REPORT 4

Break Up AT&T Et Al.
Separate the Wireless Subsidiaries from the Wireline Telecommunications Public Utilities.
Get Back $100+ Billion in Underpayments & Overcharges.
No More Government Subsidies.

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EXECUTIVE SUMMARY
Separate the Wireless Subsidiaries from the Wireline Telecommunications Public Utilities. Get Back $100+ Billion in Underpayments & Overcharges.
No more Government Subsidies.

This is the 4th Report in the Breakup series. It focuses on massive cross-subsidies of wireless networks, by funds that should have been used to build out cities and rural areas with fiber optics. Big Telecom has instead diverted billions in each state to build out wireless--- causing the Digital Divide.

Despite this harms to the American people, federal and state governments plan to throw billions more to these bad actors to 'solve the Digital Divide',

Our Take: Halt the Cross-Subsidies and Get the Money Back to Solve the Digital Divide. Fund Open, Symmetrical Fiber Networks to Everyone at Affordable Rates.

Wireless Underpayments Estimates to Verizon NY and Nationwide for Wireless Construction and 'Access', and Customer Overcharging 2010-2020[1]

Wireless Underpayments Estimates to Verizon NY and Nationwide for Wireless Construction and 'Access', and Customer Overcharging 2010-2020[1]

Construction Budget	Average	10 Year
Verizon NY-Wireless	$1,140,463,636	$12,545,100,000
Nationwide	$16,701,428,571	$179,215,714,286
Access Payments	$237,545,455	$2,613,000,000
Nationwide	$6,221,428,571	$37,328,571,429
Total NY	$1,378,009,091	$15,158,100,000
US	$22,922,857,143	$216,544,285,714

IRREGULATORS

NOTE: "Access" fees are monies paid to the local telecommunications utilities for use of their networks. These include payments for switched access to connect to end user locations and dedicated facilities, special access or business data services to connect wireless networks and larger businesses.

Nationwide, we estimate:

- $23 billion annually has been diverted to fund the wireless subsidiaries instead up upgrading cities and towns throughout America and this includes over $6.2 billion in access fees to use the networks.

[1] These are estimates based on using Verizon NY annual reports and other models created over the last decade, including the carriers' annual and quarterly reports, government filings, including the state and FCC.

- $216 billion was charged to the state telecommunications public utilities over the last decade for wireless construction.

New York

- $1.4 billion was charged to Verizon NY annually in construction costs that were not used for local service, which includes $237 million in access fees.
- $15.2 billion over a 10-year period was overcharged in just New York for construction that was diverted to wireless.

BASIC FACTS:

- **FACT:** Verizon NY is the primary telecommunications public utility for New York State. And it is a regulated public utility, just like gas, electric or water.
- **FACT:** Every state still has a primary telecommunications public utility, like AT&T California or CenturyLink (Lumen) Oregon.
- **FACT:** Every state had a plan to upgrade their wireline, copper-based utility, replacing these aging wires with a fiber optic wire, starting in the 1990's.
- **FACT:** In almost every state, laws were changed to give the companies billions in tax perks and rate increases over the last 3 deadest.
- **FACT:** 3 things occurred
  - The companies never fulfilled the obligations as advertised;
  - They were able to manipulate the financial books;
  - Local service and the utility would appear unprofitable.
- **FACT:** The companies diverted billions to the construction of their wireless networks per state and have been dismantling the state utilities since 2010.
- **FACT:** The plan has been to have the local phone customers, through the manipulated accounting, fund these wireless deployments with rate increases and tax perks.
- **FACT:** AT&T et al. captured the FCC and have used 5G as a tech-bait-and-switch to help 'shut off the networks', but their actual agenda is to remove the regulations and universal service obligations of the wires, not bring America better broadband.
- **FACT:** All of this caused the Digital Divide as AT&T et al never upgraded America to fiber optic services at affordable rates—and left massive holes in rural areas and inner cities otherwise known as "Redlining"; and thus without serious competition, prices are 5-20 times more than Europe
- **FACT:** Beginning in 2005, Verizon NY was allowed to continually increase local telephone service rates for the "massive deployment of fiber optics". The company never delivered, instead diverting the funds for wireless construction, accelerating the diversion as of 2010.
- **FACT:** Verizon NY "Harvested" its local customers: An estimated $2,765 per line in overcharging occurred for local service but theses rate increases were supposed to be to deploy fiber optic network infrastructure throughout the state, from 2006-2017.

PART II: One Fiber Scandal

In order to hide the transfer of the wired budgets to wireless, the companies have stopped breaking out the construction budgets and other financial reporting of the wireline and wireless subsidiaries.

At the same time, the plan now is to dismantle the state telecom utilities, claiming they are unprofitable and to move the fiber that has been built from regulated infrastructure to become private property for private use. In fact, AT&T et al. have let their state utility networks deteriorate, not investing in the utility infrastructure. This has been happening throughout America, with the plan to force customers onto wireless, using harvesting tactics and delivering poor quality of service.

WHAT NEEDS TO HAPPEN NEXT?

