The Two Broadbands…
How NYC Got Conned and What We Should Do for The City's Broadband and Economic Health

December 10th, 2002

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The Two Broadbands…

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.“

Bell Atlantic 1993 Annual Report

"We expect Bell Atlantic’s full-service networks (capable of interactive, multi-media communications, entertainment and information), will be ready to serve 8.75 million homes by the end of the year 2000.

New York Public Service Commission, 1997 (Opinion 97-14, page 10)

“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.)

Bay Ridge Courier-Life, Week of August 27th, 2001

"Copper is just as good as fiber," says Verizon spokesperson. "There is nothing fiber can do that copper can’t. It’s preposterous."

"No. It’s not the goal to go completely fiber" Verizon spokesperson says. "There’s not enough money to refit the entire network, and there never will be."

Communications Workers of America, August 29th, 2002

“Verizon does not supply enough clean copper pairs to enable technicians to properly install new customer lines or replace defective pairs on existing customer lines. Instead, Verizon utilizes a "short term" technological fix called an AML or DAMLs.” AML/DAMLs cannot support DSL service. Also, competitors seeking to provide DSL to Verizon’s voice customers via line sharing cannot do so where an AML/DAML exists on a customer’s loop. Use of these temporary fixes therefore interferes with CLEC efforts to compete with Verizon in the DSL market.”

(Quotes trimmed for length and clarity. See the full quotes in the report.)

EXECUTIVE SUMMARY

This presentation makes 6 primary points:

1) Teletruth believes that Verizon should be investigated for billions of dollars of customer overcharging, including audits of Verizon's missing network equipment, mistakes found on phonebills, public assets being misappropriated, as well as potential monies in the cost of services based on Verizon's former fiber-optic broadband plans. The recovery of this money could help the city in numerous ways, including lowering phone costs for the city, as well as help pay for and require the deployment of open access broadband.
2) In the early 1990's Verizon told the state that they would be rewiring the entire territory with fiber-optics that was supposed to be used for their broadband plans. This same scam happened in literally every NYNEX and Bell Atlantic state. Prices to competitors and prices to customers were affected by these promises.
3) The current phone network condition is deteriorating both in terms of the old copper wire plant, but more importantly based on cuts in staff and decreases in construction budgets. This affects all broadband to be developed in New York. In fact, instead of putting the money into the networks, Verizon is paying for massive overseas losses, and excessive executive compensation. And if the two largest expenses, staff cuts and construction budgets are being slashed, why aren't New York's telecom and broadband prices dropping?
4) Currently, broadband competition in New York has been seriously hampered by numerous problems created by Verizon, which includes problems with the old-copper networks. It is no coincidence that many of the telecom Internet Service Providers (ISPs) and Competitive local phone companies (CLECs) that served New York went bankrupt or left the state. Competitors are vital to the success of New York's economy, especially for small businesses. They drive innovation and break new ground that history has shown, monopolies do not do.
5) The City must also deal with the "Re-regulatory" decisions in Washington by the FCC and Congress that would block all small competitors from using customer-financed Verizon networks. While being couched as 'deregulation', the strip mining of the Telecom Act to put new rules on the books that block access by competitors to utility-based-customer-funded networks is still more regulation to close-out companies offering competitive services, no matter which dictionary you use.
6) There are two broadbands --- the current ADSL over copper wire service and its advantages and problems, vs. the second broadband --- a fiber-optic based service that customers may have been funding. And these two broadbands are the difference between driving a Ferrari on the Autobahn vs. what we have --- a skateboard on a dirt road. Also, unknown to most, DSL service can not go over fiber-feeder networks.

We are at a critical juncture in the use of broadband. We believe the City must be proactively involved because if wrong decisions are made, Teletruth believes we are in for a second telecom crash, which in turn will deepen NYC's economic woes.

Conclusion: Follow the Money

With the future of the City's economic growth at stake, we hope the City seriously considers our suggestions and we look forward to working with the City Council and Office of Economic Development.

Discussed herein, we suggest the following concrete steps be taken immediately:

- Work with the Attorney General's Office and other agencies and force an independent audit of the Bells' network equipment for both the affect on rates as well as the affect on taxes, not to mention SEC and IRS violations.

- Allow Teletruth to audit the City's phonebills, using an expert team of auditors.

- Get a copy of the NYNEX 1991 study, "The Network of Tomorrow" and find out what ever happened to the promises of rewiring the city with fiber. Also, investigate how the report's findings affected phone rates throughout the decade, including the prices to customers and competitors.

- Investigate if Verizon/NYNEX/Bell Atlantic fulfilled their commitments under the merger conditions.

- Support the Small Business Administration's Office of Advocacy's report and tell the FCC that destroying small telecom businesses in New York is NOT acceptable.

- Investigate Verizon's harm to competition and predatory pricing that affects New York customers, CLECs and ISPs.

- Support the Communications Workers of America's appeal of the current staff cuts and slashes in construction and do an investigation into the condition of the networks.

- Find out why prices in New York went up when staff cuts and construction, the two major expenses, went down.

