

Contact: Bruce Kushnick, [bruce@newnetworks.com](mailto:bruce@newnetworks.com) 718-333-5161

## Complaint to the Connecticut Attorney General's Office

(This complaint was originally created by Teletruth, in 2009, then updated in 2015.)

### **I. Summary of Issues:**

AT&T, in December 2009 filed a proposal with the FCC, claiming:

- “POTS Service and the Legacy PSTN are diverting critically needed funds that could be used for broadband deployment
- “Setting a firm deadline for sunset of the PSTN.”
- “Congress’s goal of universal access to broadband will not be met in a timely or efficient manner if providers are forced to continue to invest in and to maintain two networks.”

We believe there is only 1 network, the Public Switched Telephone Networks PSTN, the state utility, which carries “POTS” (Plain, Old Telephone Service), and that AT&T has continually failed to upgrade the ‘first network’, the utility, in Connecticut.

We request the State to:

Dissolve the SBC (AT&T)-SNET merger or create structural separation, require billions in refunds, which should be used to rewire the entire state with fiber optics as committed to in 1992, and reopening the networks to all competitors. The reasons are many:

- 1) SNET made commitments to rewire the entire state with fiber coax to homes, providing cable competition and 200+ channels and other services.
- 2) Completed by 2007 and called “I-SNET”, the company claimed it would spend \$4.5 billion.
- 3) SNET received major changes in state regulation--- more profits, as well as took major tax deductions.
- 4) SNET also filed an identical plan on the federal level, with the FCC known as “Video Dialtone,” SNET was granted permission for 1,000,000 homes.
- 5) SNET was part of Americast which included SBC, Disney, BellSouth and Ameritech. Another group, Tele-TV, included Pacific Bell, NYNEX and Bell Atlantic.
- 6) In 1996, SNET was granted the first statewide cable franchise in the United States. By 2007, ALL subscribers were to have cable service competition via fiber-coax.
- 7) AT&T rolls out U-Verse in Connecticut, 2008

**OUTCOMES:**

- 8) Over the last 15 years, SNET has failed to properly upgrade the Public Switched Telephone Networks, even though it made claims it would be creating a new fiber optic based network. The company did not spend \$4.5 billion nor upgrade 1 million homes.
- 9) SNET never completed any part of the fiber optic coax video dialtone plan. Instead it pulled a fast one and only rolled out vanilla cable services, which were later closed down.
- 10) The changes to state law were never repealed and SNET collected billions in extra profits and tax perks for networks that were never deployed.
- 11) The video dialtone services, nor I-SNET couldn't be built. The equipment that was supposed to be used didn't work as advertised, costing much more money than presented in the original cost models.
- 12) SBC, during its merger with Ameritech in 1999 announced "Project Pronto" a six billion dollar upgrade of their entire region, including Connecticut --- It was never completed.
- 13) SNET had 31,000 cable customers by 1999. SBC (now AT&T) started the proceedings to closed all of the SNET video projects, as it had done to California, Ameritech's 5 states, and Southwestern Bell, including Texas.
- 14) SNET's cable networks, estimated at 4,000 miles, were required to pay \$40 per subscriber to those 30,000 customers.
- 15) As far as we can tell, no money was ever paid to the rate-payers who had been funding these cable networks.
- 16) SNET never sold the cable plant, and blocked all attempts to use it for competitive offerings, even though SNET did not use the cable networks for broadband or even cable service.
- 17) In 2007, SBC applied again for statewide service to offer u-Verse, and deployed in 2008 to some communities, after a legal action. AT&T claimed U-verse was not a cable service. There are no plans to rewire most of the state, yet money is still being collected under previous changes to state law.
- 18) AT&T is using local rates to fund new construction through massive cross-subsidization. I.e., AT&T claims there are 2 networks, the broadband networks u-verse) and the 'utilities', the PSTN, and now has asked the FCC to transition the PSTN out of service.
- 19) U-verse travels over the original copper wiring, with some fiber-to the neighborhood upgrades and uses VOIP for voice service, which they claim is therefore not a utility service.
- 20) The company is manipulating the data they supply to the FCC and others pertaining to competition, number of lines, number of users of the PSTN.