- The IRREGULATORS are calling for the United States Department of Justice and the state Attorney General offices to start antitrust cases against AT&T, Verizon, CenturyLink, and their subsidiaries.
- The outcome must be to separate the wired state telecom utilities from the holding companies' control.
- All of the subsidiaries, including wireless, the ISP/broadband access, business data services and enterprise subsidiaries, along with all of the other media, advertising and entertainment businesses, shall be completely separated so that any business dealings with the utilities are no longer privileged and shall be conducted at arms length.
- Subsidiaries shall pay market prices and shall be considered like any other unaffiliated company wishing to use the state telecommunications utilities' infrastructure and the public rights of way.
- All network infrastructure that was paid for via the state telecom local service construction budgets, which is property of the state telecom utility, and subsidiaries must reimburse the utility for all associated costs and for the continuing use of utility services.
- All subsidiaries must also pay for rights of way and access fees, including billing and collection services provided by the utility.
- All "Business Data Service", "Special Access" and "Backhaul" networks that were funded by the telecom utility are the property of the utility, including the wires to the cell sites, the fiber to home/node, and any other backhaul service and the subsidiaries must pay the utility for their ongoing use.
  All monies charged to the phone, broadband and internet customers through these subsidiaries shall be treated as de facto investors and shall be made whole.

5G Wireless vs. High-Speed Wireline:

- Isn't 5G wireless access a substitute for high-speed wireline broadband access? And why shouldn't the wireless services take over the wireline networks? No one is using them, right?
- We will address these issues. But the short answer is – 5G has been a "bait-and-switch"—a con.
- 5G's speeds are not what was originally announced, 1Gbps. Instead we have speeds that mimic 4G.
- The higher speed service requires a specific slice of wireless spectrum, known as "mm" waves, which requires a line of sight and has trouble going through objects including leaves on trees.
- 5G requires a fiber optic wire every block or two
- The carriers were scolded because their advertisements are claiming that they are "in cities", when most of this is made up, and there is only partial coverage, at best, – thus making the claim that the cities are covered a marketing and political play, not actual service.
- 5G usually has data caps; wired fiber optic and even cable services, so far, do not have significant limits on the use of the networks.
- Broadband Service will slowdown after the data caps have been reached, though it varies by carrier.
- With the current monthly household usage at almost 480 GB, wireless, at this point does not substitute a high speed wired connection.

Making the Case

NOTE: We divided the report into 2 parts: Part II supplies a discussion of the current plans to cover over the financial accounting of the construction of the wireline and wireless networks, dubbed "One Fiber", and euphanism for the budgets being diverted for the wireless service at the expense of the wireline build out and maintenance.

1) **FACT:** The wireline construction budgets have been diverted to charge the public state-based telecommunications utilities for the Wireless companies' construction expenses.

Fran Shammo Verizon's former EVP and CFO stated at the Goldman Sachs Communacopia Conference, Sept. 20, 2012:

> "The fact of the matter is Wireline capital — and I won't get into the number but it's pretty substantial — is being spent on the Wireline side of the house to support the Wireless growth. So, the IP backbone, the data transmission, fiber to the cell, that is all on the Wireline books but it's all being built for the Wireless Company."

2) **FACT:** AT&T is using the same accounting game. Bill Smith, President, Technology Operations, AT&T, at the Wells Fargo 2016 Convergence & Connectivity Symposium, June 21, 2016, made clear that the wireline side of the business has been funding the wireless build outs.[2]

> "I came more from the wire line business and had always a little bit of frustration for me because for many years before I picked up operations in construction and everything for the wireless side of the business, in the wire line world, I was spending a lot of money that was directly supporting the wireless operation, but it showed up as wire line spend. So we're not that good at allocating those expenditures."

3) **FACT:** In New York, Verizon was able to get changes in state laws for rate increases, 'deregulation', to fund the fiber optic wires, upgrades of the existing copper wires that are part of the Verizon NY public state telecommunications utility—that are used for FIOS in 2005. By 2010, Verizon halted FiOS and started to divert the construction budgets for FiOS to the wireless subsidiary.

This is a quote from the NY State Department of Public Service that specifically points out that the 'fiber optic' services are being paid for by residential rate increases.

New York State Department of Public Service, June 2009

[2] http://seekingalpha.com/article/3983460-ts-t-management-presents-wells-fargo-2016-convergence-and-connectivity-symposium-transcript?part=single

> "We are always concerned about the impacts on ratepayers of any rate increase, especially in times of economic stress," said Commission Chairman Garry Brown. "Nevertheless, there are certain increases in Verizon's costs that have to be recognized. This is especially important given the magnitude of the company's capital investment program, including its massive deployment of fiber optics in New York."

4) **FACT:** This capital investment for "massive deployment of fiber optics" was for FiOS, but was moved to fund wireless construction, as told by the NY Attorney General's filing with the state.

In 2011, Verizon NY stated that the company spent over $1 billion on the utility capital investment. The NY Attorney General claimed that 75% of the expenses for wireless and fiber optic cable networks were being charged to the state telecom utility.

> "Verizon NY's claim of making over a 'billion dollars' in 2011 capital investments to its landline network is misleading. In fact, roughly three-quarters of the money was invested in providing transport facilities to serve wireless cell sites and its FiOS offering. Wireless carriers, including Verizon's affiliate Verizon Wireless, directly compete with landline telephone service and the company's FiOS is primarily a video and Internet broadband offering."

5) **FACT:** AT&T and Verizon have been subsidizing their wireless subsidiary from the wireline budget and overcharging local service customers.

