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## Request for an Investigation of Wisconsin's Broadband Deployment and Customer Funding.

### I. Summary of Issues:

Based on the investigation by the Capitol times article "Smoke and Mirrors", Teletruth Wisconsin requests that the state assembly start an immediate investigation into previous fiber optic and broadband upgrades in the state, as well how customers paid for fiber optic upgrades we never received.

- 1) Ameritech, under the federal video-dialtone (advanced cable) filings, made statements that it would be rewiring its entire territory, including Wisconsin, with fiber to the home services. According to Ameritech, the company would start with 146,000 homes in Milwaukee Wisconsin, with services capable of 390 channels. And have 6 million homes by 2000.
- 2) At the same time, Ameritech Wisconsin created the "Information Superhighway" commitments to spend \$700 million dollars on schools, libraries, hospitals, etc.
- 3) Ameritech received major 'deregulation' changes in the state law that no longer examined profits, creating major excess profits, as well as tax perks – read higher phone rates. This excess profit was to be used for network upgrades.
- 4) Ameritech was part of Americast which included SBC, SNET, Disney, BellSouth and Ameritech. Tele-TV, the other group, included Pacific Bell, NYNEX and Bell Atlantic. Thus, what happened in Wisconsin also happened throughout the Ameritech region.
- 5) During the merger of SBC-Ameritech, SBC also made commitments to spend \$6 billion and expand broadband throughout the territories, called Project Pronto.

### Outcomes:

- 6) Wisconsin Bell never received any cable services, None of the 146,000 lines were ever deployed.
- 7) *N*
- 8) The "\$700 Million" expenditures was a ruse. The company simply restated what it was already going to spend on network upgrades.
- 9) Wisconsin Bell pulled a fast one, redefining the words "Broadband to the facility" to mean somewhere in the network, and thus unusable to the intended groups.
- 10) Wisconsin Bell received massive financial excess profits and the changes to state law were never repealed. Thus Wisconsin Bell customers paid billions in higher phone rates and tax perks for networks that were never deployed.
- 11) The video dialtone services 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.

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- 12) “Project Pronto” a six billion dollar upgrade of their entire region, was never completed.
- 13) There are no plans to rewire most of the state, yet money is still being collected under previous changes to state law.
- 14) SBC-Wisconsin (AT&T) has prospered. Without audits it is impossible to find out how much money was collected in the name of broadband, but all financial indicators for Ameritech shows that From 1988 through 1992, Ameritech’s average was 15.6% “return on equity”, the standard measurement of business returns, the “dividend” paid to its shareholders was \$1.16, and the “net income” was about \$2.2 billion. By 1993, the numbers start climbing and by 1998 the dividend increased 187% to \$3.27, the return on equity was now 36.2%, an increase of 129%, and the net income was \$4.2 billion, an increase of 97%.
- 15) AT&T is using current local rates to fund new construction – customers, including seniors are funding privately owned ‘cable networks’, without any benefit.
- 16) AT&T’s U-Verse is inferior to what was promised in 1992, as well as to what is currently available throughout Asia and Europe.

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 Wisconsin.

Before any new bill goes into place, Teletruth believes that a full accounting of what happens needs to be investigated. This could lead to Wisconsin-AT&T merger to be dissolved and monies returned to the “NEW Wisconsin” to rewire the state as previously committed, or given to the municipalities.

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 did the utility become private property for personal use?
- How much money did Wisconsin’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 free rights of way?

## II. Background: Wisconsin Ameritech Fiber Optic Broadband Failure:

In 1993, Ameritech, the phone company for Ohio, Michigan, Illinois, Indiana and Wisconsin, announced that it would be upgrading their networks in most of its regions, replacing the old copper wiring with fiber optics and coaxial cables. By 2000, over 6 million homes should have been enjoying these services --- the company would have spent over \$29 billion in 15 years.

“Ameritech is launching a digital video network upgrade that by the end of the decade will connect 6 million customers in its region to interactive information and entertainment services, as well as traditional cable TV service, from their homes, schools, offices, libraries and hospitals. The video network upgrade will increase Ameritech capital spending by \$4.4 billion, to a total of approximately \$29 billion in 15 years.<sup>i</sup>

And the hype was everywhere to offer advanced cable TV. According to the Chicago Tribunes, January 1994: “Ameritech’s Fiber Plan; Data Links For Homes, Schools, Businesses”

“Ameritech will announce a plan Thursday to spend close to \$5 billion installing optical fiber to bring the information superhighway to Midwest homes, schools and businesses.... The construction will center on six metropolitan areas in the five states in which Ameritech provides local telephone service-Illinois, Wisconsin, Indiana, Michigan and Ohio-and will extend over many years....The announcement will present Ameritech’s vision of its role in the next century’s information industry, an answer to other regional phone companies, such as Bell Atlantic and US West, that are tying their futures to those of cable-TV firms.”

This was high-quality broadband fiber optic-based services, capable of delivering high definition television in both directions. (over 45mbps).

“Ameritech will employ mix of broadband switches, video servers, and fiber optic and coaxial cable to deliver switched video and video dialtone services from multiple providers, including Ameritech.<sup>ii</sup>

Ameritech in its 5 states would roll out 390 channels in “economically diverse sections of its service area”.

“Ameritech maintains that approval of the applications would permit its video dialtone network to reach 1.3 million homes, businesses and institutions in geographically and *economically diverse sections of its service area*. The proposed hybrid network would provide 310 multicast (240 digital and 70 analog) channels and 80 switched digital channels.”<sup>112</sup>

according to FCC filed documents in 1994, Wisconsin Bell was supposed to rewire part of Milwaukee, WI, with 146,000 video dialtone customers to start.

