BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Broadband Infrastructure Deployment and to Support Service Providers in the State of California

Rulemaking 20-09-001
(Filed 10/25/20)

REPLY COMMENTS OF THE IRREGULATORS & NEW NETWORKS INSTITUTE

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October 25th, 2020
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Introduction


In order to solve the Digital Divide by upgrading all of California to broadband capable of 100mbps download speed at affordable prices, as proposed by Governor Newsom, the State must address certain fundamental issues.

While we applaud comments from EFF and others, our reply lays out a critical new path that focuses on halting billions of dollars in cross-subsidies, from AT&T’s state-based public telecommunications utility, AT&T California, and the AT&T subsidiaries. This overcharging should be immediately redirected to fund the deployment of very high speed fiber optic services to all citizens of California at affordable rates—and solve the Digital Divide, once and for all time.

The IRREGULATORS is an independent consortium of senior telecommunications experts, analysts, forensic auditors, consultants, and lawyers, including former officials at federal and state agencies, including the FCC, state attorney general and consumer advocate offices, who advocate for consumer interests by exposing the unlawful acts of large telecommunications companies. New Networks Institute was established in 1992 and is a telecommunications market research and consulting firm in the public interest.
The Issues that Need to be Investigated and Actions Taken

**First,** we believe there is massive cross-subsidizing leading to overcharging of the wired networks by AT&T, costing consumers $1.7-2.4 billion annually and that this money can be redirected to fund fiber optic broadband to all, not at 100 Mbps speed for downloads but 1Gbps in both directions, as well lower dramatically lower rates on all communications.

At the core, AT&T has used the wired utilities as a cash machine to fund and/or subsidize its other lines of business, and also to convince the state to adopt public policies that are favorable to its business.

Over the last decade the IRREGULATORS has found massive overcharging in New York by Verizon, which is based on the Verizon New York 2019 Annual Report and previous years' financial information. We strongly suspect that AT&T is doing the same in California.

The former Bell companies, Verizon NY and AT&T California, continue to use deformed FCC accounting rules, (known as “USOA” or “ARMIS”) to allocate an excessive percentage of company costs to local wired service, based on 20 year old formulas that produce greatly distorted results. In California, as in NY, we suspect that the formulas dump corporate operations expenses on local service, resulting in that service appearing to be unprofitable, while cross-subsidizing U-Verse and AT&T’s wireless service.

What is needed is a full audit of financial annual reports of AT&T and the other carriers for cross-subsidies with the wireless and other affiliates, such as U-Verse, and AT&T Wireless, as well as the adoption of a cost allocation approach that reasonably tracks the way costs are incurred by the various services.

**Second,** California needs to not just investigate but to take action to halt these cross-subsidies and use the new-found funding to fix the Digital Divide once and for all. There should be enough to upgrade all areas of the AT&T territory with fiber optics.

The California PUC has not investigated AT&T’s cross-subsidization of services, even when the Office of Ratepayer Advocates (ORA) raised the matter years ago. The Commission claimed that the FCC’s accounting, known as ARMIS data, did not include data to determine if there were violations. In the 2013 Annual DIVCA Report:

“The Phase I decision implementing DIVCA adopted FCC ARMIS data for purposes of monitoring. However, the Communications Division staff has determined that ARMIS data does not include data that would be necessary to determine whether or not cross subsidy is occurring.
Therefore, the only recourse available to enforce the prohibition of cross subsidy violations would be to conduct a cost study proceeding.

“A pending Proposed Decision still subject to Commission adoption rejects ORA’s request that the Commission commence an investigation into whether DIVCA’s cross subsidy provision has been violated.”

The Commission even claimed that it would be too “onerous” to do an audit, and worse, there has not been an audit done for decades because of the New Regulatory Framework.

“To make this determination significant analysis is required. Revenues for residential basic service, video service and other services that use the shared network to provide video service would need to be compared to their respective costs. The Commission would need to audit those costs to ensure they have been accurately assigned to each service. Such an audit would be onerous as it would require the Commission to perform a cost of service analysis, which has not been performed in decades, since the Commission adopted its New Regulatory Framework and established price caps to replace cost of service regulation.”