Every state is different regulatory rules and laws but a few things stand out.

- It is illegal to cross-subsidize the wireless subsidiaries expenses with local regulated service at the federal level.
- There are also laws in some states that prohibit a nonregulated service expenses charged to a regulated local service (or portions are still regulative)
- Yet, Verizon and the other companies submitted signed affidavits at the FCC that they did not violate the Telecom Act laws and cross-subsidize local service.
- The actual Verizon financial reports directly contract this.
- This happened in every Verizon and AT&T state, it appears.

In a proceeding at the Pennsylvania Public Utility Commission, then Commissioner Cawley wrote that Verizon PA may be violating the state law which prohibits the regulated state utility services to subsidize the non-regulated wireless service.

> Although it can be conceivably argued that the price cap formula based price stability mechanism (PSM) of Verizon PA's amended NMP may shield on a going-forward basis the Company's regulated non-competitive services and its end-user ratepayers against any potential cross-subsidization effects because of its joint venture funding arrangements for the Verizon Wireless 4G LTE services,[8] the matter remains that such Verizon PA funding may inevitably include a mix of "revenues earned or expenses incurred in conjunction with noncompetitive services," thus potentially invoking the statutory prohibition of 66 Pa.C.S. § 3016(f)(1).
>
> Furthermore, it is unclear at this time if the Company's contemplated funding for the Verizon Wireless 4G LTE services will be limited or otherwise dedicated only for the benefit of Verizon PA end-user customers to whom the Company must extend broadband availability consistent with its amended NMP, or whether such Verizon PA funding will also be utilized by Verizon Wireless for the general offering of its competitive 4G LTE services to the broader public.

Moreover, Verizon NY, the state telecom utility controlled by Verizon Communications Inc., the holding company, was misallocating expenses and revenues – clearly stated by testimony given by a consultant working for Communications Workers of America – that Verizon NY's network infrastructure and its services are regulated.

Testimony of Randy Barber for the Communications Workers of America (CWA) , NYPSC Case 16-C-0122, March 24th, 2017.

> "Verizon New York has consciously, methodically disinvested in its copper network, even though [BEGIN CONFIDENTIAL-- [END CONFIDENTIA] of its voice customers continue to rely upon it. This is to the detriment of its customers, the communities it serves, and the ability of its employees to adequately and safely provide an acceptable level of service. Indeed, the deterioration of the copper system is Verizon New York's clear policy. The company is substituting its own policy for one which requires it to keep the copper network in a state of good repair."
>
> "Moreover, there are strong indications that Verizon New York, and its parent Verizon Communications, Inc, engage in practices which misallocate expenses and revenues to the detriment of the regulated New York operations."

Why cross-subsidize? – because the companies' plan is to manipulate the financials so that it would make the entire utility networks appear unprofitable—by putting expenses into local service.

This meant they could:

- Get rate increases,
- Cut union staff,
- Not have to upgrade the rest of the state, claiming it was unprofitable.
- Save on taxes.

6) FACT: They Created the Digital Divide on Purpose– It Makes More Money

Verizon and AT&T's plan has been to shut off the entire state utilities and force customers onto wireless, especially in rural areas.

"Cut the copper off," said Lowell McAdam, former Chairman and CEO of Verizon, speaking at the Guggenheim Securities Symposium, June 21, 2012:

> "And then in other areas that are more rural and more sparsely populated, we have got LTE [Verizon Wireless] built that will handle all of those services, and so we are going to cut the copper off there. We are going to do it over wireless. So, I am going to be really shrinking the amount of copper we have out there, and then I can focus the investment on that to improve the performance of it."

This is not because the customer will have better service but because it makes Verizon more money. And notice this statement was made 9 year ago.

At the Goldman Sachs Communacopia Conference, September 22, 2016, Fran Shammo stated that Verizon was going to switch to wireless for broadband.

> "But it's going to be a fixed broadband wireless solution.
>
> "And if you think about the cost benefit of that, today, if you think about FiOS and what it costs me to connect a prem to FiOS. I have to lay the fiber down the street, but then I also have to then connect the home, go into the home, make sure the wiring is right, put in install the boxes, install the routers.
>
> "If you think about 5G, you put the fiber down the road, which is what we're doing in Boston. **Then all of the labor and the expense of drilling up your driveway connecting the OT to your house and all the labor involved with that, all that goes away,** because now I can deliver a beam into your window with a credit card size receptor on it that delivers it to a wireless router, and there's really no labor involved and there's no real

> hardware other than the router and the receptor. **So, the cost benefit of this is pretty substantial,** at least, we believe it is."

AT&T had the exact same plan—to just not care about the rural customers and force them onto wireless.

In AT&T's 2013 announcement of its "VIP plan", AT&T claimed that it would have 75% of their territories covered with wireline broadband networks by the end of 2015.

> "AT&T plans to expand and enhance its wireline IP network to 57 million customer locations (consumer and small business) or 75 percent of all customer locations in its wireline service area by year-end 2015."

25% of it would be wireless because it was not 'economically feasible' to build this IP broadband network.

> "In the 25 percent of AT&T's wireline customer locations where it's currently not economically feasible to build a competitive IP wireline network, the company said it will utilize its expanding 4G LTE wireless network — as it becomes available — to offer voice and high-speed IP Internet services."

