Bruce Kushnick, Managing Director, IRREGULATORS
Executive Director, New Networks Institute
185 Marine Ave., Brooklyn NY, 11209
1-718-333-5161, bruce@newnetworks.com

November 20th, 2020

RE: California Broadband Council is seeking public comments on Governor Newsom's California Executive Order N-73-20 which requires the development of a California State Broadband Action Plan.

New Networks Institute (NNI) and the Irregulators submit our written comments via email. Our comments have 2 primary parts;

- Comments filed originally with the California Public Utility Commission in proceeding Rulemaking 20-09-001, filed 10/25/20 and Order Instituting Rulemaking Regarding Broadband and Infrastructure Deployment and to Support Service Providers in the State of California. (Starts page 6.)
- We included a Summary, some graphs, and a Timeline of Broadband and Deregulation from 1989-November 2020, as well as the Irregulator bios.

These comments are presented by New Networks Institute, a market research and consulting firm, and the Irregulators, an independent consortium of senior telecom experts, analysts, lawyer sand forensic auditors. (See page 4.)

- Separately attached: "The History of Fiber Optic Broadband In California", covering 1993-2004. Originally published as a chapter in "$200 Billion Broadband Scandal & Free the Net", the 2nd book in a trilogy published in 2015 .
- We included this chapter because in discussions with both CPUC staff and most experts, etc. there is a serious lack of understanding about how the Digital Divide was actually created and what is required to fix it, much less the factual history of fiber optic broadband and deregulation in California.

SUMMARY

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.

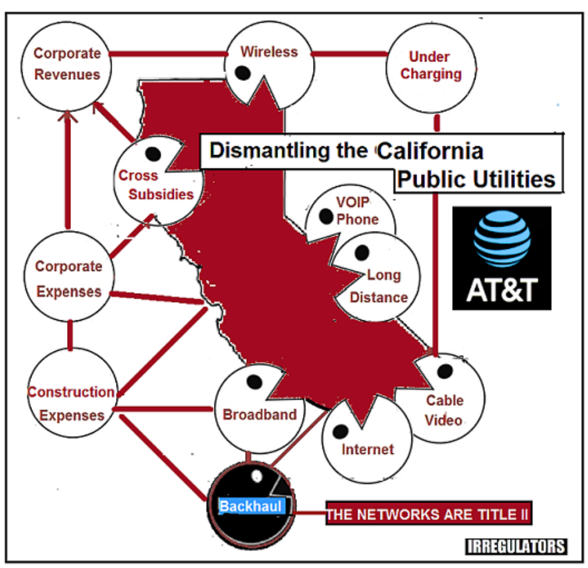
While we applaud comments from others, our reply lays out a critical new path that focuses on halting billions of dollars in cross-subsidies from AT&T's state based public telecommunications utility, AT&T California, and the AT&T subsidiaries. This overcharging should be immediately redirected to fund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

By the end of 2000, Pacific Bell (AT&T California) claimed it would have 5.5 million households wired with fiber optics and spend $16 billion dollars. This is an excerpt from the Pacific Telesis 1994 Fact Book, detailing the deployment schedule. It was never built.

Consumer Broadband Deployment Schedule

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

As explained, herein, this next graphic represents what happened the last 2 decades. AT&T has been dismantling the public state telecom utility by using manipulated FCC accounting formulas. Based on other states, we believe AT&T cross-subsidized the other lines of business, making the state utility a 'cash machine'. Instead of upgrading the networks to fiber optics, it was able to take the construction budgets and shift them to the other lines of business including wireless, while adding other corporate expenses. There have been no audits or investigations of the flows of money in California for at least 15 years.