The original deregulation plan, New Regulatory Framework, was created in 1989 based on a commitment to bring broadband services to California, and other deregulations were applied later as Pacific Bell, now AT&T California, claimed it would be giving California a fiber optic future. The updated Uniform Regulatory Framework, decided in August 2006, erased more regulations, as if that would bring the new broadband future to the State. But, the State still requires “FCC accounting rules” based annual reports.

As we will discuss, the Verizon New York financial reports, which are public, show that there are billions of dollars in cross-subsidies—that were created through using the “FCC accounting rules”, which are federal but have become corrupted over the last 15 years.

But, at the core—the deregulations that occurred over the last 3 decades, known as “price caps”, were a failure, and it cost the state hundreds of billions in economic growth, and at least $20+ billion in overcharging.

Third, the Governor needs to assess why AT&T was not held accountable for reneging on its statements made and obligations to deploy fiber optic services throughout California, starting in the 1990’s, for which it was granted multiple deregulatory concessions, such as “price caps”, were based on claims that California would be a fiber optic state.

For documentation about this history of fiber optic broadband in California: http://irregulators.org/caattfiberastory/

This is from the Pacific Bell Video Dialtone filings at the FCC, where Pacific Bell claimed it was going to deploy fiber to the home services as part of a federal plan. At the same time, this announcement was in the Pacific Telesis 1993 Annual Report.
By the year 2000, California should have had 5 million homes connected with fiber optics for video and data service, and spend $16 billion to do it.

And this is not just a history lesson; “price cap” regulations and other deregulatory favors were granted based on statements and assumed commitments, yet virtually none of this was provided, and there was no serious tracking of whether granting deregulation worked; the answer was, the company got billions, took over $3.6 billion in tax deductions and there was nothing to show for it. Here’s the actual timeline from Pacific Telesis 1994 Fact Book.

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

Read the Full STORY: The History of Fiber Optic Broadband in California, 1993-2005. This was the first wave of commitments to have California upgraded to fiber.
But it is the current deployment of fiber that is problematic. The map of AT&T fiber optic Internet availability by Broadbandnow shows an empty landscape of fiber optic services in California.

AT&T Internet Availability Map  California

U-Verse Was a Bait-and-Switch.

AT&T also stated that U-Verse was based on using the existing telecommunications wires, meaning the legacy copper wires to complete the service. The ‘fiber’ was to a location within the town that can be ½ mile from the customers’ homes. Ironically, AT&T told the public and the FCC that this was going to be a fiber optic connection.

AT&T, (formerly SBC) 2004 Annual Report

“Project Lightspeed In June 2004, we announced key advances in developing a network capable of delivering a new generation of integrated IP video, super-high-speed broadband and VoIP services to our residential and small-business customers, referred to as Project Lightspeed… “We anticipate that we will deploy approximately 38,800 miles of fiber, reaching approximately 18 million households by year-end 2007, and expect to spend approximately $4 billion over the next three years in deployment costs and $1 billion in customer-activation capital expenditures spread over 2006 and 2007.” (Emphasis added)

In fact, SBC told the FCC it was rolling out fiber to the home. According to former FCC Chairman Michael Powell’s statement as to why he closed the networks to direct competition, he pointed to AT&T’s commitment for fiber. Powell claimed his reason for closing the networks (“removing unbundling obligations”) was based on ‘commitments’ for 100 Mbps, fiber-optic based services by SBC (now AT&T) in October 2004.
U-Verse is a copper-to-the-home service that uses the existing copper wires and a fiber optic ‘node’, that is a box in somewhere in the community. And, AT&T has been walking away from the product for the last few years.

**Fourth, Find the Dark Fiber and Let the Cities Light It Up.**

One of the most disturbing issues in California is; Where did all the fiber optic wires go?

This information is from the FCC’s last published report, the “Statistics of Common Communications Carriers”. The FCC stopped collecting basic financial business information from the state utilities in 2007.

Dark fiber has been laid in the ground or on poles but is not in use, ‘not lit’, as compared to the fiber being ‘lit’ and in use. – And it could have been installed throughout a town that never received services over the wires over the last few decades.

AT&T California, (Pacific Bell) had 81% of their fiber optic network NOT LIT and NOT IN USE. Thus, as of December 2007, there were 2.9 million miles of fiber optic wires in California; 2.4 million miles were NOT TURNED ON.