- Find out just how profitable the local monopoly is from ALL services generated by the local phone customers and call for lower phone rates and rebates immediately.

- Require an audit of the various subsidiaries, such as Yellow Pages, to see if profits are no longer "fair and reasonable" or whether Verizon long distance or Verizon DSL are 'cross-subsidizing', using ratepayer monies to fund competitive services.

- Work with the NY based Congressmen and Senators to educate their staff on the dangers of blocking competition through bad proposed laws, such as Tauzin-Dingell.

Preamble to the Discussion: The Dirt Road: Brooklyn, New York

About a year ago I awoke to find my phone service wasn't working. After looking outside and seeing Verizon trucks, I decided to explore why my phone was dead. I was about to find out something startling. The wires to my Brooklyn apartment building and the entire avenue were at least 75 years old and they were crumbling. The workers said that they were just patching up old copper wiring. "What about fiber-optic wiring?" I asked. "Not in my lifetime" was the response. And this problem was happening throughout the boroughs-- it wasn't just my neighborhood, or even just Brooklyn.

Where was our fiber-optic future that was promised to us by NYNEX and Bell Atlantic?

Part One -- The Fiber-optic Future: The Highway to Nowhere.

The NYNEX 1993 Annual Report states that there would be one and a half to two million households with a fiber-optic wire to their home or office.

> "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."

Separately, Bell Atlantic (which was then a separate company) would have 9 million households by 2000 of fiber-optic services.

Bell Atlantic 1993 Annual Report

> "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 (interactive, multi-media communications, entertainment and information) services within the Bell Atlantic Region.
>
> "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."

These quotes were essentially lies. I can say that because at the time these statements and others were made, the equipment to the home was not available at the prices that they were quoting. And today there are no ubiquitous fiber-optic based broadband services. This same scam happened in literally every Verizon (Bell Atlantic and NYNEX) state. Teletruth filed a Complaint in Massachusetts in 1999 over their fiber-optic plans, and we will be filing this month in Pennsylvania. In Pennsylvania, Verizon is supposed to have rewired half the state with a fiber-based, two-way service, both rural and urban areas, by 2004. Our analysis shows that Verizon garnered an additional $3.5 billion dollars in tax write-offs and customer overcharging. In fact, Verizon's DSL deployment seems to have been funded by customers, not shareholders: To read various reports and filings on Verizon and the other Bells failed broadband plan see: http://www.newnetworks.com/BroadbandandDSL.htm

The New York State discussions on a fiber-optic future started over a decade ago. Don't laugh, but in 1991, NYNEX gave the state public service commission a report titled, "The Network of Tomorrow: Guidelines for Fiber Deployment in the Loop," that outlined how they were going to rewire the entire state with fiber-optic 'feeders'. (A "Feeder" is the connection that centralizes all of the local phonelines from a few city blocks, or for an apartment building.) Though this report was not made public, there is "incontrovertible evidence" that New York Telephone discussed installing a broadband system and that fiber and associated equipment were needed for that system.

The next two quotes bring up serious issues that affect every New Yorker. Written by the NY Public Service Commission, it states that the NYNEX plan was to upgrade to 100% fiber in the network. It also states that using this premise, the costs for services to ALL competitors would be based on this upgraded, more expensive network. (From NYPSC 97-14, page 10, CASES 95-C-0657, 94-C-0095, and 91-C-14)

("TELRIC" is the price of the phone networks to competitors.)

> "…New York Telephone, in contrast, contemplated all-fiber feeder. To state the argument in general terms, New York Telephone's adversaries contended that a more costly fiber technology was being installed to support New York Telephone's broadband system, which requires the use of fiber rather than copper, and that purchasers of narrowband network elements should not be required to bear its costs. New York Telephone, for its part, contended that fiber had become the technology of choice even for a narrowband, voice-only system and that a forward-looking construct (of the sort required by a TELRIC analysis) would use fiber even to determine the costs of narrowband.
>
> "We adopted New York Telephone's position and used, as an input, 100% fiber feeder. In doing so, we noted that this had been among the most highly contested issues in the proceeding and acknowledged the "incontrovertible evidence"1 that New York Telephone contemplated installing a broadband system and that fiber and associated equipment were needed for that system. We went on, however, to distinguish between that statement and the conclusion that New York Telephone was installing fiber solely or even primarily for the purpose of advancing its broadband plans."

Let me explain the significance of these maneuvers.