Pacific Bell, AT&T California Timeline

1989	Incentive Deregulation --- companies got to make extra money to fund tech roll out of ISDN – splitting the extra profits over a certain amount
	ISDN rollout was a flop. – 53,000 ISDN lines by 1995
	Schools were supposed to be upgraded to data and video
1993	Pac Bell Audit by NARUC, incomplete, reveals $1 billion in overcharging; shows cross-subsidies of all of the wireless and other lines of business
1993	Pac Bell Announces $16 billion on 5.5. million fiber lines by 2000.
	Cities cut deals to be upgraded to fiber up and down the coast including San Diego, San Jose and Sacramento
1995	Granted an additional billion dollars in productivity gains
1995	Takes $3.6 billion dollar tax deduction – FASB 71
1996-1997	SBC merger – SBC stops any building, takes deductions for what was built, but spent less than $1 billion vs $16 billion as told to the public.
1997	Profits go through roof
1997	Construction timeline shows no extra capital expenditures in CA
1998	Bait and Switch—rolls our DSL over the existing copper wires
1999	SBC merger with Ameritech; supposed to spend $6 billion on fiber
2001	Audit of 1996, 1997, 1998 reveals $1.94 billion in questionable expenses in the incentive split deal, shows major cross-subsidies of corporate expenses, dumping of expenses into the state utility
2004	SBC announces Lightspeed – which was fiber to the home according to FCC filings. This was renamed U-Verse
2005	SBC merges with AT&T, renames itself AT&T
2006	AT&T merger with Bellsouth
2006	SBC pulls bait and switch and rolls out U-Verse, copper is used
2006	More deregulation DIVCA is signed to with statewide franchise –
2007	100% of AT&T 21 state territories were supposed to have been upgraded to some broadband at 200kbps –this would mean there should be no unserved areas in California for broadband at DSL speeds (the only service that could have fulfilled this obligation at the time.)
2013	AT&T announces GigaPower; taken to task over lack of actual deployments. wireless; bait and switch – is using the fiber optic wires for wireless in most parts
2015	DirecTV merger: AT&T admits that "15 million customer locations, mostly in rural areas where AT&T does not provide high-speed broadband service today."
201X	Government subsidies for slow wireless in rural areas
200X	Wireless bait and switch substitution
200X	FCC $400 million connect America fund
200X	California high cost fund B—an additional $146 per line for rural areas
200X	Administration fee
200X	Cost Recovery Fee added
200X	Continuous rate increases granted, no audits, no inspection of actual costs.
2020	AT&T announces the closing of DSL
Nov.2020	CPUC requests info about all services and an analysis of how many customers will be impacted.

BIOS: THE IRREGULATORS (PARTIAL LIST)

http://irregulators.org/who-we-are/

The IRREGULATORS is an independent consortium of senior telecom experts, analysts, forensic auditors, and lawyers, some of whom are former senior staffers from the FCC, state advocate and Attorneys General Office as well as former telco consultants. The group has filed at the FCC and state commissions, and took the seminal legal challenge, IRREGULATORS v FCC, which freed the states from using the FCC's accounting rules.

- **Bruce Kushnick, Managing Director,** has been a telecom analyst for 39 years, and started as an industry expert working for IDC/Link, (a subsidiary of International Data Corp). In 1992, Kushnick helped to invent and deploy the first independent 3-digit phone service, "511" with Cox Newspapers. In 1992, Kushnick also started New Networks Institute and was telecom director for the nationwide "Prime Time to End Hunger" campaign. In 2002, Kushnick was one of the founders of Teletruth, and worked with Congressmen Nadler's office on "The Broadband Bill of Rights". Kushnick is the author of an infamous trilogy of books about the fiber optic broadband broken promises and telecom; the most recent is "The Book of Broken Promises: $400 Billion Broadband Scandal & Free the Net", released May 2015.
- **Paul M. Hartman** is a former FCC Asst Chief of the Pricing Policy Division (PPD), part of the Wireline Competition Bureau, as well as worked in the Office of Inspector General as part of the Universal Service High Cost Oversight by the commission. Paul was also on the FCC's Jurisdictional Separations Federal-State Joint Board. Paul is one of the leading experts pertaining to the FCC's accounting rules and has been involved in regulatory cost studies since working for the Bell System in 1973.
- **Scott McCollough, Esq.** McCollough is an attorney who focuses on communications law and regulation, representing the consumers and small business competitors. Past activities include 10 years as an Assistant Texas Attorney General and Contract Consumer Advocate (representing residential and small business consumers) Scott was lead counsel for IRREGULATORS vs FCC and is part of the Robert F Kennedy Jr. team, challenging the FCC. Scott was on the EFF Austin Texas Board of Advisors.
- **Chuck Sherwood** is a former member of the Alliance for Community Media's Public Policy Working Group, and the Policy and Legal Committee of the National Association of Telecommunications Officers and Advisors, and has worked for community access and internet deployments for over 40 years.
- **Tom Allibone** is the President of LTC Consulting, and former Director of Teletruth's Auditing Division. Tom worked for New Jersey Bell and AT&T as a systems consultant and National Account Manager, starting in 1970. Tom led Teletruth's auditing capabilities which has resulted in the settlement of 4 class action suits against Verizon, New Jersey, as well as telecom auditing resulting in

over $30 million in refunds. Tom was a member of the FCC Consumer Advisory Committee.

- **Kenneth Levy, Esq.** joined the FCC in the late 1970s, and held several supervisory positions including Deputy Chief, Operations of the Common Carrier Bureau and Chief of the Tariff Division during the period leading up to divestiture and through the aftermath. He left the FCC to become General Counsel of the National Exchange Carrier Association, Inc., the organization charged with administering the FCC's interstate access charge plan and universal service fund. He now consults on legal and regulatory telecommunications cases in the public interest.