**AT&T California Fiber Miles, December 2007**

<table>
<thead>
<tr>
<th>Source: FCC</th>
<th>Miles of Fiber</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lit</td>
<td>571,835</td>
<td>19.4%</td>
</tr>
<tr>
<td>Dark</td>
<td>2,382,140</td>
<td>80.6%</td>
</tr>
<tr>
<td>Total</td>
<td>2,953,975</td>
<td></td>
</tr>
</tbody>
</table>

NOTE: This chart was originally calibrated in kilometers, and converted to miles.

**Where is all of the dark fiber? What happened since 2007?**

We are requesting that a full accounting of ALL copper and fiber optic wires, regardless of the classification, be supplied to the public and this would include the Backhaul and business data services, Special Access, U-verse, DSL, as well as basic copper phone service. And it would include all wires laid for wireless to the small cells, etc

We are also requesting that every wire be related to the capital budget that was used to build the networks—As we found in New York, the wires to the cell sites are placed into the wired network budgets; AT&T stated that most of the wireless was funded via the wireline networks.

**Fifth, the State needs to go back and fix the data collection and analysis, where AT&T and the other providers are not even mentioned in the Annual Report to the Governor.**
The Emperor has No Clothes

AT&T is now treated more like “Voldemort”, the Harry Potter nemesis that is referred to as, “You know who” or “He who must not be named.” AT&T is the state’s largest public telecommunications utility and yet the existence of the utility is a fact that is never discussed. And AT&T is not even mentioned or singled out in the Governor’s plan. The company has been able to have the State reports, like DIVCA annual reports, not mention or examine or supply and deliver specific information about AT&T; it is only aggregated data. And yet the State is attempting to figure out why it has a massive Digital Divide problem and whole areas of the state were never upgraded.

How crazy does it get?

The Digital Infrastructure and Video Competition Act, December, 2019 (DIVCA) Report is supposed to:

“DIVCA contains dual State policy goals: the promotion of video competition and the deployment of more and better broadband services.”

But it has been crafted to omit basic information by company—and AT&T covers 80% of the state; it is not some random small concern but has been in control of the majority of California major infrastructure, including the wires to the cell sites, for decades.

The information has to be presented in aggregate form:

“Pub. Util. Code § 914.3 directs the CPUC to submit to the Governor and the Legislature a report that includes, based on year-end data, on an aggregate basis, the information submitted by SVF holders pursuant to subdivision (b) of § 5960.”

And the data presented is atrocious. Here is a chart that shows that there are 14.5 million households being offered video – with no breakout, but there are only 12.7 million households in the video area.

![Video Service Offered by Non-Telephone Corporations](image)

Meanwhile it is based on a methodology to examine ‘census tracts’, which says if there is one customer, count the entire census tract; and worse, the census numbers are from 2007.
It is clear that these reports do not reflect the actual marketplace and aggregating the information hides what each company has and has not deployed, and where.

And these types of holes in the regulatory fabric, where the state advocate’s office can not bring in evidence of wrongdoing in some proceedings, makes sure that the same bad dynamics that brought California to this place will just keep repeating.

**Sixth; Investigate the “Unserved Areas” and Payments to AT&T**

Investigate the unserved areas – how much money did AT&T get to upgrade areas of its own state utility?

The AT&T BellSouth merger was supposed to have 100% of their territories upgraded to handle the FCC’s minimum broadband speed level, which was only 200Kbps, and completed by the year 2007.

We cut out the actual text from the **AT&T-BellSouth merger agreement**

**Promoting Accessibility of Broadband Service**

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

This should have meant that there was no one who couldn’t get broadband in the AT&T California territories. We note that at the time, to deliver (200kbps) would require at least DSL, as there was no other product that was available from AT&T.

AT&T not only received other state-based grants to cover unserved areas since that time, but also federal funding via the CAF funding.

But, (a) we know of no study done by the state to corroborate that the unserved areas were served via this merger deal, (b) multiple stories and filings show that AT&T had not completed this obligation, with stories appearing in 2015 and later. c) The State and FCC should have audited this merger condition to see if it had been accomplished.

But there are other overlapping issues.

In **Mississippi, Commissioner Presley** filed with the FCC to investigate that AT&T received $283 million over the last 5 years from the CAF fund, but failed to complete the roll out.
This impacts not only the CAF funding, but the USF funding, the high cost funds, and other monies given to AT&T including California Advanced Services Fund, etc.

