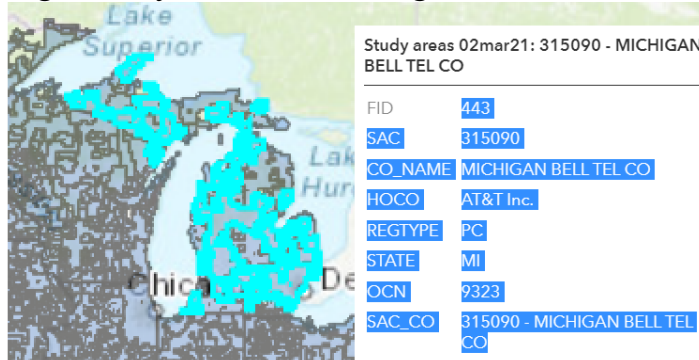


## AT&T Michigan (Michigan Bell) Fiber Optic Broadband Failure:

Current coverage 'study' areas of Michigan Bell -- AT&T (Source FCC)



***Investigate AT&T & Michigan Bell-- And Go After the Billions Collected before Any New Government Subsidies. .***

***Michigan Bell Coverage is over 85% of the State's population and is the primary telecommunications public state utility that let the entire state's infrastructure deteriorate but got paid for upgrades over and over again; It unlawfully took the money to cross subsidize the buildout of its wireless infrastructure and even sold off the fiber build outs for cable systems that were underway. The copper networks should have been fiber -- throughout the state. They created the Digital Divide.***

### **Ameritech Fact Book 1993**

“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>1</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 services and interactive information and communication services 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>2</sup>

Michigan Bell was part of this plan and according to the 1993 Annual Report covered “About 82% of the population”

There were two plans for a fiber optic future-- Ameritech filed with the FCC to start upgrading homes with fiber optics that was known as ‘video dialtone’ -- and as this chart, taken from the FCC reports, shows, it was all smoke and mirrors. After the company applied to do these upgrades, the state laws were changed in Ameritech’s favor and the company immediately dropped these plans.

<b>Application</b>	<b>Company</b>	<b>Locations</b>	<b>Households</b>	<b>Status</b>	<b>Closed</b>
1/31/94	Ameritech	Detroit, MI	232,000	abandoned	6/27/95
1/31/94	Ameritech	Columbus/Cleveland	262,000	abandoned	6/27/95
1/31/94	Ameritech	Indianapolis, IN	115,000	abandoned	6/27/95
1/31/94	Ameritech	Chicago, IL	501,000	abandoned	6/27/95
1/31/94	Ameritech	Milwaukee, WI	146,000	abandoned	6/27/95

According to the 1994 Ameritech Fact Book, the company claimed it would be spending \$2 billion dollars in Michigan on this new fiber optic future. And it would spur jobs and economic growth.

“Expanding on the aggressive deployment plan it began in 1992, in January 1994, Ameritech unveiled a multi-billion dollar plan for a digital network to deliver video services. Ameritech is launching a digital video network upgrade that by the end of the decade will enable six million customers in its region to access interactive information and entertainment services, as well as traditional cable TV services, from their homes, schools, offices, libraries and hospitals. The Company, for its part in the network upgrade has made an initial filing with the FCC seeking approval of the program. The filing reflects capital expenditures of approximately \$55 million over the next three years”

“The Company may also, depending on market demand, make additional capital expenditures under the digital video network upgrade program. In addition to the video network upgrade expenditures, other capital expenditures are expected to

be about \$348 million in 1994. These are part of a \$2 billion, four-year program that Ameritech began in 1992 to incur construction-related costs to expand and improve Michigan's telecommunications infrastructure with technologies such as fiber optics and digital switching. Through December 31, 1993, Ameritech has spent over \$1 billion in Michigan toward that program.”

According to Ameritech's 1993 Investor Handbook, by 1993, both Michigan and Illinois had deregulation plans that freed Ameritech from earnings' limits, and required a commitment of construction.

#### **EXHIBIT 74 Alternate Regulation in Michigan, Ameritech, 1993**

- No limit on earnings or depreciation
- Basic service expedited rate adjustments subject to inflation and productivity
- Toll rates capped at 12/31/91 level
- Prices of other competitive services not regulated
- \$2 billion investment commitment 1993–1995

*Source: Ameritech's 1993 Investor Handbook*

#### **Outcome, major increases to profits, tax perks:**

In 1994, Ameritech's Investment Alert stated that the company no longer had any regulatory controls by the states in terms of earnings.<sup>3</sup>

"Ameritech has led the industry in achieving regulation that removes regulatory earnings caps.... All of Ameritech's intrastate operations are off of return-on-asset regulation resulting in freedom from regulatory caps on earnings and no earnings sharing."

