provide a Lifeline Service for residential customers. The plan also requires deployment of a universal broadband network, which must be completed in phases: 20% by 1998, 50% by 2004, and 100% by 2015. Deployment must be reasonably balanced among urban, suburban and rural areas.

Appendix Two

Bell Atlantic GTE Completion of Merger

Bell Atlantic GTE Completion of Merger

On June 30, 2000, Bell Atlantic and GTE completed a merger under a definitive merger agreement dated as of July 27, 1998 and began doing business as Verizon Communications. The merger qualified as a tax-free reorganization and has been accounted for as a pooling-of-interests business combination.
The following table summarizes the charges incurred for the Bell Atlantic-GTE Merger.

(Dollars in Millions)

Years Ended December 31	2001	2000
Operations and Support Expenses		
Direct incremental costs	$ ---	$18.7
Severance costs	---	$20.0
Transition costs	$39.6	$11.2
Other costs	--- .	$ 3.0
	$39.6	$50.2
Depreciation and Amortization Expense		
Other costs	--	$ 2.3
Total costs	$39.6	$52.5

"Direct Incremental Costs
Direct incremental costs related to the Bell Atlantic-GTE merger of $18.7 million (including $18.1 million allocated from Verizon Services) include compensation, professional services and other costs. Compensation includes retention payments to employees that were contingent on the close of the merger. Professional services include investment banking, legal, accounting, consulting and other advisory fees incurred to obtain federal and state regulatory approvals and take other actions necessary to complete the merger. Other includes costs incurred to obtain shareholder approval of the merger, register securities and communicate with shareholders, employees and regulatory authorities regarding merger issues.

"Employee Severance Costs
Employee severance costs related to the Bell Atlantic-GTE merger of $20.0 million (including $13.1 million allocated from Verizon Services), as recorded under SFAS No. 112, represent the benefit costs for the separation of management employees who are entitled to benefits under pre-existing separation plans. The separations either have or are expected to occur as a result of consolidations and process enhancements within our company. Accrued postemployment benefit liabilities for those employees are included in our balance sheets as a component of Accounts Payable and Accrued Liabilities - Other. The remaining severance liability under this program as of December 31, 2001 is $4.7 million.

"Transition Costs
In addition to the direct merger-related and severance costs discussed above, from the date of the Bell Atlantic-GTE merger, we incurred transition costs related to the Bell Atlantic-GTE merger. These costs were incurred to integrate systems, consolidate real estate, relocate employees and meet certain regulatory conditions of the merger. They also include costs for advertising and other costs to establish the Verizon brand. Transition costs related to the Bell Atlantic-GTE merger were $39.6 million in 2001 and $11.2 million in 2000 (including $34.7 million in 2001 and $10.8 million in 2000 allocated from Verizon Services).

"Other Costs
During the second quarter of 2000, we also recorded a $2.6 million charge for other actions in relation to the Bell Atlantic - GTE merger. Of this amount, $.3 million was recorded in operations and support expenses and $2.3 million was recorded in depreciation and amortization expense. The charges were related to the write-off of duplicate assets.
==

Appendix Three
Bell Atlantic NYNEX Merger

From Pennsylvania Bell 10K, 1997. This is only a partial list of the merger costs.

"During 1997, we recorded other charges and special items totaling approximately $103 million (pre-tax) in connection with consolidating operations and combining organizations, and for other special items arising during the year. These charges were comprised of the following significant items.

"Write-down of Assets and Real Estate Consolidation
In the third quarter of 1997, we recorded pre-tax charges of approximately $64 million for the write-down of obsolete fixed assets and for the cost of consolidating redundant real estate properties. As part of the merger integration planning, a review was conducted of the carrying values of long-lived assets. This review included estimating remaining useful lives and cash flows and identifying assets to be abandoned. As a result of these reviews, we recorded a charge of approximately $41 million for the write-off of assets.
These assets primarily included computers and other equipment used to transport data for internal purposes. None of these assets are being held for disposal.

" In connection with the merger integration efforts, Bell Atlantic consolidated real estate to achieve a reduction in the total square footage of building space that it utilizes. We recorded a charge of approximately $23 million in the third quarter of 1997 related to this initiative.

Appendix 4
Overcharging by the Numbers

We've attempted to do a number of different models to discuss what we consider to be overcharging. Our first model assumes that the Bell's rate-of-return was in place and that the 'Cashflow' from the company was set at pre-price cap percentages .