- **Rate Inflation?** First, we have the potential inflation of ALL rates for competitors and possibly all phone customers. Somewhere after 1991, NYNEX stopped any of these upgrades and now still depends on the old copper wiring – which was supposed to be replaced. The price of services was supposed to be based on the equipment in the network, so we may have paid through higher rates for a fiber-optic network we never got. And who paid for the fiber that was put in--- monopoly phone customers or shareholders?
- **Blocking of These Networks May be a "Customer-Takings"** As we will discuss later, there are new proposed regulations in Congress and at the FCC that would block competitors' use of these networks. If Customers paid for these networks then obviously closing them to competition would be a 'taking of customers' utility rights.
- **Did Customers Pay For The Current DSL Service Deployment?** As we tracked in other states, the Bell companies under their Alt Regulation plans were able to cross-subsidize their DSL rollout using rate-payer funding, instead of making the burden of developing DSL through shareholder funding.
- **Excess Tax-Write-offs.** New Networks also filed a complaint about the issue of write-offs with the IRS because NYNEX took major onetime deductions of $3 billion dollars based on writing off the copper wiring that was supposed to be replaced.
- **DSL Travels Over Copper, Not Fiber.** It becomes more macabre when you realize that the current ADSL service goes over the old copper wiring. It can not use 'feeders' that have bee upgraded to fiber.
- **What Ever Happened To The Broadband Plans Over Fiber?** Why don't we have these networks already? Why is the City having to think of other projects to get fiber-ized if customers and competitors have had it built into the extra profits of the Bell companies?

As the opening quote from the Bay Ridge Courier showed, Verizon has no intention of completing any fiber deployment:

Bay Ridge Courier Life, week of August 27th, 2001

> "Copper is just as good as fiber," says Verizon spokesperson. "There is nothing fiber can do that copper can't. It's preposterous."
>
> "No. It's not the goal to go completely fiber" a Verizon spokesperson says. "There's not enough money to refit the entire network, and there never will be."

A long discussion could follow about the differences between fiber and copper. However, that discussion already occurred by NYNEX in 1991, fiber was preferable for even voice "narrowband" calls. The commission, quoting NYNEX and a staff report, goes on to say that fiber is a better product for network use.

> "The Network Study and Staff Network Report found that investment costs associated with fiber exceeded those of copper but that the difference was more than offset by fiber's lower provisioning and

> maintenance costs and by fiber's ability to permit the construction of a self-healing Synchronous Optical Network (SONET), in which outages became much less likely."

This presentation is not the place for a lengthy discussion of copper vs. fiber based broadband applications. However, New Networks Institute believes that one of the primary reasons for the Tech Crash has been the lack of new technological development that occurred because the Bell companies had failed to deliver true, high-speed broadband. As late as 1996, Bell Atlantic was making arrangements with other companies, such as Lucent, Corning and many other firms to deploy a full-service, very high speed, fiber-based services to customers. For example, in a press release by Bell Atlantic, July 1996, dedicated to their "six-and-one-half-year period" agreement with Lucent Technology, the Bell laid out their plan to deliver 'fiber-to-the-curb" --- meaning the wiring of homes. This contract for fiber-optic broadband was supposed to extend to January 2003.

> "Later this year, Bell Atlantic will begin installing fiber-optic facilities and electronics to replace the predominantly copper cables between its telephone switching offices and customers…. The company plans to add digital video broadcast capabilities to this "fiber-to-the-curb," switched broadband network by the third quarter of 1997, and broadband Internet access, data communications and interactive multimedia capabilities in late 1997 or early 1998."

In fact, the Bell Atlantic region would be wired.

> "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."

To see our analysis of the Telecom and Tech Sector crash see:
http://www.newnetworks.com/fiberopitcfiasco.htm

Imagine if Verizon, in all of its territories, had fulfilled their stated plans. Every Tech company would have had new very-high-speed-computing-products to sell to a public with all new applications, since true broadband was originally defined with speeds of at least 45 mps, which allowed for high-definition video quality, and it would be two-directional. We are not talking faster about faster Internet service. Instead, companies betting on fiber found a glut of a highway with no on ramps for the last mile.

A report funded by the Bells by Brookings Institute' Robert Crandall predicted that there would be a ½ trillion dollar boost to the economy if broadband was ubiquitous. Based on history, he is backing the wrong horse to deliver it.

The current Verizon ADSL service is a mostly one-way service (thus the “A” for Asynchronous), meaning that the high-speed is from the network to the customer. It’s average speeds are 45-100 times slower than speeds that could be delivered over fiber optics and this dramatically limiting any use of serious, high-quality video. Also, ADSL still relies on aging infrastructure. And while there are many current very useful applications, DSL over copper wire as our broadband future is a serious limit to growth and innovation.

Evaluating the next generation networks from where we are today and make a transition to these networks viable for all competitors an customers will be one of the challenges to City Council.

Broadband Issues Are Not a New Problem.

The problem of getting broadband as advertised has been a long standing problem. Here’s a simple example. The first quote is taken directly from the NYNEX 1993 Annual Report. Here, NYNEX is discussing their wonderful new ‘bandwidth’ services. This is followed by the user perspective, highlighted by an article from The New York Times (May 1994). "The Information Future Out of Control: Hello, Anybody Home?" is written by a NYNEX user, James Gleick, who helped start the online service called Pipeline.

As you will see, the reality vs. the company’s myth collides when customers actually try getting the advertised technology.

