

Before the
FEDERAL COMMUNICATIONS COMMISSION
 Washington, D.C. 20554

In the Matter of
 Establishing a 5G Fund for Rural America
 Universal Service Reform – Mobility Fund

GN Docket No. 20-32
 WT Docket 10-208 (closed)

REPLY COMMENTS: DA 20-594

**RE: OFFICE OF ECONOMICS AND ANALYTICS AND WIRELINE
 COMPETITION BUREAU SEEK COMMENT ON ADJUSTMENT FACTOR
 VALUES FOR THE 5G FUND**

1) WE FILE: REPLY COMMENTS NNI & IRREGULATORS

- The FCC must start serious audits and investigations into the actual expenses for the backhaul services and halt all of the cross-subsidies that are now in place with 5G wireless.
- Backhaul has a 55% profit margin because it is are relying on the distorted cost data that is grossly underassigning the expense to backhaul. At the same time, it grossly inflated the costs charged to the government and backhaul in a 5G network, and it created excessive rate increases on basic local service.

Annual Report of VERIZON NEW YORK INC.		For the period ending DECEMBER 31, 2019			
1) Line No.	Item (a)	Total (b)	Nonregulated (c)	Local Service New York State (f)	Backhaul Other (g)
2)	Total Operating Revenues	\$ 4,057,694,093	\$ 1,248,720,704	\$ 863,900,772	\$ 1,945,072,618
	Operating Expenses			Q1)	Q2)
3)	Plant Specific, Non Specific				
	Construction & Maintenance	\$ 2,073,833,130	\$ 1,030,571,328	\$ 1,237,251,778	\$ 606,007,024
4)	Marketing	\$ 379,168,289	\$ 55,776,642	\$ 204,794,179	\$ 118,697,468
5)	Corporate Operations	\$ 835,178,803	\$ 84,884,865	Q3) 508,894,408	\$ 243,397,630
	Subtotal	\$ 4,419,767,982	\$ 1,188,407,188	\$ 2,153,061,869	\$ 1,078,298,505
	Depreciation & Amortization	\$ 1,002,966,092	\$ 33,423,013	\$ 631,253,569	\$ 338,290,310
18	Total Operating Expenses	\$ 5,422,734,454	\$ 1,221,830,201	\$ 2,784,315,438	\$ 1,416,588,815
6)	Net Operating Revenues	\$ (1,365,040,360)	\$ 26,890,503	\$ (1,920,414,666)	\$ 528,483,803

New Networks Institute 7) 55% EBITDA Q5) — **IRREGULATORS**

X) = Line Items | Q= Questions

- 2) **With these Reply Comments we submit a ‘pop quiz’ that supplies basic questions about the Verizon New York 2019 Annual Report, as well as supply the answers.** We believe that the FCC can not answer any of the questions as it has never examined or acknowledged that there are state-based telecommunications utilities left in America or that Verizon New York, and most likely all of the other state these utilities, have applied the FCC’s deformed accounting formulas, even though the FCC granted forbearance.

The FCC has no chance of creating a financial ‘truth’ for an adjustment factor because it is clueless about the current costs of backhaul or all other costs within a state.

- 3) **(PART 1 FILED: RE: Investigate the FCC’s Investor & Public Harms from Using Manipulated 5G Market Research.)**

As we pointed out in Part 1, (which was previously filed and updated here) the opening paragraph of the FCC’s \$9 billion dollar 5G fiasco is just made up. It is a) based on 20 year old market studies, that b) had nothing to do with wireless and c) was created before broadband even existed, and d) was written by analysts that were paid by the very companies to influence public policy for these companies.

Adjustment Factor with No Value or Virtue

This opening quote shows that the FCC is biasing America’s technology winners and losers by choosing to rely on a ‘shiny new technology’ that does not exist as advertised-- an inferior wireless service that, as of this writing, is nothing more than 4G plus a lot of lipstick.

“Every American, including those living in rural areas, should have access to high-speed, mobile wireless broadband networks that are capable of providing 5G service in order to facilitate the development of new technologies, foster economic growth, and ensure that educational opportunities are widely available.

“To account for the relative costs of serving areas that vary in terrain characteristics and potential business cases, the Commission proposed to apply an adjustment factor to make the most difficult areas to serve more attractive at auction in order to encourage more bidding for these areas.