We believe that billions of dollars were charged to customers for fiber optic service services that were never received, that SBC-AT&T has harmed the entire state of Connecticut. The SNET-AT&T merger should be dissolved, or that the State should undertake a structural separation of AT&T from controls over the wires. Also, we request that monies be returned to the "NEW SNET" to rewire the state as previously committed.

Also, AT&T now claims there are 2 networks, the PSTN-utility, and their new 'broadband networks' and they have asked the FCC to close down the utilities in 22 states, including Connecticut.

The main questions are:

- Can a company say anything to the public to get laws changed in their favor, then change or drop the plans, even though state laws and regulations were changed to pay for new upgrades?
- How much money did Connecticut's residential and business customers pay in exchange for networks they never received?
- How much did customers pay in the form of 'cross-subsidization', i.e., monies that were charged to customers for non-regulated services such as DSL, long distance or even wireless, or other utility perks, from use of the 411 networks to utility tax abatements, and rights of way?
- Are there two networks or was the PSTN supposed to be upgraded and that was never done over the last 18 years?
- Did failing to upgrade the State's infrastructure harm the economic growth of the state, municipalities, education, and customers?
- Is U-verse a second network, or simply an extension of the first network and should be treated as such. Or should it be treated as a competitor, like any other and pay various fees, rights or way, etc. to use the first network, the PSTN?

## **II. Background**

Southern New England Telephone has always been a leading, innovative, independent telephone company. According to Archives & Special Collections at the Thomas J. Dodd Research Center, it had the first telephone 'exchange', the first directory, the first private toll line, the first telephone booth, the first direct long distance dialing, the first to use fiber optics in the exchange, and the first statewide cable franchise for use by the phone company.

The next exhibit shows SNET's proud, innovative history.

**Chronology of SNET's Accomplishments**

- 1878** January 15, The District Telephone Company of New Haven was incorporated.  
January 28, World's first commercial exchange opened in New Haven,  
February 21, World's first directory issued in New Haven.  
April 15, World's first private Toll line put into service, Blackrock to Bridgeport.  
April 15, World's first telephone booth.  
May 28, Reorganization as The Connecticut District Telephone Company.  
June 15, World's first commercial toll line is put into service: Springfield to Holyoke, Massachusetts.  
October 12, Name changed: The District Telephone & Automatic Signal Co.
- 1879** March 24, Connecticut's first woman operator, Marjorie Gray was hired.
- 1880** Reorganization as The Connecticut Telephone Company.
- 1882** October 2, Southern New England Telephone Company was incorporated.
- 1889** World's first coin-box telephone.
- 1922** June 10, Connecticut's first dial unit put into service in Hartford.
- 1945** October 21, SNET 500,000th telephone installed.
- 1953** First major telephone company to complete dial service.
- 1956** One millionth phone installed.
- 1962** December 9, Connecticut first state to be completely direct distance dialing.
- 1967** Electronic switching is introduced in Connecticut.
- 1970** Two millionth phone installed.  
May; as a residential trial, SNET was the first company to offer call waiting, call forwarding and conference calling. The service was called "Totalphone."
- 1979** November 15, the first company to use fiber optics in local telephone exchange.
- 1984** Bell System Divestiture.  
December, Introduced the first fiber optic backbone system to serve a state communication network.
- 1986** Holding company structure approved by the DPUC: Southern New England Telecommunications Corporation created.  
Completes an enhanced statewide 911 emergency system - the third in the nation.
- 1994** I-SNET, the first broadband information superhighway introduced.
- 1996** June 25, Introduction of one-second billing.  
September 25, SNET granted the first statewide video franchise in the US.
- 1998** October 26, SNET merged with SBC Communications Inc
- 2014** October 24<sup>th</sup>, AT&T sells SNET to Frontier for \$2 billion.<sup>1</sup>

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<sup>1</sup>[https://about.att.com/story/att\\_completes\\_sale\\_of\\_connecticut\\_wireline\\_operations\\_to\\_frontier\\_communications.html](https://about.att.com/story/att_completes_sale_of_connecticut_wireline_operations_to_frontier_communications.html)

With all of this glorious history, it is now clear that the new owners of SNET, SBC communications (renamed AT&T) has destroyed that legacy and is making it a backwater of corporate greed, not public interest and innovation.