NYNEX 1993 Annual Report:

> "Private-line service as quick as a click: --- bandwidth where a business wants it, when a business wants it, as much as it wants, for as long as it wants. That’s the value of NYNEX Enterprise Services, a set of new networking tools that bring unprecedented flexibility to private-line voice data and video systems"

From: The New York Times article by James Gleick

> "I have visited the advanced telecommunication research laboratories and have seen what technology can bring, ISDN, which promises to turn ordinary phone lines into high-bandwidth carriers of pictures and videos. I’ve also visited the local telephone company and seen what technology can’t bring. I’ve tried to order this very service. I have a 14-page, four-color brochure! "NYNEX ISDN Primary Service. For more efficient voice, data, image and video... " The Pipeline’s [author’s company] order has been floating about for months. Our sales representative says he wrote it up three times, and each time the system bounced it back. I have a phone number for an ISDN specialist inside NYNEX, but he doesn’t seem to have voice mail. The Pipeline is not alone. The large, private on-line services, too, rely on more or less the same graying telephone technology, not ISDN. "

After the article appeared, New Networks Institute contacted five other online providers, all located in the New York City. We found that none of the five companies could get adequate ISDN services. Two out of the five companies had filed complaints with the New York PSC, while the other three were transferring all business to Metropolitan Fiber, (MFS), another NY local phone provider at the time.

The Condition of the Current Networks, The Dirt Road Part II

For anyone who thinks they are up to speed on the current conditions of the Verizon networks, one has only to read the recent report from the Communications Workers of America to know that there's something rotten in the Big Apple.
http://newnetworks.com/cwareportaugust2002.htm

First, there have been massive recent staff cuts:

> "In May, (2002) Verizon New York, Inc. (Verizon) announced that it would reduce its work force by more than 2,000 non-management employees. This reduction in force could include the layoff of all or some of these workers as early as September 2002. This downsizing occurs after Verizon had already reduced its force by approximately 3,000 workers through early retirement and attrition since the end of 2001. Thus, after the latest cuts, Verizon will have reduced its non-management workforce by almost 5,000 workers or 15.5% over an eight-month period and by 6,780 or 20% over a 20-month period."

Today, Verizon does not even provide customer services, including repairs on Sunday --- we live in a 24 hour online universe that can be interrupted and put on hold over the weekend.

These staff cuts are on top of a series of reductions over the last two decades. In fact, there has been over a 50% drop in employees-per-line since the Bells took over local phone service. These new cuts put the networks in serious jeopardy for not only broadband but also phone services.

The CWA makes the observation that these cuts impact everything from our phone network security to the ability of Verizon to adequately handle competitors.

> "The critical issue facing consumers, businesses, the general public and the PSC is that this particular reduction in force entails a significant decrease in the construction, maintenance, monitoring, testing and rehabilitation of the company's infrastructure. The major consequences of these actions include the following:

- Increasing risks to public health, safety and security due to the rising probability of network outages and the understaffing of the E911 system –particularly sensitive concerns given September 11, 2001;
- Eroding competition due to the deterioration of Verizon's infrastructure upon which competitors – especially resellers – depend and a decline in the quality of services delivered to wholesale as well as retail customers.
- Adversely affecting economic development especially in relation to the deterioration of the company's network infrastructure.

It gets worse because the condition of the network itself is now put into question due to large cuts in construction expenditures.

> "In 2002, Verizon has cut its construction budget significantly. In the first half of 2002, Verizon reduced its capital expenditures by $803 million or 56% compared to the first half of last year. Verizon also has transferred many workers out of construction across the entire state. In many instances, Verizon has halted construction work.

Even the amount of copper wiring that needs to be upgraded for phone and DSL services has been affected. Verizon is putting in band-aid fixes throughout the boroughs known as "AML or DMALs" which splits up one copper wire so that it can be used by a second customer.

> "Verizon does not supply enough clean copper pairs to enable technicians to properly install new customer lines or replace defective pairs on existing customer lines. Instead of supplying clean copper pairs, Verizon utilizes a "short term" technological fix in order to get customers back in service quickly. The technology involves installing a special piece of equipment called an AML (asynchronous multi-line) or DAML (digital asynchronous multi-line)."

The report goes on to explain that these phonelines can not even support DSL.

> "However, the AML/DAML quick fix causes many problems. The AML/DAML technology adversely affects customers because it can compromise the use of faxes and modems….AML/DAMLs also cannot support DSL service. …Also, competitors seeking to provide DSL to Verizon's voice customers via line sharing cannot do so where an AML/DAML exists on a customer's loop. Use of these temporary fixes therefore interferes with CLEC efforts to compete with Verizon in the DSL market."

Unfortunately, this temporary fix seems to be spreading like wildfire, with over 85,000 customers not being able to get DSL within the boroughs.

> “Verizon has transformed a temporary fix into a long-term practice. CWA Locals report a significant number of AML/DAMLs: 50,000 in the Bronx, 30,000 in Brooklyn and 8,000 in Nassau County.”

Every customer of phone service should be asking --- If the two major expenses for providing phone service --- Construction and Employees, have dramatically dropped, why was there recent numerous price increases? And why was Verizon New York granted a rate increase to NYC phone charges? Why hasn’t Verizon been required to make sure that they use the profits from local phone service to pay for the proper upgrades?

We will next show that CWA’s concerns are very real and we will debunk the Verizon arguments of why these cuts have been occurring.

Money Issues? Check Out Executive Compensation and Overseas loses.