IMPORTANT: There is zero mention that this 25% were in the rural areas of the state public telecommunications utilities' service area—and no mention that the wires and wireless areas being covered are part of the state telecom utilities they control.

Do the Math: It's Ugly. AT&T had 76 million 'locations' according to their own statements. (Note: If 75% equals 57 million then 100% is 76 million.) AT&T would have a total of 33 million locations by the end of 2015 — which meant that AT&T would still only have about 40% of their 22 states covered with TV competition or very high-speed broadband.

We will come back to the 5G "Bait and Switch" in a moment.

FULL REPORT **5G: The Wireline-Wireless Bait & Switch: Because It Makes Them More Money.**

A full report has been prepared detailing the statements of executives pertaining to the deployment of Wireless – as a money maker and not what they tell the public.

7) **FACT: They Manipulated the Accounting of Expenses and of Access lines.**

But it is only part of the story. Verizon and AT&T, with the help of the FCC, were able to manipulate the financial accounting of the FCC's "USOA" formulas so that by 2005, the majority of all expenses by the different lines of business ended up being charged to Local Service.

This made the entire US wired infrastructure to appear unprofitable and it was left to deteriorate. By 2010, the companies had moved the construction budgets using this mechanism to work for wireless. – but also being charged to charge local phone customers.

These finding on wireless are part of a larger, overarching call to break up Verizon and ATT.

8) Forbearance – Freed Them from the Rules – Designed to Hide Basic Information and the Audit Trail

In 2007, Verizon et al. petitioned the FCC for 'forbearance' so that it no longer had to use the FCC rules at all, or more importantly, they would not have to file their state annual financials with the FCC, stopping the "Statistics of Communications Common Carriers" that had started in 1939.

We note that current FCC Commissioner Brendan Carr was one of the attorneys for Verizon, and William Barr had been the lead Verizon attorney throughout this time.

- **"Forbearance" is – the rules, regulations and laws remain, but are no longer enforced.**

According to the FCC, forbearance is required under specific conditions:

> "Commission is required to forbear from any statutory provision or regulation if it determines that (1) enforcement of the regulation is not necessary to ensure that charges and practices are just, reasonable, and not unjustly or unreasonably discriminatory; (2) enforcement of the regulation is not necessary to protect consumers; and (3) forbearance is consistent with the public interest."

And, after these agreements were in place, the FCC still required a letter of compliance each year to make sure that the companies were not violating the basic laws.

A) VERIZON HAS CLAIMED THERE ARE NO CROSS-SUBSIDIES.

> "On September 19, 2008, Verizon submitted a "compliance plan" that it was not violating Section 254(k) of the Telecom Act which prohibits cross-subsidizing other services with local service.8 "The Commission has already determined for some carriers that an annual certification is a suitable indicator of compliance. See 47 C.F.R. § 64.905.

> "Thus, the attached certification itself largely satisfies Verizon's obligations under section 254(k) and the conditions of forbearance in the Recordkeeping and Reporting Forbearance Order and the AT&T Cost Assignment Forbearance Order. **Section 254(k) provides that "[a] telecommunications carrier may not use services that are not competitive to subsidize services that are subject to competition." 47 U.S.C. § 254(k).** The Commission has previously indicated that this requirement is intended to prevent ILECs from gaining an unfair advantage in markets for services that are competitive by assigning excessive costs to non-competitive services.
>
> "As an initial matter, it is difficult to identify an ILEC service that today is still not subject to competition. More important, the Commission's price cap regime eliminates any incentive to assign excessive costs to non-competitive services. Price caps 'sever[ed] the direct link between regulated costs and prices' long ago."[3]

And yet, just the opposite is true. The companies left the accounting in place because it had become deformed and pushed the majority of expenses into the non-competitive service expenses.

B) CLAIMING THERE ARE NO FINANCIAL ADVANTAGES TO THEIR OWN SUBSIDIARIES.

Verizon is also not supposed to give financial advantages to their own subsidiary 'interstate services' for access to the networks.

> "IV. COMPLIANCE WITH SECTION 272(e)(3) AND THE NON-DOMINANT ORDER.
>
> "Verizon ILECs are required by section 272(e)(3) Of the Act and the Non-Dominant Order to charge affiliated interexchange carriers amounts for access services that are no less than the same charges to unaffiliated interexchange carriers. 47 U.S.c. § 272(e)(3); Non-Dominant Order,~ 100. Today, Verizon long distance affiliates provide in-region long distance services; these services are not integrated with Verizon ILECs. As a result of the Non-Dominant Order, such long distance affiliates no longer operate as fully-separated affiliates under 47 U.S.C. § 272(b). Verizon

[3] 8 Re: Petition of Verizon For Forbearance Under 47 U.S.C. § 160(c) From Enforcement of Certain of the Commission's Recordkeeping and Reporting Requirements, WC Docket No. 07-273; Petition of AT&T Inc. For Forbearance Under 47 U.S.C. § 160 From Enforcement of Certain of the Commission's Cost Assignment Rules, WC Docket No. 07-21

> charges such affiliates rates for tariff- or contract-based access services that are no less than rates charged to unaffiliated interexchange carriers for such services."

C) DIRECT CONTRADICTION: VERIZON NY DATA.