SNET should have been the first phone company to completely rewire the entire state with fiber optic and coax services. Customers paid for this in the form of higher phone rates, tax perks, and other financial largesse. Instead, AT&T-SNET does not have 1,000,000 lines which were supposed to be completed by 2007.

We believe that billions of dollars was collected in the form of higher phone rates, etc.. and that this money should be returned to the state, AT&T removed from ownership of the company, or at least remove their controls over the networks, and that the original plan to rewire the state should be reinstated, done by the "NEW SNET".

What happened was essentially a bait and switch of massive proportions, but this is also a tale of how a large, un-caring Texas-based corporation, SBC Communications, essentially pillaged a once great company, to now a shadow of its former self.

It has been allowed to not only fail to deploy and upgrade the entire state, but SBC essentially stopped all competitive cable services in the state, raised rates, cut staff, and has been milking the former utility for everything it can with no regard to the public who has been funding these networks.

Ironically, SNET had a statewide franchise, the first granted in 1996. It had a fiber upgrade plan in place and it could have completed the upgrades and made the state a shining example of innovation.

However, SBC has a take-the-money-and-run attitude in every one of its previous transactions. It bought the other Bell companies, Pacific Telesis, which controlled California's Pacific Bell and closed all upgrades, even though the state had promised to spend \$16 billion and have 5.5 million lines completed by 2000. It closed down a 5-state plan for Ameritech, which was to have 6 million lines completed by 2000, and the entire region done by 2010. And it did the exact same thing with SNET, who had committed to spend \$4.5 billion and complete the entire state by 2007.

In fact, not only did SBC close down the SNET cable networks, it never sold them nor would let others use the networks to offer competitive cable service; something SNET was doing until SBC pulled the plug.

And U-Verse, AT&T's new product is an inferior service based on the old copper wiring, and it will never be a ubiquitous service to the entire state.. In Hong Kong today, customers enjoy 100mbps services in both directions for \$20, less than the cost of DSL or cable modem service. --- but on average 10-100 times slower. America is now 15<sup>th</sup> in the world in broadband because SBC-AT&T never built out the networks as was committed to in the 1990's.

So, in short, over the last 20 years, SNET made big statements, was actually rolling out at least something from 1996-2000, and then, SBC-AT&T came in and closed everything down, only to block other competitors and rolled out inferior services. -

But there is now a new twist to all of this. SNET—never upgraded the utility plant, the PSTN, but now claims that any new builds are part of their “broadband networks” and not the Public Switched Telephone Networks and they have filed with the FCC to close down the PSTN.

Thus, not only are we asking for legal actions to recover billions of dollars, but we believe that the state needs to separate AT&T-SBC from the SNET plant and reclaim all networks that were funded using local rate-payer charges, i.e., local phone service and all ancillary services. We believe that an examination of the flow of funds will reveal massive cross-subsidization, proving there is only one network, the PSTN, that was never properly upgraded.

### **III. Allegations of Wrong Doing and Harms.**

Teletruth alleges the following based on SNET filed Annual Reports, FCC filings, and other documents.

1) SNET made defacto -commitments to rewire the entire state by 2007 and spend \$4.5 billion on a total fiber optic and coax upgrade of the legacy copper plant, delivering voice, video and information and entertainment services.

According to the 1996 Annual Report:

“I-SNET(sm) is... a statewide telephony and information superhighway. Since 1994, the wireline business has been replacing its existing network of twisted copper wire with low maintenance fiber-optic and coaxial cable. The buildout of I-SNET, a \$4.5 billion investment, is expected to be completed by 2007. This advanced network is capable of delivering voice, video and a full range of information and interactive multimedia services. I-SNET passed approximately 234,000 households as of December 1996, and is expected to pass approximately 334,000 households by December 1997. The support of this investment will be primarily through increased productivity from the new technology deployed and customer demand for the new services offered.”

