

To the California Broadband Council:

**AT&T's Comments to the California Broadband Council
Exposes Serious Questions.**

Presented by:

IRREGULATORS

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December 9th, 2020

AT&T's Comments to the California Broadband Council Exposes Serious Questions.

This report presents additional information to supplement the IRREGULATORS already filed documents. It exposes how AT&T California, the largest telecommunications state-based public utility in California, appears to have manipulated their statements to the CA Public Utility Commission as well as the California Broadband Council, not to mention the public.

It is problematic because it is being used to make it appear AT&T has been a good corporate citizen and that it has been spending large sums on network investments over the last 5 years, when, in fact, it is a fraction of what AT&T is actually spending. Moreover, it appears AT&T did not complete basic obligations to bring broadband to the California, that it has inflated the amount of fiber optic services the company has deployed, and that it fails to mention massive financial cross-subsidies of the wireline state telecommunications utility and wireless.

And while the numbers presented appear enormous, when put into context with the revenues, the investment in the networks has been 'disinvested', especially for the wireline state utility known as AT&T California.

We have called for investigations of AT&T California's massive cross-subsidy scheme that we believe is underway. This new report simply fills in details that AT&T's statements can not be trusted as facts and these issues need to be investigated by the State as well.

Examining the AT&T Statistics on Network Investment and Broadband Deployment

AT&T filed comments with the California Broadband Council and every number they presented is more or less manipulated.

[AT&T](#) wrote:

“Over the past five years, AT&T has expanded access to high-speed Internet by investing more than \$135 billion nationwide in our wireless and wireline networks. This totals more in domestic U.S. investment than any other public company. In California specifically, we invested more than \$8.7 billion from 2017-2019 and expanded access to high-speed internet by building more than 2.1 million additional fiber connections across the state.... encourage the deployment of broadband to the 2% of households where services are not yet available.”

All of these statistics sounds plausible until you fact check: AT&T appears to have inflated the construction budgets by \$30-\$50 billion nationwide, and may be cross-subsidizing the wireless deployments of AT&T Wireless by charging the construction budgets to the state utility. At the same time, AT&T California presents fiber optic line accounting that is a

shell game. AT&T also appears to have left sections of their territory unserved, violating their merger commitments 13 years ago. Meanwhile, AT&T talks about high speeds being provided in 98% of the state-- but never mentions that AT&T is not offering high speed services to a large part of California. Worse, AT&T has even gotten multiple streams of revenue for upgrading rural areas that should have already had broadband.

Fact vs Obfuscation; We will cover a few specifics:

- A) **\$135 Billion in 5 Years? Off by \$30-50 billion** The total amount listed of expenditures nationwide does not add up.
 - B) **Is this utility budget paying ½ the wireless construction or more?** The total amount of construction in California cannot be correct and may reveal massive wireless cross-subsidies.
 - C) **2.6 million lines of fiber available in AT&T California as of Nov. 2020?** In multiple places, AT&T contradicts their own data filed with the CAPUC. In one place, AT&T claimed it added 3 million fiber lines in 2018? While, AT&T filed they only had 2.6 million fiber optic lines available in Nov 2020. In the quote above, AT&T now claims they added an additional 2.1 million additional lines in November 2020. The total number of fiber connections contradicts what is in the AT&T Response Letter to the California Public Utility Commission.
 - D) **2% unserved: 100% was to be done in 2007.** Did AT&T commit perjury?
 - E) AT&T states: “In California over 95% of households already have access to broadband speeds at or above 100/10 Mbps and over 98% have access to broadband speeds at or above 25/3 Mbps.” – But this is not AT&T’s coverage areas.
 - F) AT&T received funding for upgrades and maintenance of rural areas from multiple sources, but no one checked that AT&T should have already upgraded areas that are part of the state utility.
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Background

- California [Governor Newsom](#) has called for developing an “action” plan in order to solve the Digital Divide by upgrading all of California to broadband capable of 100 Mbps download speed at affordable prices.
 - A separate group, the [California Broadband Council](#), has been collecting comments about the Newsom plan.
 - The CA Public Utilities Commission (CAPUC) has a proceeding for input into the Newsom plan.
 - AT&T also [filed comments with the California Broadband Council](#), which brings up serious questions about the construction budgets for wireline networks.
- At the same time, the CAPUC under [President Batjer](#) has been questioning AT&T for eliminating “DSL Service” which will impact over 1.5 million customers who have few if any other options for broadband.