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

Bruce Kushnick
Managing Director,
IRREGULATORS
Executive Director
New Networks Institute
185 Marine Ave., Apt 4E
Brooklyn NY, 11209
1-718-333-5161
bruce@newnetworks.com

October 25th, 2020

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

Introduction

In accordance with Rule 6.2 of the California Public Utilities Commission ("Commission") Rules of Practice and Procedure ("Rules"), the IRREGULATORS & New Networks Institute submits reply comments to the Order Instituting Rulemaking 20-09-001 ("Rulemaking").

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 a 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.

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 as telecommunications market research and consulting firm.

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.

Estimated Partial Overcharging AT&T California Local Service, 2019; 5 Year

UTILITY	STATE	2019 LOW	2019 MEDIUM	5-YEAR (2015-2019
AT&T	California	$ 2,437,728,664	$ 1,675,938,457	$ 10,284,167,803

IRREGULATORS

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 New York, 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, 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. 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."

And 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.

Third, the Governor needs to assess why AT&T was not held accountable for reneging on its obligation to deploy fiber optic services throughout California, starting in the 1990's, for which it was granted multiple deregulatory concessions, such as "price caps" that 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 and curb 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.

> The California First plan, announced by Pacific Bell November 11, 1993, is a $16 billion investment plan to allow both telephony and video services to be provided over an integrated network. By the end of 1996, we expect more than 1.5 million homes to be hooked up to the network, with more than 5 million homes connected by the end of the decade. The integrated network will be capable of transporting voice, broadcast video, and interactive services, including video and data services. December 21, 1993
>
> Re: *RM-8380 / Joint Petition for Rulemaking to Establish Rules for Subscriber Access to Cable Home Wiring for the Delivery of Competing and Complementary Video Services*

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.

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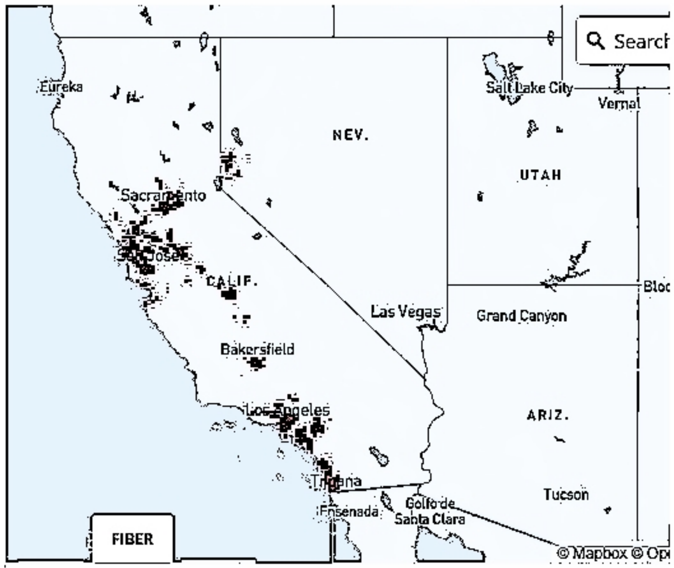
Los Angeles	San Fernando Valley/West LA	Parts of Los Angeles (Canoga Park, Reseda, Sherman Oaks), Calabasas, Hidden Hills, Inglewood	Most of greater Los Angeles area
San Diego	San Diego	Central San Diego, (and other parts of San Diego, including La Jolla, Linda Vista, Pacific Beach and Rancho Bernardo), Del Mar, Poway	Central and eastern San Diego areas
Orange County	Anaheim	Anaheim, Buena Park, Cypress, Garden Grove, Orange, Stanton, Villa Park	Orange County and western Riverside County

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 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.

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

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

This information is from the FCC's last published report, the "Statistics of Common Communications Carriers", which stop collecting basic financial business information from the state utilities in 2007.

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
Source: FCC

	Miles of Fiber	%
Lit	571,835	19.4%
Dark	2,382,140	80.6%
Total	2,953,975	

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

We 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.

We are requesting that every wire be related to the capital budget that was used to build the networks—As we found in New York, while the wires to the cell sites are placed into the wired network budgets, and 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.

Moreover, 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 it is a fact that is never discussed, it appears, nor even mentioned and 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 deliver specific information about AT&T, but only aggregated data. And yet the State is attempting 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 as Pacific Bell.

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

Video Service Offered by Non-Telephone Corporations

	Number of Households in Video Service Areas	Number of Households Offered Video
Households	12,712,846	14,543,667

Meanwhile it is based on a methodology to examine 'census tracts', which says if there is one customer, count the entire census tract, and the census numbers are from 2007.