“We are pioneering new broadband technology through a hybrid fiber/coaxial cable design that is less expensive than an all-fiber network and just as effective. This is creating a platform for further growth as we introduce and package an array of desirable information, communications and entertainment products. Our proven ability to compete in wireless and

long distance prepares us for local telephone competition, which will heat up in 1997, and for expansion into the cable-TV market.”

ALL customers were to be served in a ubiquitous deployment.

SNET Release, January 21, 1997

“The company is building I-SNET, Connecticut's broadband, information superhighway to serve all its customers.”

2) State regulations were changed from a ‘rate of return’, which examined profits, to an alternative form of state regulation that allowed the company to make more profits from excess charges on customers’ phone bills and tax perks.

“In March 1996, the DPUC issued a final decision that replaces traditional rate of return regulation with alternative (price based) regulation to be employed, effective April 1, 1996, during the transition to full competition. The decision contains the following major items: price cap regulation for non-competitive services; a five year monitoring period on financial results; and a price cap formula on services categorized as non-competitive (utilizing an inflation factor, a 5% productivity offset, a narrowly defined exogenous factor, a potential service quality adjustment and various pricing bands). In addition, basic local service rates for residence, business and coin may not be raised above current levels until January 1, 1998, at which time the price cap formula becomes effective for these services, unless they have been reclassified into the emerging competitive or competitive categories. The impact of these changes on the Telephone Company's operating results will depend on the timing of classifying the various products and services into categories (non-competitive, emerging competitive and competitive) for pricing (banding) changes.”

In a very early move, SNET received a statewide cable franchise in 1996, which was to complete the entire state by 2007. Annual Report 1996:

“On September 6<sup>th</sup>, 1996, SNET Personal Vision, Inc. (*“Personal Vision”*) received an 11 year license from the DPUC to operate a community antenna television system that will serve the entire state of Connecticut.”

We note, this was for a vanilla cable service, not the video dialtone service that they applied and received acceptance of by the FCC. (a bait and switch from high-tech to cable service, but still competition.)

3) The company took a one-time \$1.2 billion dollar tax deduction “FASB 71”, claiming that because of changes in state law the company could take major write-downs of the old plant, and speed up the depreciation for new technology.

“In the fourth quarter 1995, the Telephone Company determined it was no longer eligible for application of SFAS No. 71, which specifies accounting standards required for public utilities and certain other regulated companies. Effective January 1, 1996, the Telephone Company follows accounting principles which are more appropriate for a competitive environment. This determination was made based on the significant changes in technology and the increase in telecommunications competition in Connecticut brought about by legislative and regulatory policy changes.

“The adjustment of \$1,178.0 to net telephone plant was necessary since estimated useful lives and depreciation methods historically prescribed by regulators did not reflect the rapid pace of technological development and differed significantly from those economic useful lives used by unregulated companies. Plant balances were adjusted by increasing the accumulated depreciation reserve. The increase to the accumulated depreciation reserve was determined by a discounted cash flow analysis which considered technological replacement and the estimated impact of future competition. To support this analysis, a depreciation reserve study was also performed that identified, by asset categories, inadequate accumulated depreciation levels (i.e., deficiencies) that had developed over time.”

The following table is a summary of 1995’s extraordinary charge.

	Before-tax	After-tax
Adjustment to net telephone plant	\$(1,178.0)	\$(703.9)
Elimination of net regulatory assets	(24.6)	(14.3)
Tax-related net regulatory liabilities	--	20.1
Accelerated amortization of investment tax credits	--	11.0
Total Non-cash, Extraordinary Charge	\$(1,202.6)	\$(687.1)

If the copper networks weren’t replaced as planned, then these deductions should not have been allowable. We note that throughout the US, all of the phone companies took identical deductions at a tax savings of over \$25 billion dollars.

#### 4) **Customers Are Funding the Networks:**

Capital Expenditures have been and continue to be coming directly out of local service budgets and operations.