As previously mentioned, starting in 2015, there had been an investigation of Verizon New York which ended with the settlement on July 14th, 2018. The CWA consultant in the Verizon New York investigation corroborated our findings about the cross-subsidies and that the company has been not maintaining (or upgrading) the existing Verizon New York utility thus harming the state's telecommunications users.

Our findings and the related Verizon NY investigations clearly shows that Verizon most likely has violated various parts of Section 254(k) as well as Section 272, among other violations of state and federal laws pertaining to cross-subsidies and unjust and unreasonable rates, and the FCC has made no attempt do its own investigation, but instead has accepted and rubber-stamped the companies' 'compliance' filings.

This is not just about New York and this is not just about Verizon, but, as we discussed, Verizon New York is a model of every AT&T and CenturyLink state.

9) Access Fees and Billing and Collections: Verizon Wireless Underpaid.

These two paragraphs are from the Verizon New York and Verizon New Jersey SEC, 4th Quarter results for each state telecom utility, for 2010.

Notice that it supplies the amount of money AT&T and Sprint are paying Verizon NY, the state telecom utility for access and billing and collection service fees.

> **Verizon New York**
> "Concentrations of credit risk with respect to trade receivables, other than those from AT&T Inc. (AT&T) and Sprint Nextel Corporation (Sprint), are limited due to the large number of customers. We generated revenues from services provided to AT&T and Sprint (primarily network access and billing and collection) of $237 million and $104 million in 2010 and $279 million and $119 million in 2009, respectively."
>
> **Verizon, New Jersey**
> "Concentrations of credit risk with respect to trade receivables, other than those from AT&T Inc. (AT&T) and Sprint Nextel Corporation (Sprint), are limited due to the large number of customers. We generated revenues from services provided to AT&T and Sprint (primarily network access and billing and collection) of $112 million and $56 million in 2010 and $130 million and $67 million in 2009, respectively."

Verizon stopped publishing these reports after 2010 because they exposed Verizon Wireless and the state utilities cozy relationship. Here we see Verizon is paying less than Sprint and a lot less than AT&T --- even though, at the time, Verizon had probably more customers in New York than AT&T, and 2-3 times more than Sprint.

How is that possible?

Verizon, AT&T and Sprint Wireless Payments to Verizon New York 2009-2010[4]
(In the Millions)

	2009	2010
Verizon Wireless	$ 78	$ 95
AT&T	$279	$ 237
Sprint	$119	$104

Verizon Wireless Underpayments for Access Fees, and Extrapolating US, 2010-2020

	Average	10 Year
Access-NY	$237,545,455	$2,613,000,000
Nationwide	$6,221,428,571	$37,328,571,429

On average, Verizon Wireless underpaid Verizon NY for use of the networks by $237 million – about $2.6 billion over 10 years. Nationwide, we believe AT&T and Verizon, the holding companies, have underpaid the state telecom utilities by $6.2 billion annually, $37 billion over the decade.

And this helped to create losses in the utilities and put all of the other competitors at an unfair competitive disadvantage.

10) Local Phone Service customers were charged for the wireless build out illegally.

Harvesting Customers: $2,765.00 in Overcharging Per Line, 2006-2017

In this analysis, by tracking the basic rate increases and using just "basic" service, (which includes the FCC Subscriber Line Charge), we estimate that local phone customers paid an additional $356.00 in just 2017.

This model did a financial analysis per year of basic Verizon New York phone service starting in 2006 and then examined all of the increases, by year, using actual bills. This would be Basic Service and 'inside wire maintenance' (as a substitute for 1 or more add-on services) as well as the basic taxes and surcharges applied. As we discuss elsewhere, many of these taxes are 'pass-throughs' that were placed on the bill by Verizon, but they are permitted pass them on to the customer—and thus they act as direct revenue to the company.

Verizon N Y Overcharging Basic Service, 2006-2017

	2006	2010	2015	2017	Total
Monthly	$ 6.46	$ 13.94	$ 28.41	$ 29.68	$ 230.34
Annual	$ 77.52	$167.28	$ 340.98	$356.16	**$2,764.07**

This supplies the yearly excess revenues (and taxes paid) where we estimate that this comes to about $6.4 billion from 2006-2017. And this revenue is for basic service and inside wire only, and the taxes applied.

Verizon NY Overcharging Basic Service, Excess Revenues, Taxes Paid) 2006-2017

	2006	2010	2015	2017	Total
Overcharge	$253,931,280	$583,873,440	$506,388,595	$423,213,952	**$6,364,700,374**

Without the taxes, the excess revenues were $5.4 billion.

The problem with these increases is that prices should have been in steep decline as the core expenses, like maintenance of the copper wires, were almost non-existent and all of the basic expenses, like marketing and advertising stopped. When is the last time you saw an advertisement for basic POTS?

Moreover, these rate increases were tied to artificial losses and the construction of a fiber optic wire network to deliver FiOS services. Needless to say, this FiOS network never made it to the majority of their state service areas, much less to all towns and cities in the state as well as all of the neighborhoods in them.

And the overcharging since 2010 is especially poignant because Verizon halted the FiOS deployments and even moved union wireline staff to buildout wireless. Thus, customers not only didn't get upgraded but also paid for the fiber optic service to go to wireless.