I.e.; how many times and different ways did AT&T get paid to bring broadband to rural areas or inner cities that are part of their state-based put utility territories?

Seventh, the companies have been mainly serving the wealthy areas, and this is a social injustice and caused the Digital Divide.

A Haas Institute study had a number of disturbing findings about California.

“Rural California is left behind by AT&T. In 14 largely rural counties, virtually no household has access to AT&T broadband at the FCC’s 25/3 Mbps speed and one-third or more households are underserved without access to AT&T broadband at 6/1.5 Mbps.”

“Many urban and suburban Californians are stuck in AT&T’s slow lane. AT&T’s slow speeds are not limited to rural areas. In Los Angeles county, for example, approximately 443,000 households (20.4 percent) in AT&T’s wireline footprint lack access to AT&T broadband at 6/1 Mbps and approximately 1.1 million households (51.5 percent) lack access to AT&T broadband at 25/3 Mbps.”

A California Public Utilities Commission report states,

“AT&T’s investments in fiber upgrades have tended to favor higher-income communities, such that wire centers that serve areas with the lowest household incomes are also characterized by the poorest service quality.”

Eighth, The Price for Local Service Is No Longer Just and Reasonable.

In 2016, New Networks examined the price of basic service in California, and compared it to our historical analysis over the last 2+ decades.

- The price of the basic AT&T California state utility phone service went up 143% from 2004-2016.
- The price of every ancillary service went up, from Call Waiting, which went up 240%, to unlisted numbers, which went up 525% (a fact that was also uncovered by the LA Times in 2016.)
In fact, the CA Public Utility Commission stated that competition lowers prices.

“Our decision was based on the economic theory that increased competition would drive rates close to cost, thus a competitive market could act in place of traditional rate regulation.”

And the State has an obligation to make sure rates are just and reasonable.

“We undertake this investigation mindful of our obligation, pursuant to Public Utilities Code § 451, to ensure just and reasonable rates, terms and conditions of service. Accordingly, we request data and comment on these issues as an exercise in good government, and in light of our promise to monitor and inform ourselves about the State’s telecommunications infrastructure. This data-driven approach does not reflect an intent to regulate where the Commission lacks regulatory authority.”

And the price of Local Service should have been in steep decline. There have been major staff cuts, the construction budgets were diverted to other lines of business, the copper networks were already written off – so how can Local Service have continuous rate increases?

Local Service pricing is one of multiple issues. AT&T et al. controls the wires to the cell sites, and, with Verizon, they control the pricing of wireless service as well as the data usage a customer receives.

Moreover, because there is no competition from AT&T for high speed broadband, the cable companies have been able to not only charge what they want but add multiple fees that should never be have been added to the customers bills, especially on the Triple play services.

Worse, America’s prices are 10-20 times more expensive than most other countries overseas. It is because the companies took control of the infrastructure with no oversight that we are paying multiples compared to countries overseas. And it is specifically the ‘backhaul’, the wires to the cell sites, that have been allowed to have 50+% profit margins, making sure that America’s prices are also inflated.

If the State cares about ‘affordable pricing’, it should now be based on actual costs to offer the service, not some smoke screen for—You know who…
Ninth, Price caps did not work and AT&T appears to be cross-subsidizing the other lines of business and overcharging customers in different ways, just like New York.

We think the numbers in California will show massive overcharging. This chart details the allocation of expenses for construction and corporate operations as shown in the FCC’s ARMIS Report of 2007 for Verizon New York and AT&T California.

The FCC’s accounting rules allocate expenses to different lines of business, which in 2007, the 2 main lines were:

- **“Local Service”**, which are revenues for the copper based phone service.
- **“Backhaul”** (sometimes called “Special Access” or “Business Data Services”) which are the guts of the networks, and are data lines. These copper or fiber lines go to ATM machines and are the lines that go to the cell sites; they are also used by competitors.

The FCC’s accounting rules, just like a basic business keeps financial books, divides up the expenses into categories, such as marketing or equipment or staff.

And this chart shows 2 different expense items, ‘Corporate Operations’ and ‘Construction and Maintenance’ expenses charged to AT&T California and Verizon New York, using the FCC’s 2007 data, the last available information published by the FCC.