“INVESTING ACTIVITIES The primary use of corporate funds continued to be capital expenditures. Cash expended for capital additions was \$366.6, \$354.0 and \$282.3 in 1996, 1995 and 1994, respectively. **Capital additions for all years were funded entirely from cash flows from operations.** The majority of these additions were for construction of the wireline network. Capital additions also included incremental capital additions under the restructuring program and improvements to wireless cell sites.”

**5) The alternative regulations and the I-SNET plan were to upgrade the existing plant from copper to fiber-coax.**

According to the 1996 Annual Report:

“Since 1994, the wireline business has been replacing its existing network of twisted copper wire with low maintenance fiber-optic and coaxial cable.”

**6) SBC’s Project Pronto made commitments to upgrade the networks.**

According to the SBC 1999 Annual Report, the merged SBC-Ameritech company would start a new \$6 billion fiber optic broadband plan called “Project Pronto”.

“Broadband Initiative in October 1999: As the first post-Ameritech merger initiative, SBC announced plans to offer broadband services to approximately 80 percent of SBC’s United States wireline customers over the next three years (Project Pronto). SBC will invest an estimated \$6 billion in fiber, electronics and other technology for this broadband initiative. The build-out will include moving many customers from the existing copper network to a new fiber network.”

Project Pronto, as well as every other fiber optic broadband plan in the states, were stopped by the mega-Bell, SBC.

**7) Outcomes: SBC Does a Hatchet Job on SNET’s Cable Service.**

After the purchase of SNET by SBC Communications, SBC took a hatchet to the cable service as it did in almost all of the SBC controlled states. In 1999, SNET had 31,000 customers and the company was already filing to close down the properties, which does not include the homes that were wired but did not have service.

SBC 1999 Annual Report

“Cable Television - SBC also operates a cable television system under the SNET brand in Connecticut that is currently included in the Wireline segment. SNET began offering cable television service in the first quarter of 1997. As

of December 31, 1999, SNET provided cable television services to approximately 31,000 households in Connecticut.”

SBC 2000 Annual Report

“Cable Television - We also operate a cable television system under the SNET brand in Connecticut that has been included in the wireline segment results. Our request to close this business is currently under review by the Connecticut Department of Public Utility Control and a final decision is expected in early 2001.”

The idea that SNET, which had state laws changed to accommodate the building of a fiber optic-based service would be allowed to simply “close this business”, as if this was some whim is, of course, worth investigation.

More to the point, if SBC was supposed to be serious about fiber optic services, closing down the state’s programs, where the wiring alone not only had value, but also could be used with different electronics for the fiber optic services it was claiming it was going to deploy, is, of course, illogical.

#### **8) “SNET-Plant Bill Stalls in Conn.”**

This headline from Multichannel News, (7/15/2005) above, outlined how SNET was not going to use the networks, but also would block anyone from using the networks.

“Citing claims of ethics irregularities, Connecticut Gov. Jodi Rell declined to sign into law a bill that would have stymied attempts by a competitor to lease unused cable-TV plant owned by SBC Communications Inc. The competitor, Gemini Networks CT Inc., has been working with the state’s Department of Public Utility Control to compel SBC to lease its former Southern New England Telecommunications Corp. fiber plant. But a telephone-pricing-decontrol bill passed June 7 included a late amendment that banned the unbundling of SBC’s fiber-coaxial plant unless the Federal Communications Commission orders it.”

Multichannel news writes that SBC was able to get the state legislature to create a bill that would block competitors from using the networks, (which the governor did not sign) including a company called Gemini networks, who pulled out of the offer after realizing AT&T would drag them through court for as long as possible.

8) Post Merger, SBC-SNET’s pattern is identical throughout their territories.

SBC-SNET pattern is identical to every state SBC took over. Verizon also pulled identical closings in the states they took over, not to mention the GTE territories.