We have also included Directory (revenues, expenses and profits) and removed from the analysis expenses not directly related to the customer.

This model contains the following analysis:

If you add to the revenue in the annual reports and include the probable Directory revenues, remove the depreciation and unrelated expenses from the Cash flow, such as the costs of the merger:

1) Revenues increased 27%,
2) Expenses grew only 6%
3) Cash flow went from 41.3% to 54.9%.
4) if you adjust cash flow to be 41% throughout the years 1994-2001, you find that $2.1 billion dollars in extra cash was accumulated from 1994-2001.

Outline of Penn Bell Revenues, Expenses and Profit Margins.

1) Revenues --- Is the Revenue as stated in the annual reports
2) Revenue + Directory (directory growth rate taken from Verizon annual reports. Note: Directory was removed from the annual reporting in 1996 so all of the directory columns reflect this.
3) Directory Revenues --- directory growth rate from Verizon Annual Reports.
4) Expenses as stated in the Annual Report
5) Expenses -minus depreciation
6) Depreciation (Not counting $1.158 billion from 1994)
7) Directory expenses--- estimated from 1996.
8) Directory plus expenses -- adding directory expenses to other Expenses)
9) Extra Expenses (merger costs, Y2K included as 1/2 customer-shareholder (we only included expenses starting in 1997.)
10) Total Expenses
11) Adjusted Case Flow (Revenues minus Expenses)
12) Cashflow as a Percentage of Total
13) Overcharging based on keeping cash flow as pre Alt Reg, 1993 rates.

EXHIBIT
Pennsylvania Bell Calculation Worksheet)

	1	2	3	4	5	6	7	8	9	10	11	12	13
1993	$3,193	$3,193		$ 2,513	$1,874	$ 639				$ 1,874	$ 1,319	41.3%	(0.2)
1994	$3,355	$3,355		$ 2,599	$1,920	$ 679				$ 1,920	$ 1,435	42.8%	(49.6)
1995	$3,428	$3,428		$ 2,572	$1,904	$ 668				$ 1,904	$ 1,524	44.5%	(108.2)
1996	$3,536	$3,536		$ 2,714	$2,033	$ 681				$ 2,033	$ 1,503	42.5%	(42.4)
1997	$3,321	$3,688	$ 367	$ 2,619	$1,904	$ 715	$ 165	$ 2,069	$103	$ 1,966	$ 1,721	46.7%	(198.4)
1998	$3,452	$3,826	$ 374	$ 2,618	$1,910	$ 708	$ 168	$ 2,078	$167	$ 1,911	$ 1,916	50.1%	(335.3)
1999	$3,582	$3,964	$ 382	$ 2,642	$1,892	$ 750	$ 172	$ 2,064	$159	$ 1,905	$ 2,059	51.9%	(422.0)
2000	$3,715	$4,104	$ 389	$ 2,755	$1,956	$ 799	$ 175	$ 2,131	$120	$ 2,011	$ 2,093	51.0%	(398.2)
2001	$3,673	$4,070	$ 397	$ 2,875	$1,994	$ 881	$ 179	$ 2,173	$339	$ 1,834	$ 2,236	54.9%	(555.4)
											Overcharge		**(2,109.6)**
	15%	27%		14%	6%			16%		-2%	70%	33%	238993%

Number of Households 3.4 million in state

$620 ---We took the total overcharging and divided it by the number of households.

$165 -- We estimated the overcharging for 2002 based on 2001 data

$785 --- Total Overcharging through 2002.

APPENDIX 5

Calculation: Excessive Depreciation

If the rate of return was maintained, the rate of depreciation would have been slowed. In our analysis of comparing historical depreciation from 1988-1992, if we use the average depreciation based on the total construction expenditures, we find that over the period from 1993 through 2001, the Bell took approximately $281 million dollars in excessive write-offs.

The Chart below includes
1) Depreciation expenses
2) Construction expenses
3) readjusting depreciation to match construction
4) Amount of overcharging by year.