Teletruth believes that the Bell companies have been able to make a shell game out of their revenues, that Verizon’s recent phone charge increases are totally unjustified, that Verizon has given misleading information about their losses on local phone service based on competition, and that local phone services and Directory yellow page advertisements are so profitable that it has been funding the Verizon DSL rollout, the Long Distance rollout, the investments and losses overseas, including South America, and excessive executive compensation.

Recent Phone Charge Increases:

Competition was supposed to lower the costs of services to residential and business customers but instead, there has been an increase to ALL phone customers.

Verizon’s keeps repeating that they received an 11% increase, however actual phone bills tell a different story.

The FCC Subscriber line charge on the local bill, (which is paid directly to the Bells and not the FCC and a customer must pay it to get local phone service) increased 60% -- from $3.50 to $6.00 a line -- an increase of $30 a year. Meanwhile, the inside wire maintenance charge went up over 231%, and pay phone prices doubled.

Verizon argues that the FCC Line charge is not local and that Inside Wiring is deregulated and pay phone revenues have been hit with wireless competition. However, NO Regulator simply takes out the Bell’s quarterly reports and looks at the total from these services.

Verizon Price Increases, NYC, 2000-2002

	2000	**2002**
FCC Subscriber Line	$3.50	$6.00
Inside wire maintenance	$1.04	$3.45
Pay phones?	$ .25	$ .50

The irony of some of these increases, such as the increase in Pay phones, is that service is getting worse… driving less people to use these services. According to the Straphangers Survey, Wednesday, August 14, 2002.

> "Nearly one in three payphones in the city's subway stations doesn't fully work… This represents a deterioration from the summer of 2001, when an identical campaign survey rated only one in five (20%) non-functioning.'

Let's Put Some Facts On The Table.

Verizon is telling everyone that they need these cuts in Construction and Staff because they're losing money ----the number of lines is going down, there's local competition, and they are losing business to wireless.

New Networks Institute's recently released three reports on Bell Revenues, Expenses, Profits, Executive Compensation, and Foreign Investments, which clearly outline how the Bell companies are still very profitable and are using the excuse of competition and 'harmful regulation' to cut staff and construction budgets. This is also with a back drop of lavish stock options and salary bonuses to the senior executives.

Verizon's Overall Telecom Profits Have Been Increasing

This first exhibit shows that Verizon's overall telecom services are actually getting more profitable as shown by the EBITDA (Earnings Before Income Taxes, Depreciation and Amortization) from Verizon's quarterly reports. Verizon has had a 7% overall increase in profit margins since 2000, obviously created from the staff cuts and lack of new construction. It should also be noted that very few companies in America have an EBIDTA this profitable.

Verizon's EBIDTA from Telecom Services, 2000-2002
(average of first three quarters)

	2000	2001	2002	Increase
Telecom EBIDTA	43.0%	44..9%	45.9%	6.9%

Reregulate Directory Yellow Pages Services

One of the most appalling findings from the NNI reports has been the profit margins of Directory yellow page advertisements. The exhibit below shows that Directory has an “EBITDA” of 54.5%.

Verizon “Information” Services (Yellow Pages and Directory)
2000-2001
(in the millions)

	2000	2001
Revenues	$ 4,144	$ 4,313
Profits	$ 2,118	$ 2,352
EBIDTA	51.1%	54.5%

This essentially is one of the most profitable businesses in history. The price of yellow page advertisements has always been kept inflated because the money was used to subsidize local phone service. Under the current state plan, Verizon’s Directory is now considered competitive, even though there is no one who competes and can lower the price of this very profitable service. And it is clear that most small businesses depend on the yellow pages as one of the major ways of reaching customers.

By declaring it still a monopoly, hundreds of millions of dollars could be returned to fund projects or give customers lower rates.

Expenses Have Been Slashed – Staff Cuts and Stalled Construction Throughout Verizon.

Confirming CWA’s message, the Verizon press and quarterly reports have also been making announcements of very large staff cuts at the local phone companies--- almost all from the non-management side. In Verizon’s first quarter report 2002, the company is saving money through reductions and "productivity" initiatives, saving 12,000 job "equivalents".

> "Domestic Telecom’s expense-control and productivity initiatives, such as capturing attrition and reductions in overtime expenses, produced an equivalent headcount reduction of 12,000 in the first quarter."

According to the NY Post, Verizon eliminated an additional 29,000 in "job equivalents". NY Post 3/5/02.

> "Verizon eliminated the equivalent of 29,000 jobs in 2002"

Meanwhile, on Oct. 4, 2002, Verizon announced an additional 8000 jobs would be cut.

The Matter of New Construction

According to Verizon's quarterly reports, from June of 2001 through June of 2002, there has been a major drop --- 50% --- in the Capital Expenditures for local domestic telecommunications. Verizon's spending has declined from a total of $6.4 billion for second quarter 2001, to a low of only $3.2 billion dollars in 2002, a decrease of $3.2 billion dollars from last year.