Wisconsin Bell claimed it would spend \$700 million on these new services. And it would spur jobs and economic growth.

“Ameritech also has committed to invest a minimum of \$700 million in the state's telecommunications infrastructure over the next five years. The investment will see the installation of advanced fiber optics and call-routing systems throughout Ameritech's Wisconsin operating territory, which will help spur economic development and create jobs in many sectors, he said. Among other things, the investment will bring fiber optic lines to the doorsteps of some 460 Wisconsin middle and high schools, colleges, universities, vocational schools, hospitals and major public libraries by the end of 1998.”<sup>iii</sup>

## **Project Pronto:**

SBC stated in every merger that the mergers were good for broadband, competition and the economy, by bringing upgrades, new services, etc.. 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”.<sup>151</sup>

“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.*”

On May 9, 2001, SBC stated that the next phase would be “direct” fiber optics to customer’s homes and offices

“Direct fiber is the broadband holy grail — and bringing fiber directly to smaller businesses has always been part of the Project Pronto plan’, said Ross Ireland, senior executive vice president of services. ‘But we didn't envision when we announced Pronto that viable technology would be available to enable us to begin our initial direct-fiber deployments to smaller businesses a mere 18 months later and to residential customers shortly thereafter.”

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.

To pay for these deployments, changes in state law were made to remove the ‘profit’ caps Wisconsin Bell<sup>iv</sup>.

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“The PSC will no longer regulate the company's overall earnings, a change that encourages the introduction of new telecommunications services that will become available as the Information Superhighway is expanded in Wisconsin.”

## Outcomes:

There is no fiber optic deployments in Wisconsin, The ‘broadband to the facility’ was nothing more than a ruse. The spending of \$700 million was a ruse. And post merger with SBC, the state is still waiting to be upgraded.

## Construction Budget:

- \* Wisconsin Bell spent only \$127 million above normal, not \$700 million and some of these expenses related to a) Y2K expenses, upgrades to offer ‘Calling Features’ like Call Waiting and Caller ID and c) entry into long distance,
- \* Wisconsin Bell over-deducted by \$448 million in extra tax deductions.

### Wisconsin Bell Capital Expenditures in the millions

	1991	1992	1993	1994	1995	1996	1997	1998	total spent
Construction	\$164	\$174	\$145	\$145	\$153	\$186	\$207	\$239	\$1,251
avg. 1991-1993	\$161								
Total Construction above average:				(\$15.60)	(\$7.70)	\$25.70	\$46.60	\$78	\$127
Depreciation	\$186	\$186	\$186	\$185	\$171	\$178	\$174	\$185	\$1,699
				one-time deduction		\$431.50			
							Over-deducted:		\$448

## Employees:

In 1992, Wisconsin Bell had 5,659 employees, by 2004 it had 2951 --- A 48% decrease in staffing -- So much for the Wisconsin infrastructure plan to increase jobs in the states.

## Major Increases In Profits:

In our analysis of Ameritech -- (This used Ameritech annual reports and Fact Books for the compilation)

From 1988 through 1992, Ameritech’s average was 15.6% “return on equity”, the standard measurement of business returns, the “dividend” paid to its shareholders was \$1.16, and the “net income” was about \$2.2 billion. By 1993, the numbers start climbing and by 1998 the dividend increased 187% to \$3.27, the return on equity was now 36.2%, an increase of 129%, and the net income was \$4.2 billion, an increase of 97%.

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## 7) Post Merger, Wisconsin-SBC's Pattern is Identical throughout their Territories.

SBC-Wisconsin 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, they took the money and ran. We estimated in \$200 Billion Broadband Scandal, that it has cost approximately \$2000 per household. And the amount in Wisconsin should be approximately the same.

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

AT&T (SBC) currently has no customers in Wisconsin, instead of millions promised to be rewired. 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. In the current model, AT&T will only be offering only 6 mbps at best at much higher prices than these other countries, and may not rewire most of the state, pick and choosing which communities will be lucky enough to get even that.

IV: CONCLUSION: Dissolve the SBC-Wisconsin merger; require billions in refunds, used to rewire the entire state as committed to in 1996.

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We are suggesting that NEW-Wisconsin is created that replaces AT&T and returns to Wisconsin 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.

## **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.

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.

- 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.

- 5) Audit Previous Broadband Commitments and State Regulatory Perks

In Wisconsin SBC-Ameritech 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.

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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) User 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 may reveal a drop in competition on the PSTN. If this is the case, then the state should question whether the state should terminate Wisconsin-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"

If U-Verse is a deregulated product, then why should the company receive financial perks that were given to the utility? For example, the 411 networks are a very valuable product that was grandfathered in to the company because the state had free 411 calls. 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?

## 5) 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 **126,000** U-Verse customers in 25 states and the company claimed it would have 18,000,000 by 2007, and that did not including BellSouth. It has few if any customers in Wisconsin

- a) Will these networks ever get deployed and are the companies rolling out services that are going to be 'ubiquitous', open to competitors?
- b) How do these services compare to the rest of the worlds' broadband service offering in terms of price and speed?
- c) What perks is U-Verse cable services receiving? Are they using utility products, from the utility poles, the tax abatements, or the use of advertising, staff, and construction budgets for local service?



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- d) When the cost of service and the user price analysis is added, should the state consider its own broadband and phone needs?

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- i Ameritech 1993 Fact Book  
ii Ameritech 1994 Fact Book  
iii Ameritech press release, September 2, 1994  
iv Ibid.