**Verizon and SBC Fiber Optic Broadband Spending and Households**

company	money	homes	merger	closure
Pacific Telesis	\$16.0	5,500,000	1997	1997
Ameritech (3states)	\$6.6	6,000,000	1999	2000
SNET	\$4.5	1,000,000	1998	2000
SBC, Texas	\$1.5			
Pronto	\$6.0			
<b>SBC Total</b>	<b>\$33.6</b>	<b>12,500,000</b>		
<b>Verizon</b>				
Bell Atlantic	\$11.0	8,750,000	1997	1997
NYNEX (in MA)	\$.5	2,000,000	1997	1997
GTE	\$4.1	7,000,000	2000	2000
<b>Verizon Total</b>	<b>\$15.6</b>	<b>17,750,000</b>		
<b>TOTAL</b>	<b>\$48.9</b>	<b>36,500,000</b>		

SBC was to spend \$33.6 billion and have 12.5 million households while Verizon was supposed to spend \$15.6 billion on 17.7 million households. Combined, Verizon and SBC were to spend \$48.9 billion and have 36.5 million households by 2000.

What is appalling is the fact that in virtually every state, the company received massive financial incentives for new construction, the took the money and ran. We estimated that across America approximately \$320 billion has already been collected.

Our recent report to the FCC “The History, Financial Commitments and Outcomes of Fiber Optic Broadband Deployment in America: 1990-2004--- The Wiring of Homes, Businesses, Schools, Libraries, Hospitals and Government Agencies”.

This was filed with the FCC in December, 2009 and it covers the alternative ‘Incentive’ regulation in 26 different AT&T, Verizon and Qwest states. ALL quotes are from the phone companies annual reports, state regulators and legislators, legal actions and articles.

<http://www.newnetworks.com/FCCCITibroadband.pdf>

**9) Financial Outcome: More Money to SBC, Less Service to Connecticut**

**FINANCIAL SNAPSHOT: SNET, (in the Millions)**

	<b>1993</b>	<b>1996</b>	<b>2006</b>	<b>1993-2006</b>
Dividends,	\$110.0	\$138.1	\$225.0	105%
Employees	9,300	8,264	3,731	-60%
Depreciation	\$265.2	\$265.9	\$355.0	34%
Revenue (millions)	\$1,249	\$1,450	\$1,481	19%
Plant under construction	\$74	\$98	\$6.5	-91%
Total construction	\$231.6	\$318.8	\$307	33%
Switched			1,895	
Total Switched, non-switched	1,964	2,145	3,655	86%

Note: The latest FCC data from the Statistics of Common Carriers, was published in 2008 for the years 2005-2006.

From 1993 to 2006, revenues went up 19%, dividends up 105%, TOTAL access lines up 86%, employees down 60%, plant “under construction” was down 91%, depreciation went up 34%, construction up 33%, but down since 1996) and the company took an extra \$1.2 billion dollar tax deduction. Also, the revenue in 1993 included \$193 million for directory services, by 2006, the company only showed \$10. In short, billions of excess profits and tax perks were garnered and the state has virtually nothing to show for the changes in state regulations.

Without audits of the local phone networks it would be impossible to determine all of the customer-funding, read excess profits that were made due to the promise to deploy fiber optic services, and then simply keeping the money.

**10) OUTCOME: America is 15<sup>th</sup> in the World in Broadband.**

AT&T (SBC) currently does not have 1,000,000 households with fiber optic service in Connecticut. Had the company continued on their cable path, the company would have offered cable competition. It has cost the state in job and economic growth, higher rates for cable and phone service,

Today, Korea, Japan, and much of Europe are offering services of 100 Mbps in both directions for about \$40.00 US. (Hong Kong’s competitors are charging \$20.) In the current model, AT&T will only be offering only 18 mbps at best for \$65.00 with a package, (as of January 2010.) and may not rewire most of the state, pick and choosing which communities will be lucky enough to get even that.

### **A List of Audits and Investigations**

We are suggesting that the state undertake an independent investigation of what really happened in the state pertaining to the actual cost and price of local services, the deployment of (cable) and broadband service as the roll out of long distance, DSL and even wireless services, and now U-Verse.

This would include:

- 1) Cost of Service Audits: How much does local service really cost of offer?