Verizon Construction and Capital Expenditures in Domestic Telecom
(Second quarter 2001- 2002) in the millions)

	Jun2001	Jun2002	Difference.	Decrease
Verizon	$6,406	$3,175	$3,231	-50%

Construction and Capital expenditures are the amount of money the Bell companies are investing in maintenance, new installations, new network equipment and additions to the local phone and data networks. It should be understood that these numbers represent ALL construction by the local phone companies, including their DSL, Long Distance, Data and other non-local phone services.

From the customer perspective, this brings up a very serious issue. Historically, the price of local phone service is directly related to the construction expenses of the local phone companies. If construction budgets have been cut in half, why hasn't the price of local service for phone customers declined?

For the full report on Bell Revenues, Expenses and Profits see:
http://www.newnetworks.com/profitreport2002.htm

Senior Management Gluttony

As a group, Verizon, (the merger of Bell Atlantic (NYNEX) and GTE) had the highest group pay and salaries and options of the Bell companies with 6 executives getting $194 million in salaries and almost 15 million shares of stock, valued at $424 to $1.1 billion - This includes two CEO's (GTE Charles Lee and Bell Atlantic's Ivan Seidenberg.)

Top 6 Verizon Executives, 1999-2001

	Salaries	Shares	Est. value	Est. value
Verizon	$193,638	14,756,166	$ 424,441	$ 1,019,324

And does it show up anywhere --- Well of course it does. These costs are part of local service. In fact in a press release dated Dec 05, 2002. "Verizon Communications Inc. announced today that it will expense the fair value of employee stock options granted on or after Jan. 1, 2003.

> "EMPLOYEE STOCK OPTIONS " The company estimates that, under current accounting rules, expensing stock options on a prospective basis will result in a charge to earnings of 2 cents per diluted share in 2003."

There's lots of perks and executives even have the ability to control their own salaries:

- **Perks of the Job -** Verizon gives executives a number of perks, which include $31,000 to pay for club dues and memberships, personal use of the corporate aircraft, a car with driver**,** and an apartment.
- **Merger Related Executive Gifts -** All executives received stock options and other 'incentives' for the various mergers. For example, the Verizon executives got $13 million in bonuses, while the CEO's of Verizon and GTE got stock estimated at $56 million dollars.
- **How the Executives Control the Environment: Control the Board of Directors -** According to the BellTell Retirees, the Verizon Board is "infested with conflicts of interest" and "at least eight of Verizon's 16 directors are non-independent. In addition to the two co-CEOs, six outside directors are viewed as non-independent due to board interlocks or because their own employer receives grants, fees, or business from the Company, or did in the recent past".

For a full Report on Bell Executive Compensation, (including Verizon) see:
http://www.newnetworks.com/prcompensation2002.htm

Verizon Overseas Losses and Tax Write-offs

Besides executive compensation, much of the profits from local phone services goes to pay for major investments and losses overseas. Since 1999, Verizon has taken $17.1 billion dollars in write-offs and about $7.8 billion was for mostly overseas investments.

Verizon Major Write-offs, 1999-2002 ($000)

	1999-2000	**2001**	**1/2 of 2002**	**To date**
Verizon	$2,471	$8,240	$6,425	$17,136

For example, in the second quarter of 2002, Verizon took a $1.4 billion write-off for their investment in Compania Anonima Nacional Telefonos de Venezuela (CANTV).
To read a report highlighting the Verizon's overseas investments and losses:
http://www.teletruth.org/docs/ForeignBellinvest.doc

Debunking Verizon's Claims

The Number Of Overall Phonelines Is Not Going Down.

Verizon and the other Bells have been using statistics of their copper installations to show that their services are in serious decline. However, based on Bell quarterly and annual reports:

- The overall growth of phonelines is NOT going down. It is going up. There has been a **13% increase** in "Voice Grade Equivalents" in 2001 and most of the Bells do not count data lines, including DSL in their equations.

There are a number of other factors that have shrunk the copper wiring statistics:

- **Line-Sharing:** Anyone who uses ADSL service can have the service over the same phoneline. This is called line-sharing. So anyone with a second line, paying more fees, would obviously drop their lines.
- **The aging networks,** combined with the lack of copper-wire upgrades, has closed out the opportunity for more phonelines. As stated in the CWA report, there is a severe shortage of clean copper wiring.
- **The economy** has played a role in the slowdown of lines.
- **Verizon's own wireless service** is in part to blame for the loss of lines through cannibalization
- **Verizon's harm to competitors** has caused some of their largest clients, the companies that purchased thousands of phonelines each, either in bankruptcy, such as is the case with the DSL competitor Northpoint, or having most companies having to scale back their operations.

Lack of Innovation ---When you think about the consequences of Line-sharing, which allows one copper wire to be used for two services, the issue begs the question --- If line-sharing for DSL has been able to be delivered, why didn't the phone companies every deliver a service that had two phone calls available at the same time over one wire? Why have New Yorkers had to purchase second line copper installations, with its added fees, instead of a much cheaper and simpler solution to just give a person one line and two phone channels?

Threat from Competition? Not Enough to Talk About.