- The CA PUC has [asked for AT&T to supply data](#) that overlaps questions we asked in New York about the number of various services, but leaves out a deeper examination of the cross-subsidies.

The IRREGULATORS filed [Comments about the Newsom plan](#) with CAPUC and with the [CA Broadband Council](#), calling for audits and a halt to the billions in cross-subsidies.

DISCUSSION

A) **\$135 Billion in 5 Years? Off by \$30-50 billion.** AT&T claims it spent \$135 billion over the last 5 years in construction in the US. Here is the capital expenditures for the last 5 years (extrapolating a full year for 2020). It shows only \$101 billion was spent, missing \$34 billion.

AT&T	2020	2019	2018	2017	2016	
Capital expenditures	\$ 16,493	19,635	21,251	21,550	22,408	\$ 101,337
Added Expenses	\$ 1,869	\$ 2,225	\$ 1,742			
Communications	\$ 14,624	\$ 17,410	\$ 19,509	17240	17926.4	86,709.80
firstnet	1005	1429	279	0	0	

Source: AT&T Annual Reports

This next chart shows that in 2019, over \$2.2 billion had nothing to do with the state utility or communications, but was for WarnerMedia or Latin America or Xandr (an advertising related service).

AT&T	Capital Expenditures	
	2019	2018
Communications	17,410	19,509
WarnerMedia	1,013	581
Latin America	757	745
Xandr	192	106
Corporate and eliminations	263	310
Total	19,635	21,251

Source: AT&T Annual Reports

This would mean that the total is \$87 billion – a difference of \$48 billion over 5 years. Moreover, please note the \$2+ billion drop in one year on construction, and the major

increase for WarnerMedia. We also note in the previous example that we included FirstNet, which is a government contract to build America’s first responder emergency networks.

Either way, these numbers inflate the total expenditures spent on broadband.

B) **AT&T claims it spent \$8.7 billion in CA over the last 3 years.** The total amount of California cannot be correct and may reveal massive wireless cross-subsidies.

AT&T CA, FCC ARMIS Financial Information on Capital Expenditures, 2007

The next chart are the capital expenditures in AT&T California for 2007, the last data published by the FCC, known as ARMIS. It shows that in just this one year, AT&T CA spent almost \$3 billion dollars on the networks known as “Plant” and “Non-Specific Plant” -- with revenues of \$10 billion.

Table 2.8 - Statistics of Regional Bell Operating Companies as of December 31, 2007 and for the Year Then Ended – Continued
(Dollar Amounts Shown in Thousands)

Line No.	Account/Row Number	Items	9 AT&T Pacific Bell Telephone Company
116	530	Total Operating Revenues	10,015,092
Cable And Wire Facilities Expenses:			
142	6411	Pole	7,099
143	6421	Aerial Cable	238,080
144	6422	Underground Cable	129,628
145	6423	Buried Cable	241,484
146	6424	Submarine and Deep Sea Cable	1
147	6426	Intrabuilding Network Cable	5
148	6431	Aerial Wire	282
149	6441	Conduit Systems	11,040
150	6410	Total Cable and Wire Facilities Expenses	627,619
151	650	Total Plant Specific Operations Expenses	2,098,130
Plant Nonspecific Operations Expenses:			
152	6511	Property Held for Future Telecom. Use	53
153	665	Account 6512 - Provisioning	3,700
154	6510	Other Property and Equipment Expenses	3,753
155	6531	Power	82,771
156	6532	Network Administration	137,243
157	6533	Testing	199,640
158	675	Account 6534 - Plant Operations Admin. Expenses	312,353
159	685	Account 6535 - Engineering	138,517
160	6530	Total Network Operations Expenses	870,524
Total 2007			\$ 2,968,654

- This means that \$8.7 billion is just a bit below business as usual for 3 years.
- This number supposedly includes wireless construction. Are the wireless networks being funded out of this wireline budget?