It is clear that these reports do not reflect the actual marketplace and aggregating the information is hides what each company has an 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 the application proceeding 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, as well as 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 in (checking?) during 2015.

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.
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 services is no longer just and reasonable.

- 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.)

AT&T Local Service Calling Features and Services, 2004 -2016

	2004	2008	2016	Increase	Annual
Local Service	$10.69	$10.94	**$26.00**	143%	$183.72
Call Waiting	$3.23	$6.00	**$10.99**	240%	$ 93.12
Caller ID	$6.17	$9.99	**$9.99**	62%	$ 45.84
Inside Wire (Wirepro)	$2.99	$6.00	**$8.00**	168%	$ 60.12
Unlisted Numbers	$0.28	$1.25	$1.75	525%	$ 17.64

Updated: IRREGULATORS, using AT&T pricing guide, 2017

In fact, the CA Public Utility Commission recently 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.

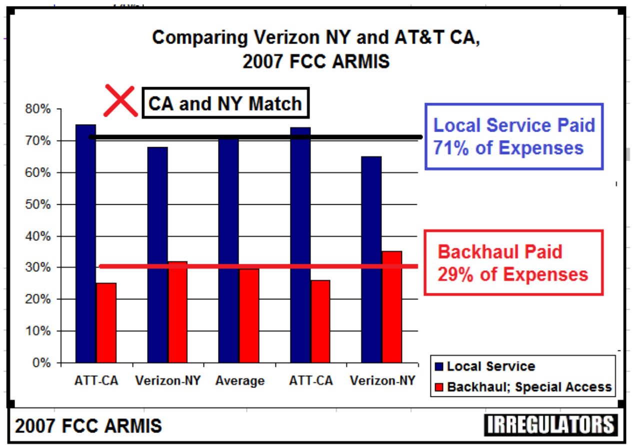
> "We undertake this investigation mindful of our obligation, pursuant to Public Utilities Code § 451, to ensure just and reasonable rates, terms and conditions of service. Accordingly, we request data and comment on these issues as an exercise in good government, and in light of our promise to monitor 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."

But Local Service pricing is one of multiple issues. AT&T et al controls the wires to the cell sites, and, with Verizon 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 added to the customers bills, especially on the Triple play services.

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 will show massive overcharging. These are the expenses 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 is 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 company, divides up the expenses into categories, such as marketing or equipment or staff.

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

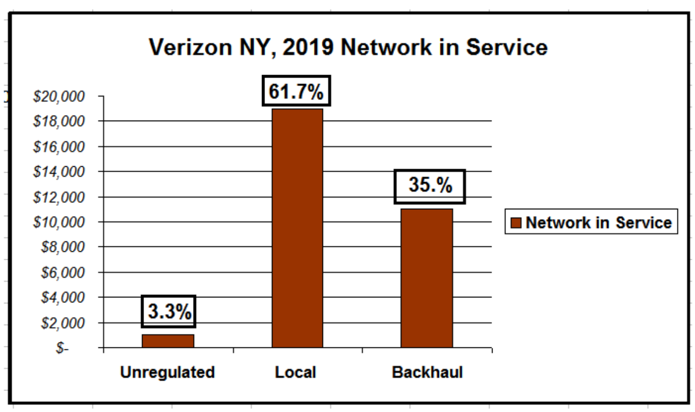
- **Corporate Operations** is a garbage pail for executive pay, lawyers, pr and even the corporate jet, not to mention the lobbyists, etc
- **Construction and Maintenance** are the monies spend to maintain and upgrade the networks.

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% of the total expenses.

And both states' used the same, exact formulas as the percentage assigned to each line of business is virtually identical. Which, of course, is problematic ---but it got worse.

Fast Forward to 2019: Local Service Overcharging in New York

This chart shows that the "network in service", i.e., the entire state-based wired telecommunications utility infrastructure for the last few decades was. And divided into the different lines of business, somehow, the mostly copper networks have been charged just to Local Service. Here, the Local Service paid 62% on average for the last 2 decades, 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%.



This shows that Verizon's fiber optic deployment and most of the backhaul, and even Verizon wireless lines, got a free ride on the backs of local phone customers. There are plenty of caveats.

This means that local phone customers have been the defacto 'investors' in the networks, and that the overwhelming majority was cross-subsidizing other lines of business, as the basic copper wires weren't upgraded or even maintained and repaired.

SEE: Solve the Digital Divide by Halting Billions in Cross-Subsidies: Verizon NY 2019 Annual Report

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 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 instead, therefore, 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 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 jus 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.

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 and are they are being aided and abetted by the FCC to substitute a sham 5G service that will use the fiber in the ground, both 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 had to pay for using the networks customers-funded.

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