At this point, the state should have revisited their assumptions, especially since the NY AG wrote that the construction budgets were being diverted, but they missed the fact that in 2012 on, FiOS was no longer being seriously deployed, except for specific previous commitments. By 2014, Verizon had even stopped deploying in New York City, even though there was franchise requirement for 100%; the City ended up taking Verizon to court, only settling to move forward if Verizon continued their build-outs.

- **Nationwide, this comes to an estimated $91 billion in overcharging from local rate increases since 2006.**

PART II: The "One Fiber" Plan

NOTE: Originally published in Medium, February 2021, this section was left whole to make this topic easier to understand

11) **The Punchline: The One Fiber Scam: Manipulating the Construction Budgets.**

Verizon's 'One Fiber' Scam for 5G Wireless: Did Verizon Fool the Public and Investors?

The Verizon investor meeting for their 4th quarter results and plans for 2021, failed to make basic disclosures, including that Verizon's wireline networks are actually state wired state telecommunications utilities, and that these networks are deteriorating. Worse, the utility construction expenditures have been subsidizing their wireless business.

This **"One Fiber"** plan is to hide the financial trail by combining the wired state public telecommunications utility networks that extends from Massachusetts to Virginia, with the wireless construction, which, in reality, is nothing more than diverting billion to fund the wireless business. Worse, these networks have been improperly charged to the local phone customers and the other wireline business.

And with unsuspecting state public utility commissions, attorney general offices and politicians, not to mention the FCC and SEC—everyone, from the business reporters to the public—have been snookered as this is not new. This plan has being going on for a decade.

But, it is the fact that Verizon Communications never mentions that it controls the wired state telecom utilities, or that there even are state telecommunications public utilities left in their statements to investors or the public that is seriously problematic.

To be clear—Verizon Communications has had no intention of upgrading the wired networks for fiber-to-the-home for years, (except in specific areas), but it has been diverting billions to the wireless business so it can close down the wires for retail, competitive use and take the budgets that are claimed to be for FiOS and use it for 5G as private property for private use—but have the wireless budgets charged to the wireline utility business.

The Actual Harms and Consequences have been Severe.

These actions have been going on for much of this century and it caused the Digital Divide (aka Redlining), as cities were never upgraded throughout the country... At the same time Verizon was able continually to increase prices because there is no competition.

Moreover, Verizon controls the primary infrastructure – the wired networks for wireline and wireless and have provided the cable company with no competition—there are no 'market forces' to fix the current harms. In fact, the cable companies are renting the Verizon wireless service, as well as reselling it in a Quad Play service—collusion of the largest wired companies.

Thus, America is paying 5–20 times more expensive than overseas for our communications services, as this is not just about Verizon but about AT&T and CenturyLink that also control the state wired utilities throughout America.

The 4th quarter results have a number of other issues -- from the manipulated information about the actual number of wireline fiber and copper-based services, much less business services, that need addressing, but:

VERIZON HAS NO ANNOUNCED PLANS FOR FIBER OPTIC NETWORKS TO REPLACE THE EXISTING COPPER WIRES—THE FIBER IS 'ONE FIBER' – MEANING THAT THE PRIMARY SERVICE WILL BE WIRELESS 5G.

In an RCR Wireless article about Verizon's fiber builds, Verizon's plans are for 5G wireless and not a wireline fiber optic future for the most of the East Coast.

> "Verizon's Executive VP & CTO Kyle Malady spoke at the Well Fargo TMT Conference, offering an update and some insight into the carrier's fiber plans and progress.
>
> "Fiber is such a key component to Verizon's 5G plan, that the carrier combined its fiber assets and plans into single program called One Fiber back in 2016. The initial deployment was focused on the Boston area and included plans to invest $300 million over six years…
>
> "'We are putting the fiber into these urban areas, and then we're adding our 5G nodes on it…I think in a conference like this a couple of years ago, I basically said, our 5G Ultra Wideband networks are really going to be a fiber network with antennas hanging off of it. And that still holds true. And, so we continue to deploy the fiber."
>
> "'So, we're meeting the small cell with the fiber build and doing really well there…The vast majority of our 5G sites are on the One Fiber asset right now…It's full steam ahead with the One Fiber',"

Verizon Admits that the 'Vast Majority' of All the 5G Sites have "Our Own Fiber".

> "When it comes to the fiber question, yes, we continue to roll out fiber. We're probably in the year three or four right now. We -- I would say, we -- **the majority or vast majority of all the 5G sites they have our own fiber. We are migrating our 4G sites where it's a good return on investment to our own fiber.** And over time, we will also open up opportunities for resell to our -- to enterprise customers and wholesale. So,

> I think that we are seeing that benefit already on the 5G build, because we are using our own fiber. To get the full impact, we also have a couple of years left in order to have it in all the areas. But we are coming far away on a fiber build and we will continue to do it where it makes sense from a return on investment. So, we feel really good about that and that's part of our Verizon Intelligent Edge Network."

TO PARAPHRASE:

- In areas where we already put in fiber optics, "our own fiber" (like Boston), we will use the fiber optic wires for 5G small cell antennas.
- The focus is on only 5G as there is no mention of the FiOS FTTP build outs in any state mentioned, much less that the company would be upgrading the state copper-based utilities.

BUT IT GETS WORSE.