According to Verizon's 2ndQ 2002 results, the number of "Resale and UNE-P services" decreased since last year about 1%. Therefore, the statements made by the Bells that they are increasingly losing revenues to competitors overall are ridiculous. Secondly, using these same stats, comparing the total Verizon lines we find that of 60 million lines by the end of the quarter 2002, only 6% of the lines are used by CLECs to provide competitive services via resale or UNE-P

Comparing Verizon Resale and UNE-P Lines to Total Lines
2nd Quarter 2001, 2002

	2001	2002	Drop.
Resale & UNE-P lines (000)	3,726	3,698	(.8)
Total Verizon Residential and Business	62,465	60,373	(3.3)
Compared Wholesale to Total Verizon	6%	6%	

The Current Competitive Climate is Death by 1000 Cuts.

In New Networks Institute's 4th Annual Survey of ISPs, the majority of companies stated that 40% of all orders do not go through without a problem. And based on the statements from the CWA, the reasons for many of these problems are clear.

Imagine owning a company where almost every order is a flip of a coin whether it will go through or not.

There have been and continue to be Complaints filed with the NY Commission, not to mention law suits be competitors, and this is an ongoing/current problem that has helped to put many ISPs and CLECs out of business.

The other problem that ISPs have faced is the resale-discount of Verizon DSL. In 1999, New Networks Institute and New York ISPs filed a Complaint with the Attorney Generals' office to investigate the predatory pricing ISPs face when trying to be a reseller of DSL. It was clear that a company would be spending more money than they made from working with the company to resell DSL. See:
http://www.newnetworks.com/presspredatorypricing.htm

Much of these issues have been sent to the FCC because the FCC redefined DSL as an interstate product and therefore DSL is in their jurisdiction, not the states. However, the state and the City should be active about these issues because it affects the NY broadband deployment.

ISPs and CLECs are essential for innovation and growth of broadband. Joe Plotkin of Bwaynet's presentation focuses on this issue and how it affects the city and the economy.

The Swiss Cheese Regulatory Nature of Broadband.

Unfortunately, any broadband initiative the City wishes to embark on must also take into account both the state as well as federal issues. Both the FCC and Congress have the means to destroy competitive broadband offerings.

The FCC under Chairman Michael Powell has proposed 6 broadband rulemakings that essentially will kill DSL and broadband competition and harm small businesses. The rules will limit access by ISPs and CLECs the customer financed networks.
To read more about the issues see: http://www.teletruth.org/FCCbroadband.html

Teletruth filed in April 2002 that the FCC should halt these proceedings because the FCC is in violation of the Regulatory Flexibility Act requirements that the FCC must take into account the impacts their laws will have on small businesses, including small telecom businesses. To read our Complaint:
http://www.newnetworks.com/smallbusinessimpactstudy.html

New Networks Institute also conducted a Small Business Impact Study and found that if enacted, the FCC's new rules could put 1500 companies out of business, cost investors $8 billion dollars and affect 10-15 million customers. In short, these rules will affect every New York ISP and CLEC and every customer they have as well.
http://www.newnetworks.com/smallbusinessimpactstudy.html

In August 2002, the Small Business Administration's Office of Advocacy independently filed that these rules will harm telecom small businesses. To read the SBA Filing
http://www.sba.gov/advo/laws/comments/fcc02_0827.html

Congressional Bills are Equally Anti-Competitive.

In 2002, the House passed a bill commonly known as "Tauzin-Dingell", named after Representatives Billy Tauzin and John Dingell. This bill essentially re-regulates competition by limiting competitor's use of the Bells networks, which was established in the Telecommunication Act of 1996.

The bill's premise is to bring broadband to the public, however, based on the Bells' lobbying efforts the vote on the bill was based on who was getting campaign contributions from the Bells. This also calls into question why many New York Congressmen, who should realize that the bill would only help the Bell monopolies voted in favor of this biased proposed piece of legislation. To read the analysis by Open Secrets and other related information, see:
http://www.newnetworks.com/TauzinDingellisevil.htm

Though it did not become law this year, because of the shift to a Republican held Senate, the odds are that this bill could be put on the fast track. In this case, the City needs to educate the New York Congressmen and Senators about the situation in New York and why these bills should be blocked from becoming law.

Show Me the Money? What the City Should Do to Help New York.

Teletruth and New Networks Institute have identified numerous areas which we believe have allowed the Bells to do improper, if not illegal acts that have cost customers and the city billions of dollars, both in higher phone bills as well as excess charges that could be refunded.

Continue the Audits of the Bells Continuing Property Records.

Teletruth has filed in New York, (as well as New Jersey and Massachusetts) to have the state Commission and Attorney Generals Office investigate potentially $2.5 billion dollars in “Vaporware”, equipment that is missing or can not be verified but has been used in the accounting of phone rates and tax write-offs.

In the year 1999, the FCC released the results of audits of the Bells’ continuing property records that found that the Bell’s accounting records contained $5 billion dollars in missing equipment and an additional $13.6 billion in "unverifiable" equipment for a total of $18.6 billion dollars. The government agency known as the General Services Administration (GSA), which commented on the audits stated, "It should be noted that these audits represented only 25% of the equipment and network components that should have been audited." The GSA also reported that "…other areas…may have an even higher level of missing equipment." This could place the actual figure of illicit write-offs to anywhere between $20-80 billion dollars.