In order to establish a baseline for moving forward, the state should conduct an audit to determine what local service actually costs. not the inflated cost based on alternative regulations, and including in that ALL of the revenues and all of the profits from the use of the PSTN. – i.e., do not allow segmentation of ‘deregulated’ product revenues and profits, such as examining the profits on calling features, including Call Waiting, or inside wiring or special access lines, Centrex, etc.

- 2) Cross-subsidization Audit

According to National Association of Utility Consumer Advocates (NASUCA) billions of dollars have been added to local rates because the phone company has been able to add various expenses for non-local services, from DSL to long distance.

- 3) Examine the Equipment Inventory for Missing Equipment Added to Rates.

The FCC’s audits of the Bell companies found that \$18.6 billion of missing equipment was added to phone rates, and that was only ¼ of the potential audits that should be done. The equipment in the networks impacts both the phone rates, as well as issues surrounding the revenues from the personal property taxes,

- 4) Audit “Corporate” Dumping

An audit of Pacific Bells-SBC in California found that \$1.94 billion had been added to rates in a 3 year period. This included everything from corporate expenses, merger costs and even lobbying and executive compensation.

The State recently went after SBC Knowledge Ventures for not paying taxes on \$144 million. We believe this is the tip of the iceberg.

- 5) Audit Previous Broadband Commitments and State Regulatory Perks

In Connecticut, SNET made previous commitments to deploy broadband in exchange for ‘deregulation’ – going from a rate-of-return, where the companies’ profits were kept in check, vs Alternative regulations that removed most profit caps.

Did this deregulation work? Should refunds be sought? Should the phone companies be returned to rate of return? While each state law is different, the outcomes in the cases we've studied clearly indicate that the changes in law did not help incentivize the phone companies to build. Instead, the companies kept most of the excess profits, estimated at \$2000 per household, or used it in other projects.

6) Customer Cost of Service Survey

Most cities and states have not done a comprehensive examination of the actual costs of service to customers – residential, low income, small business. While competition is supposed to be keeping prices in check, Teletruth has tracked major increases for the price of local service, long distance and wireless services, especially impacting low income, low volume users, including seniors.

Is there competition? Are prices decreasing or increasing? Is there any relationship to the actual cost of service?

The outcomes of these analyses will reveal a drop in competition on the PSTN. If this is the case, then the state should question whether the state should terminate SNET-AT&T's ability to sell their long distance service in the state. This regulatory economic perk was given in exchange for opening the networks to competition under the Telecom Act of 1996.

7) Audit Utility Perks to a "Free Market Company", the Second Network.

If U-Verse is a second network, then why should the company receive financial perks that were given to the utility?. Also, the rights of way, the tax abatements and property taxes and a host of other perks were given to the utility. Why should these be given to a 'competitive' company?

8) The Ultimate Test: Utility vs Current Market Analysis.

AT&T is rolling out U-Verse. Should the state depend on the incumbents to deploy their networks as compared to other options? AT&T currently has 1.7 million, U-Verse TV customers in 22 states and the company claimed it would have 18,000,000 by 2007. and that did not include BellSouth.

- b) Will these networks ever get deployed and are the companies rolling out services that are going to be 'ubiquitous', open to competitors?
- c) How do these services compare to the rest of the worlds' broadband service offering in terms of price and speed?
- d) When the cost of service and the user price analysis is added, should the state consider its own broadband and phone needs?

- e) Are muni's in the state considering 'work-arounds' for networks that are not being deployed and should the State confront the companies that are supposed to be the guardians of essential infrastructure?

**CONCLUSION:**

Dissolve the SBC-SNET merger; require billions in refunds, used to rewire the entire state as committed to in 1990's.

We are suggesting that NEW-SNET is created that replaces AT&T and returns to Connecticut a company that actually cares about its customers and upgrades the networks to be leaders and innovators, not simply an afterthought. The money could also be returned to customers in the form of subsidies for upgrades to communities, letting the municipalities rewire their constituents and not wait for AT&T.

If nothing else, the State should create a structural separation of AT&T and the controls of the plant. If there is a second network, let AT&T keep that but pay for use of the wiring, just like any other competitor.