From the 4th quarter, Verizon investor briefing, Verizon doesn't even mention that these 'wireline" networks and wires are part of the state telecommunications public utilities,

> "Our wireline services are provided in nine states in the Mid-Atlantic and Northeastern U.S., as well as Washington D.C., over our 100% fiber-optic network by our Verizon Fios product portfolio and over a traditional copper-based network to customers who are not served by Fios. Our Consumer segment's wireless and wireline products and services are available to our retail customers, as well as resellers that purchase wireless network access from us on a wholesale basis."

Verizon's Upgrades of the State Utilities Were Stolen by the Wireless Subsidiary.

In 2015 we covered that Verizon's primary East Coast state telecommunications utilities and the failure to properly maintain and upgrade their franchised telecom territories.

We also created a separate report to supply 15 basic, sourced quotes from Verizon's senior staff as well as government documents.

- The Wireline-Wireless Bait-&-Switch Overcharged America and Caused the Digital Divide.

THE ESSENCE OF THE QUOTES

- **Summary: Verizon took billions per state that were supposed to be used to upgrade the state telecom utilities, replacing the existing copper wires with fiber to the home and instead, pulled a bait-and-switch and diverted the budgets to wireless. It also manipulated the accounting so that the majority**

of all expenses would end up being charged to the wireline utility customers while the other lines of business got a free ride – not because it was a better solution for the public but because Verizon could increase profits.

- The Fiber to the Home (Fiber to the Premises, "FTTP") used for FiOS is a "Title II", common carrier service and part of the state utility, as told by Verizon's FiOS cable franchises. Title II allowed Verizon to add the fiber to the home as Local Service costs, which, in turn, were charged to local phone customers.
- According to Lowell McAdam in 2016, using the fiber optic wires for FiOS for wireless helps to eliminate staff, cuts expenses to do fiber to the home installs, and has the state wireline utility fund it.
- 5G nationwide deployment construction expenditures will remain being paid by the wireline networks.
- "One Fiber" plan is now a euphemism to put expenses into the wireline budgets.

But, there is much more damaging financial information from Verizon New York, one of the state-based telecommunications public utilities as compared to Verizon's One Fiber fiction.

Follow the Utility Construction Budget Cross-Subsidy Scandal

Annual Report of VERIZON NEW YORK INC. For the period ending DECEMBER 31, 2019

Verizon New York Networks: In Service and Under Construction

Line No.	Item (a)	Total (b)	Nonregulated (c)	Local Service (f)	Backhaul Special Access (g)
1	Telephone Network in Service	$31,116,015,928	$1,034,489,543	$19,222,234,323	$10,859,292,062
2	Network under Construction	$ 979,997,074	$ 105,595,665	$ 720,129,733	$154,271,676
	Percentage by Line of Business				
	Telephone Network in Service		3.3%	61.8%	34.9%
	Network under Construction		10.8%	73.5%	15.7%

IRREGULATORS

This financial detail is an excerpt, taken directly from Verizon New York's 2019 Annual Report, published June 2020. We just renamed some of the categories and removed some of the columns that were not germane to the discussion.

It shows that over the last 2 decades, through the manipulation of the accounting over the last 2 decades, the expenses ended up being charged mostly to local service customers, while the other lines of business are getting a free (massive discounted) ride.

Verizon NY's networks are both copper and fiber optic wires covering most of New York State, and it is a subsidiary of Verizon Communications, Inc. the parent holding company.

There are 3 major areas lines of business:

- "**Local Service",** which are the revenue and expenses for the copper based "intrastate" basic voice phone service,
- **"Backhaul"** also called "Business Data Services" (BDS) or "Special Access" lines, which are the wireless to the cell sites and data services for business, and
- **"Nonregulated"** which would include FiOS video, VoIP and other services that were previously or never regulated.

Each of Verizon's different lines of business is supposed to pay for use of the networks and the use of the public rights of way – just like any competitor would have to do.

Over the last 2 decades, the 'local service' networks 'in service' show a value of $19 billion dollars – i.e., the value of wires and the equipment in the network, (not counting tax write offs). But, nonregulated service, is only $1 billion, or 3.3% and 'backhaul' is only $11 billion – almost ½ of what the Local phone networks were charged.

But, it also shows that in 2019, Local Service was charged 73.5% of almost $1 billion dollars; FiOS was only $106 million, representing only 11%.

Why are the copper-based 'intrastate' networks being overcharged $720 million when it spends around $100-125 million, at best, on the maintaining the copper?

This is just scratching the surface of a massive financial shell game that has been going on for 2 decades.