If Wireless is the major expense, then it is clear that:

- AT&T is subsidizing the wireless networks via the wireline utility, or else,
- AT&T has lowered its wireline budget by 1/2 or more.

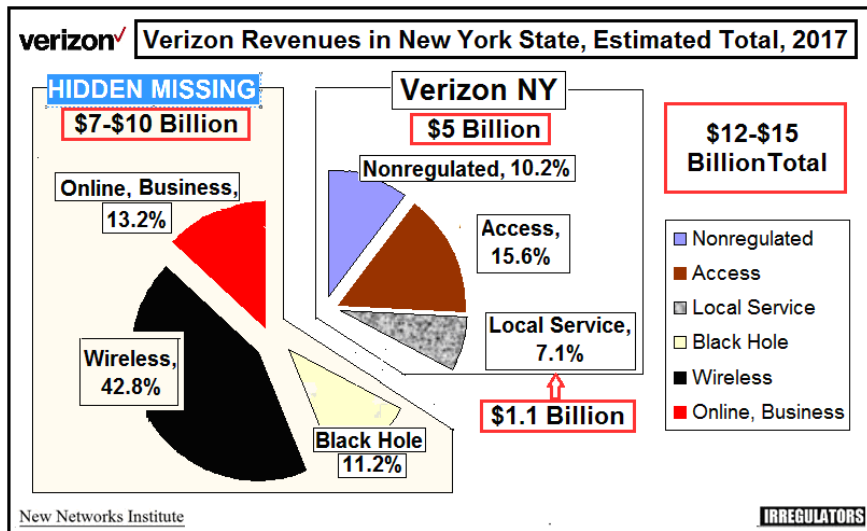
Fierce Telecom, Nov. 20 2020, [wrote about AT&T's 3rd Quarter investment](#) call and that AT&T CEO Stephens made it clear that the company is pro-fiber but for wireless and entertainment.

"While there are still opportunities for more AT&T Fiber adds in the current footprint, Stephens said AT&T will be running lower on its inventory, and that its going to need to build-out more fiber at some point.

"Stephens said AT&T's top priorities were 5G, high-speed connectivity and software-based entertainment, such as AT&T TV, all of which feed off of fiber."

Total Revenues in California for AT&T vs AT&T, the State Utility

Here is an example of the total revenues in a state vs the revenues of the state utility. Below is the estimated accounting of revenues in New York for Verizon, which includes Verizon New York, the state telecommunications utility, and the other lines of business. While the utility had \$5 billion in revenue, there is an estimated \$7-10 billion in the other lines of business that are using the utility infrastructure but is only paying a fraction of the expenses.



NOTE: In order to blur the lines of wireless expenditures coming out of the wireline budgets, AT&T and Verizon stopped separating the construction expenditures information over the last 5 years in their annual reports and only are only giving 1 number.

However, similarly, AT&T California's revenues at \$10 billion would mean that there could be an additional \$14-20 billion from these other lines of business that could be using the state utility infrastructure and are being subsidized.

- C) 2.6 million lines of fiber available in AT&T California as of Nov. 2020? 3 million lines in 2018? 2.1 million additional lines in November 2020? The total number of fiber connections contradicts what is in the Response Letter to the California Public Utility Commission.**

AT&T California responded to questions posed by the CA Public Utility Commission, and they claimed that it had service to cover 2.6 million housing units in CA.