“The adjustment factor also would be used to transition legacy high-cost support to 5G Fund support....”

ISSUES ABOUND:

- 5G requires a fiber optic wire, and the range of 5G high speed (vs 4G and hype) is 1-2 city blocks, so the FCC’s claim that every American should have a wireless service, is, on its face, ludicrous.
- Why shouldn’t a customer have a fiber optic connection at home that is going within 1-2 blocks of their home or office as mandatory?

But that’s not the problem here. The FCC has never examined:

- There are state-based telecommunications utilities that are still active in America. – The FCC never mentions this fact or even mentions the word ‘utility’ in context to the state-based utility within a state.
- Much of state based utilities, such as Verizon New York, cover 90% of their state, including rural areas.
- Many of these utilities have a commitment to upgrade their state utilities to fiber to the home, such as New Jersey—including rural areas.
- Moreover, these utilities have charged customers to fund these network upgrades multiple times—thousands of dollars.

But these are not the only problems here. The FCC hasn’t examined the Verizon New York 2019 Annual Report, nor any state-based annual report for a decade.

- The FCC has not acknowledged that the FCC cost accounting formulas, that are part of the USOA rules, have become deformed.
- The FCC has not acknowledged that Verizon is still relying on these corrupted formulas in New York.
- The FCC has not acknowledged that Verizon is still relying on these corrupted formulas in what appears to be every state, including the AT&T and Centurylink states.

The FCC wants “factors to adjust’ when it is just play-acting at understanding the actual financials for the current construction budgets, which include the backhaul.

In 2019, Local Service was charged \$1.2 billion in Construction and Maintenance, which was 43% of the total. But, in the actual expenditures for “network under construction” Local Service is paying 73.5% of the total amount. (NOTE: These expenses can also be known as “Plant” and “Non-Specific Plant”.)

	Nonregulated	Local Service	Access (BDS)
Revenues	\$1,248,720,704	\$863,900,772	\$1,945,072,618
% Revenues	31%	21%	48%
2019 Capex & Maintenance	\$1,030,574,328	\$1,237,251,778	\$606,007,024
% Capex & Maintenance	35.9%	43.1%	21.1%
Network Under Construction	10.8%	73.5%	15.7%

Source: Verizon NY Annual Reports

If Local Service only had about \$100-\$125 million actually spent on the copper networks, where the hell did the additional \$1.1 billion go?

Verizon New York has been cross-subsidizing Verizon’s wireless fiber optic networks – without payments back to the utility. This has meant that cities that should have been

upgraded over the last decade weren't, especially rural areas. And this has happened in at least every Verizon state, but most probably All state, including AT&T and CenturyLink

Therefore, \$9 billion in government subsidies given to companies that had obligations to upgrade their networks but instead moved the capx to wireless – without audits of these financial books, shows negligence on the part of the FCC—especially when its own rules helped to cause this mess.

Profits, Losses and Special Excess: (Backhaul and Business Data Services)

Let's end with the final insult. Because the majority of all expenses are being diverted to Local Service while the other lines of business are essentially getting a free ride, Local Service shows major losses, while services, especially the Business Data Services, have obscene profits. And each of these actions has a harmful consequence.

At the same time, the Access (Backhaul, BDS) was very profitable with a 55% EBITDA (Earnings Before Income Taxes, Depreciation and Amortization).

	Local Service	Access (BDS)	%
Revenues	\$863,900,772	\$1,945,072,618	125%
Total Operating Expenses	\$2,784,315,438	\$1,416,588,815	97%
Net Operating Revenues	\$(1,920,414,666)	\$528,483,803	463%
BUSINESS DATA SERVICE	EBITDA		55%

Source: Verizon NY Annual Reports

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Local Service in 2019 had revenues of \$864 million and showed a loss of \$1.9 billion, which gave a 'tax benefit' for Verizon Communications.

The **IRREGULATORS** is an independent, consortium comprised of senior telecom experts, analysts, forensic auditors, and lawyers who are former senior staffers from the FCC, state advocate and Attorneys General Office experts and lawyers, as well as former telco consultants. Members of the group have been working together, in different configurations, [since 1999](#).

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August 5th, 2020