- **Corporate Operations** is a garbage pail for executive pay, lawyers, pr and even the corporate jets, not to mention the lobbyists, etc.
- **Construction and Maintenance** are the monies spent to maintain and upgrade the networks.

Local Service in AT&T California and in Verizon New York averaged paying 71% of the total Corporate Operations expenses and 71% of the construction budgets. Backhaul only paid 29%, on average of the total expenses.
As you can see from the details below, the expenses have a range where New York put less expenses into Local Service in 2007. However, they are both using the same formulas without a lot of variation.

<table>
<thead>
<tr>
<th>Verizon NY Compared to AT&amp;T CA for Expenses, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Operations</td>
</tr>
<tr>
<td>ATT-CA</td>
</tr>
<tr>
<td>Verizon-NY</td>
</tr>
<tr>
<td>Construction</td>
</tr>
<tr>
<td>ATT-CA</td>
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<tr>
<td>Verizon-NY</td>
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**Fast Forward to 2019: Local Service Overcharging in New York**

This next chart shows the “network in service”, i.e., the entire state-based wired telecommunications utility infrastructure for the last few decades, taken directly from the Verizon NY 2019 Annual Report, published, June 8\textsuperscript{th}, 2020 and it is divided into the different lines of business. Somehow, the networks have been charged mostly to the copper wire-based Local Service.

For the last 2 decades, Local Service paid 62%, on average, with the total network being $31 billion (not counting the write offs). “Nonregulated” which represents FiOS video and VOIP, only paid about $1 billion, or 3.3%.

This shows that Verizon’s fiber optic deployment and most of the backhaul, and even Verizon’s wireless lines, got a free ride on the backs of local phone customers. There are plenty of caveats, but this means that local phone customers have been the defacto ‘investors’ in the networks, and that the overwhelming majority of expenses were charged to the basic copper wired based service, but the money was not used to properly upgrade or even maintain the utility networks.

Did AT&T California do the same accounting, which is based on the FCC’s accounting formulas?

**The Financial Reporting for California and New York Should Match, based on the FCC Accounting ARMIS Rules.**

AT&T California’s financial annual reports are not public and we do not believe that California adjusted the formulas for the FCC accounting rules. In 2006, the State said:

“We… base our requirements on Generally Accepted Accounting Principles (GAAP) accounting standards and FCC accounting rules, and consequently streamline our audit practices.”

These are the reports that AT&T et al. are required to give the State; And they are based on the FCC’s accounting rules.

1. **FCC ARMIS Reports (due March 31)** – applicable to Uniform Regulatory Framework (URF) Incumbent Local Exchange Carriers (ILEC)
   a. FCC Report 43-01, the Annual Summary Report
   b. FCC Report 43-02, the USOA Report
   c. FCC Report 43-03, the Joint Cost Report
   d. FCC Report 43-07, the Infrastructure Report
   e. FCC Report 43-08, the Operating Data Report

**Therefore, the State should immediately start audits to find out whether the accounting has been manipulated just like Verizon New York as it could be $1.7-2.4 billion being overcharged annually-- and this is the low number.**

**And it should halt all cross-subsidies as they are not legal in California under multiple laws.**

Finally, the **IRREGULATORS v FCC** was decided in March 2020 and the DC Court of Appeals confirmed that the states no longer have to use these formulas and are independent of the FCC. The State, therefore, can immediately halt the cross-subsidies for immediate funding and create new accounting rules that are based on cost-causers to lower rates, among other actions.

**Conclusion**

Prices are now out of control and the recently announced plan by AT&T to eliminate DSL service is further evidence of their failure to provide the service they have promised year after year. Moreover, they are being aided and abetted by the FCC to substitute a sham 5G service that will use the fiber in the ground, both currently lit and unlit, to provide a service that will never meet the broadband needs now openly visible due to the Pandemic.
This service must be a connectivity service that is ubiquitous, asynchronous and high-speed to enable all Californians with the ability to work from home, school from home and receive telehealth services from home.

And once the subsidies and monies are realigned, the State now has a new path to fix these long standing abuses. Government subsidies can halt, prices should immediately be lowered and revitalizing the state with fiber optic broadband, not some wireless kludge that is not profitable when AT&T has to pay for using the networks customers-funded.

We stand ready to work with California to make this plan work.

Bruce Kushnick, Managing Director, IRREGULATORS
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October 25th, 2020