SECRET FLOWS OF MONEY

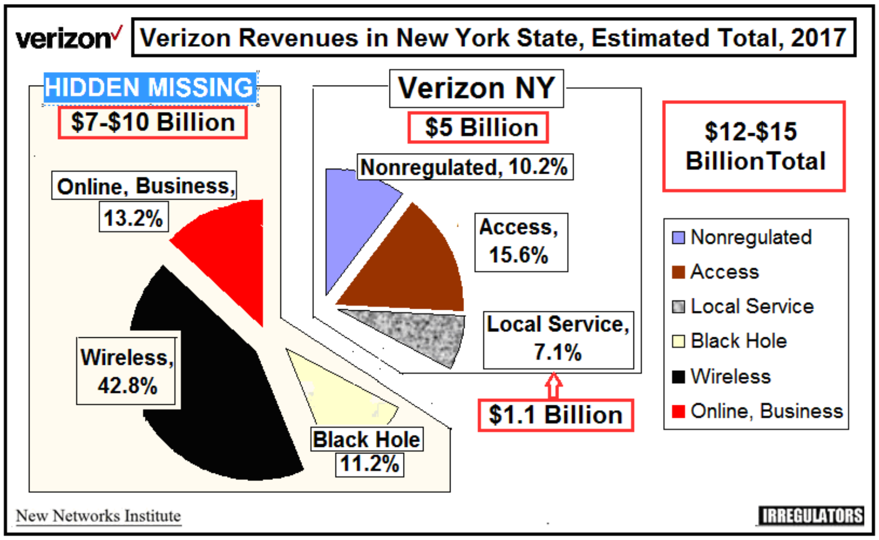
We created an analysis of the Verizon New York 2019 Annual Report and the flows of money between and among the Verizon Subsidiaries.

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

But here is the part that is not understood. Verizon's primary territories are the East Coast and there is a state-based telecommunications utility in each state of their service area. In New York, Verizon New York had revenues of about $5 billion annually, with local service being $1 billion in revenues.

But, we estimate that Verizon NY has an additional $7-$10 billion in annual revenues from the other lines of business, like wireless or FiOS.

Unfortunately, what has happened is that all of these other revenue areas DID NOT PAY MARKET PRICES to use the networks and in fact created artificial losses; Verizon NY has been averaging a loss of $2 billion a year for over a decade.



5G Wireless is a Bait and Switch – and Needs Investigation.

This One Fiber scandal has been developing over the last decade and uses an imaginary wireless technology, 5G, with claims it can replace a wired fiber optic connection to the home. But, it requires a fiber optic wire to a small cell every few blocks.

This has been a ruse to remove all remaining regulations and obligations on the existing wired state utilities to become private property for private use, while illegally confiscating utility-customer-funded fiber optic networks for the other lines of business.

This plan has also been to make the entire US wired utility infrastructure appear to be non-existent, while the companies have been able to let the networks deteriorate, especially in rural and low-income areas.

And because they have been able to totally snow everyone into thinking that the utilities no longer exist, they have the public convinced that government subsidies are needed to fix the Digital Divide, when what should be happening is to halt the cross-subsidies and separate the holding companies' control over the wired networks – including wireless.

The One Fiber Scam and the Failure to Disclose Basic Facts

- Should Verizon have to disclose all of these material facts in their investor and financial documents?

TO SUM UP:

- There is no mention by Verizon that there are still state telecommunications public utilities.

- Verizon’s previous CEO Lowell McAdam never mentioned that in NY, Verizon received rate increases to fund the “massive deployment of fiber optics” in 2006, 2008 and 2009. Yet, by 2012, Verizon was shifting these budgets, paid by these rate increases, to wireless.
- In 2020, there is no mention of fiber to the premises (FTTP) being deployed or the number of households that will get the service.
- There is not mention that the FTTP wires are being put in as Title II, common carrier, intrastate networks that are being funded and are part of these state telecom utilities.
- In the Verizon New York 2019 Annual Report there are no payments from Verizon Wireless to Verizon New York for a reimbursement of the construction budgets that are part of the state telecom utility.
- The construction budgets are directly attached to the Intrastate construction expenses – every state and federal report never makes a distinction that it is subsidizing the ‘interstate’ and information services, with a regulated intrastate construction expense.
- Using a host of other documents, it appears that Verizon Wireless has been confiscating the wireline construction that should be building fiber to the home over the last decade.

THE FINAL PUNCHLINE: Every state has a primary telecommunications utility at various levels of being dismantled, deregulated, and with no serious deployment of fiber optics to the home, in every AT&T, Verizon and Centurylink controlled state.

- No state has audited the utility financial books that we know of for at least 15 years.
- The overwhelming majority of experts, pundits, reporters, politicians, legislators, much less those in charge of the FCC, FTC or DOJ or AG offices has ever examined the financial state utility books or even knows that the state telecommunications utilities are all of the wires in the state—fiber and copper.
- There have been no investigations of the wireline-wireless cross-subsidies in any state utility commission or legislature.

And then, one day, we wake up to a pandemic that forces everyone to remain in their homes. Suddenly, we now have Digital Divide and an exposed nerve ---failure of AT&T et al to provide the fiber optic broadband we paid for – in multiple ways.

The ‘One Fiber’ plan is a con to pull off a ‘wireline-wireless bait and switch. With the call for government subsidies to solve the Digital Divide, the real questions should be:

How much was improperly, if not illegally, used to subsidize the wireless network build outs over the last decade—instead of upgrading the wireline fiber networks so that AT&T et al. would be able to compete with the cable companies?

How much was used to buy media, advertising and entertainment properties—which they then ran into the ground through a genetic “Bell Company” flaw that has been going on for 3 decades?

And how has the manipulation of the accounting cause $50-$60 billion in overcharging annually?

Conclusion: this is about Market Power, Regulatory Capture and Monopoly.

Over a 40 year period, the companies were able to rewrite the history of broadband that got us to the point, with the help of a captured FCC and other state regulators and politicians, that have been slicing, dicing, strip-mining and deregulating our customer protections and the right for competition and lower prices. Unfortunately, this has all been framed by exploiting a clueless public.

Break up Big Telecom & Big Cable.