Service	Reported Maximum Speed (upload/ download)	Estimated Housing Units with Service Availability
"FTTP" or "Fiber"	1000 Mbps / 1000 Mbps	2.6 million

- **This is in AT&T’s CA Broadband Council filing**

“expanded access to high-speed internet by building more than **2.1 million additional fiber connections across the state.**”

- **This is on AT&T’s California web site:**

“In 2018 alone, **we added over 3 million fiber locations**, bringing super-fast, reliable speeds you need to metro areas like San Francisco”
<https://www.att.com/local/fiber/california/san-francisco>

If you add 3 million locations in 2018, and then you add an additional 2.1 million lines in 2020, how can AT&T have only 2.6 million lines available?

- D) 2% Undone? 100% was to be done in 2007.**

“encourage the deployment of broadband to the 2% of households where services are not yet available.”

The BellSouth-AT&T merger claimed 100% of their territories would have broadband available by the end of 2007.

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

And it isn't whether AT&T has left 2% of their territory uncovered. The question is: Was this 2% ever properly upgraded to at least this minimum speed? And how much was undone over the last 14 years.

How much money is AT&T getting for areas that are part of the state utility and unserved areas that were never done?

E) “in California over 95% of households already have access to broadband speeds at or above 100/10 Mbps and over 98% have access to broadband speeds at or above 25/3 Mbps.” – But not by AT&T.

AT&T wrote in the CA Broadband Council filing:

“Based on federal data, we know that in California over 95% of households already have access to broadband speeds at or above 100/10 Mbps and over 98% have access to broadband speeds at or above 25/3 Mbps. Nevertheless, over a third of these households don't yet subscribe to these services, which would provide them with the capability to do all the things they need to do for school, work, and entertainment.”

This chart is from the Response to AT&T from President Batjer as are the quotes below.

Service	Reported Maximum Speed (upload/ download)	Estimated Housing Units with Service Availability
ATM DSL	6 Mbps / 0.5 Mbps	9.4 million
Fixed Wireless	10 Mbps / 1 Mbps	0.3 million
IPDSL	25 Mbps / 2 Mbps	9.7 million
VDSL or "U-Verse"	100 Mbps / 20 Mbps	7.3 million
"FTTP" or "Fiber"	1000 Mbps / 1000 Mbps	2.6 million

- “AT&T offers wireline broadband services to approximately 10 million housing units out the 14.3 million in California.
- “Approximately 8 million housing units have VDSL or Fiber available and will not be impacted by the announcement to retire ATM and IPDSL.

This would indicate that 6 million housing units do not have 100 Mbps services available in CA from AT&T– about 40%. The idea that AT&T uses an inflated number when they cannot or do not provide the service is problematic; it also means that AT&T is not providing high speed service competition, among other issues.

Not audited: When AT&T states that services are available, what does that really mean? In FCC filings AT&T et al. make claims that the service is available within 1000 feet. Is that the measurement being used here, today?

F) AT&T Received Funding for Upgrades and Maintenance of Rural Areas.

The CPUC President writes:

https://www.cpuc.ca.gov/uploadedFiles/CPUCWebsite/Content/News_Room/NewsUpdates/2020/Batjer%20Letter%20Response%20to%20ATT%2020201102.pdf

“AT&T continues this network disinvestment despite receiving significant public support. For example, AT&T received more than \$400 million from the FCC’s Connect America Fund II, over the past seven years to deploy low-speed fixed wireless service. The California High Cost Fund-B program has been providing AT&T with an average \$146 per year per voice subscriber in hard to serve areas of the state for decades. AT&T also collects substantial revenue through its “Administrative Fee” and “Regulatory Cost Recovery Fee,” – which are considerably more than the state levies for its 911 and universal service programs. It would seem this revenue would be sufficient to invest in futureproof broadband services throughout its service territory.”

The state has not added all of this money together to see exactly how much is subsidized vs is part of the state utility.