Comparing Pennsylvania Bell's Depreciation To Construction

	1	**2**	**3**	**4**
	Deprec.	Construct	Deprec 88%	Questionable
1993	$ 639	$ 581	$ 511	(127.63)
1994	$ 679	$ 544	$ 479	(200.28)
1995	$ 668	$ 577	$ 508	(160.54)
1996	$ 681	$ 626	$ 551	(129.72)
1997	$ 715	$ 754	$ 664	(51.18)
1998	$ 708	$ 943	$ 830	121.54
1999	$ 750	$ 965	$ 849	98.90
2000	$ 799	$ 1,160	$ 1,021	221.80
2001	$ 881	$ 940	$ 827	(53.80)
	$ 6,520	$ 7,090	$ 6,239	
			Overcharged	**(280.91)**

Endnotes

[1] ORDER Re: Verizon Pennsylvania, Inc., Petition and Plan for Alternative Form of Regulation Under Chapter 30 P-00930715 2000 Biennial Update to Network Modernization Plan

[2] Public Meeting held March 28, 2002 Re: Verizon Pennsylvania, Inc., Petition and Plan for Alternative Form of Regulation Under Chapter 30 2000 Biennial Update to Network Modernization Plan
P-00930715

[3] "New Jersey Telecommunications Infrastructure Study, 1991", Deloitte & Touche
[4] (FCC 95-50 Order and Authorization, released 3/6/95]
[5] Press Release Bell Atlantic Selects Equipment Supplier For Initial Switched Broadband Network Deployment, July 15, 1996,

[6] New York Public Service Commission, 1997 (Opinion 97-14, page 10)
[7] "The Two Broadbands: How NYC Got Conned and What We Should Do for The City's Broadband and Economic Health," Presentation to the New York City Council, December 10th, 2002

[8] Based on consumer Advocate budgets and phone company budgets, articles, and other analyses over the last decade.
[9] Chapter 30, Pennsylvania Utility Code, 66 Pa.C.S. § 3001 (2001)

[10] ibid.
[11] 66 Pa.C.S. § 3003 (2001)
[12] ORDER Re: Verizon Pennsylvania, Inc., Petition and Plan for Alternative Form of Regulation Under Chapter 30 P-00930715 2000 Biennial Update to Network Modernization Plan

[13] Bell Atlantic-Pennsylvania, Inc.'s Petition and Plan for Alternative Form of Regulation Under Chapter 30, Docket No. P-00930715, at 25 (Order entered July 18, 1995).

[14] Footnote seven, Public Meeting held March 28, 2002 Re: Verizon Pennsylvania, Inc., Petition and Plan for Alternative Form of Regulation Under Chapter 30 2000 Biennial Update to Network Modernization Plan P-00930715
[15] FCC Issues Report on the Deployment of Advanced Telecommunications Capability to All Americans, January 28, 1999, (CC Docket No. 98-146)

[16] Public Meeting held March 28, 2002 Re: Verizon Pennsylvania, Inc., Petition and Plan for Alternative Form of Regulation Under Chapter 30 2000 Biennial Update to Network Modernization Plan P-00930715

[17] Re: Bell Atlantic - Pennsylvania, Inc.'s n1 Petition and Plan for Alternative Form of Regulation Under Chapter 30; Pennsylvania, Inc. Docket No. P-00930715; P-00930715C001; P-00930715C002 , PENNSYLVANIA PUBLIC UTILITY COMMISSION , June 28, 1994

[18] Letter of April 25, 1995 from Edward D. Young III addressed to Kathleen Wallman, Chief FCC Common Carrier Bureau, File Nos. W-P-C 6912, W-P-C 6966.

[19] The Boston Globe, April 27, 1995, Thursday, City Edition, SECTION: METRO/REGION; Pg. 1
TV gets old twist; Via antenna, it's wireless cable

[20] Capital District Business Review, February 27, 1995, SECTION: Vol 21; No 46; Sec 1; pg 1 , Wireless TV company seen wheeling, dealing

[21] --------------

[22] California Supreme Court says Nike can be sued over ads, that defended worker wages, treatment , By KAREN GAUDETTE Associated Press Writer, Thursday, May 2, 2002

[23] Bell of PA annual report 1994, http://www.newnetworks.com/tauzinfactsheet4.htm

[24] 1. Directory Advertising Directory Advertising includes all paid directory advertising, including yellow pages advertising and white pages bold advertising. We have never regulated the rates or other terms and conditions of Directory Advertising and, in October 1992, we granted Bell's petition to exclude directory advertising services from its quarterly financial reports used to monitor Bell's earnings. Bell continues to file annual reports indicating its Directory Advertising profit percentage levels. Final Rulemaking Re Public Utility Earnings; Bell Petition For Exclusion of Directory Services From Earnings Disclosure Reports, Docket No. L-910061 (Order entered October 28, 1992).

[25] Verizon Annual Report 1999

[26] (Verizon Annual Report 2001

[27] unsolicited email sent to teletruth, January 6th, 2002