To their credit, the New York Public Service Commission is the only commission known to have independently investigated the initial portion of the audits. They issued a report August 8th, 2001 that independently corroborates some the evidence found by the FCC auditors. See: http://newnetworks.com/NYplantdoc10309.pdf

The Report found that $633 million of "non-specific" investment expenses are on the FCC’s books but are now missing. It also found that there were both FCC as well as SEC violations based on incomplete and inaccurate accounting. The Commission did not investigate the rest of the audit areas, nor did they give customers refunds.

TeleTruth estimates that there could be over $2.5 billion dollars of missing or unverifiable equipment In New York. This information could be corroborated if the rest of these audits are completed. This does NOT take into account the tax write-offs from depreciating equipment that is missing, which could represent additional billions of dollars.

Teletruth has also filed a Complaint with the SEC over the CEO’s sworn statements and uncertainty about assets claimed by Bell companies
http://www.teletruth.org/docs/SECLetter2.pdf

To read the Teletruth filing see: http://www.newnetworks.com/praudit.html
To read more about the FCC Audits of Verizon and other related materials see: http://www.newnetworks.com/fccauditcomplaintny.html

Audit New York City's Phonebills--- The City Should Expect Money Back And Lower Rates

In 2002, Teletruth has been active in obtaining refunds for customers who have submitted phonebills to us for inspection. Working with LTC Consulting, a New Jersey based phonebill auditing firm, our first survey of customers in New Jersey we have found that literally 50% of the phonebills had mistakes, and our initial survey yielded over $20,000 in potential refunds.

(Over the last decade LTC Consulting has help secure over $10 million in refunds, and recently worked with a federal government agency in New York City, and as gotten refunds exceeding a million dollars and annual costs were reduced by approximately $500K.)

Teletruth is now offering a FREE analysis across the Verizon territory and we believe that the City of New York's phonebills will show hundreds of thousands of dollars in potential refunds and savings.

Teletruth is offering the city's agencies this FREE analysis as well.

Merger Conditions Excesses

When Bell Atlantic became Verizon and before that when NYNEX was purchased by Bell Atlantic, there were a series of conditions that were supposed to be met.

According to the CWA report:

> "As a condition of the Bell Atlantic-NYNEX merger, the PSC required the company to make a commitment to "hire between 750 and 1,000 additional employees prior to December 31, 1997, for the purpose of addressing service quality problems…"
>
> "As another condition of the Bell Atlantic-NYNEX merger, the PSC required the company to make a commitment to "invest an additional $1 billion in service-related infrastructure improvements over the next five (5) years, including at least one-half of the amount within the next two (2) years on capital projects to improve service quality throughout New York State, particularly in areas where service quality is currently most significantly below standards."

There are a host of other conditions that were also supposed to be met, including competing out of region, etc. However as far as we can tell, many of the promises made about why these monopolies should have merged remain unfulfilled or miss-fulfilled.

For example, according to Verizon, the change of the name to “Verizon” cost ½ billion dollars. --- has the New York name change been charged indirectly to customers?

There was one condition of these mergers that was clear --- The executives at Verizon received over $50 million dollars in various bonuses and stock options. Have rates been inflated to pay these outrageous corporate gratuities.

Conclusion: Follow the Money.

With the future of the City’s economic growth at stake, we hope the city seriously considers our suggestions and we look forward to working with the City Council and Office of Economic Development.

Discussed herein, we suggest the following concrete steps be taken immediately:

- Work with the Attorney General’s Office and other agencies and force an independent audit of the Bells’ network equipment for both the affect on rates as well as the affect on taxes, not to mention SEC and IRS violations.

- Allow Teletruth to audit the City’s phonebills, using an expert team of auditors.

- Get a copy of the NYNEX 1991 study, “The Network of Tomorrow” and find out what ever happened to the promises of rewiring the city with fiber. Also, investigate how the report’s findings affected phone rates throughout the decade, including the prices to customers and competitors.

- Investigate if Verizon/NYNEX/Bell Atlantic fulfilled their commitments under the merger conditions.

- Support the Small Business Administration’s Office of Advocacy’s report and tell the FCC that destroying small telecom businesses in New York is NOT acceptable.

- Investigate Verizon’s harm to competition and predatory pricing that affects New York customers, CLECs and ISPs.

- Support the Communications Workers of America’s appeal of the current staff cuts and slashes in construction and do an investigation into the condition of the networks.

- Find out why prices in New York went up when staff cuts and construction, the two major expenses, went down.

- Find out just how profitable the local monopoly is from ALL services generated by the local phone customers and call for lower phone rates and rebates immediately.

- Require an audit of the various subsidiaries, such as Yellow Pages, to see if profits are no longer “fair and reasonable” or whether Verizon long distance or Verizon DSL are ‘cross-subsidizing’, using ratepayer monies to fund competitive services.

- Work with the NY based Congressmen and Senators to educate their staff on the dangers of blocking competition through bad proposed laws, such as Tauzin-Dingell.