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%.<sup>4</sup>

What happened? Ameritech took the money and rolled out plain vanilla cable services in some areas, then, after the SBC's purchase of Ameritech, SBC sold off the properties to WOW. These extra fees were then used to fund the holding company's long distance and DSL service rollout (over the old copper wiring).

#### **Alternate Regulation: The Michigan Experience**

In 1992, "The Michigan Telecommunications Act" was established, which was intended to foster "new developments in Michigan's infrastructure". A year later, the Michigan Public Service Commission.

And the conclusion was that Michigan Bell, an Ameritech affiliate company, made even more money, the promised new services never arrived, and the phone company was now able to hide information because the new law eliminated any ability to review the phone companies' operations and financial reports. [Who is being quoted below?]

- "The deregulation of non-basic service coupled with the pricing freedom gained for toll and access service has permitted Michigan Bell to prosper financially.
- The act has not increased the number of new services. New services under the Act could have been introduced under previous statutes and the act has eliminated any regulatory review process to prior introduction."

And the Public Service Commission wasn't receiving enough information to properly monitor the Michigan Bell.

"Unfortunately, due to a lack of data from some of the state's major telecommunications providers, the Commission has been hampered in its efforts to gauge how extensively modern telecommunications services are available, or to identify where growth has occurred and where progress is

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"Unfortunately, due to a lack of data from some of the state's major telecommunications providers, the Commission has been hampered in its efforts to gauge how extensively modern telecommunications services are available, or to identify where growth has occurred and where progress is stagnant.") (These paragraphs are a repeat of the paragraphs above)

In compiling its report, the PSC found three primary problems:

- "The telephone companies did not supply adequate information to be able to assess the new act.
- "Telephone companies were hiding behind the Freedom of Information Act and were not forthcoming with even basic information about the installed base of products, their earnings, or their profits

- “The telephone company unregulated and deregulated services were not being properly monitored but were now making more money and hampering competitors.”

In order to complete its obligation, the Michigan PSC sent out a survey. The PSC stated:

"Seven local exchange carriers exempted themselves from submitting data for this report. ...Among the seven are the state's four largest telephone companies, representing 4.9 million, or almost 98% of Michigan's telephone lines."

Even worse, the data received was incredibly incomplete. For example:

"Of the 141 items of information requested [in the survey] Michigan Bell claimed exemption from providing answers to 81. Michigan Bell also asked for Freedom of Information Act (FOIA) protection on 26 other items, thus limiting their usefulness for the report."

### **Assessment of the Michigan Alternate Regulation Act**

Besides the comments pertaining to the incomplete data supplied by telephone companies, the Michigan PSC made these observations about the impact of the alternate regulation act. As the partial list demonstrates, the telephone companies profited, while the telephone subscriber received no new value, only increased costs.

- • "The act appears to have had minimal impact on the deployment of educational systems [which was one of the primary reasons for the act in the first place].
- "Construction programs for Michigan Bell have been reduced since the enactment of the act.
- "The workforce of Michigan Bell has been appreciably reduced.
- "Monopolistic power is being exerted in nonregulated, noncompetitive markets more than permitted under prior statutes.
- "Parties want entry and competition in markets they wish to enter. When in a dominant market position, the same parties attempt to erect barriers and stifle competition.
- "The formal complaint process is too expensive for small-business and individual customers, costing \$10,000–\$20,000 and these companies and individuals also have limited expertise and financial resources. This diminishes the Commission's ability to rely on the complaint process to identify violations of the act. Therefore, the system of checks and balances inherent in the act fails.
- "The deaf-relay system is being provided free from competition with other vendors and providers
- "Requests for Freedom of Information disclosure exemptions have been excessive. Many requests have been without reasonable justification.

In short, the Michigan PSC found that:

- "Important data was no longer available, even for monopoly subscribers.

- "Prices increased, construction decreased, employees were dropped, and competitors have been road-blocked.

### **The Ameritech Audit**

Outcome: Though the audit found that subscribers had been overcharged by an estimated \$110,000,000 dollars, the FCC only made Ameritech pay \$675,000 dollars [For what?].

However, the Commission found serious improprieties, clearly demonstrating that Ameritech was able to charge ratepayers for expenses that the shareholders should be paying for. The list includes:

- "Ameritech charged ratepayers for developing new products, from non-regulated data services and personal communications, to video conferencing development".
- "The regulated company leased excess office space, at a cost of \$30 million dollars a year, to be used by non-regulated affiliate companies".
- "Ameritech charged ratepayers for non-regulated expenses".

Worse, according to an article in Washington Telecom Week, the FCC did not endorse the audit, while Ameritech merely stated they did nothing wrong.

However, the report states:

"Ameritech Services established a classification system that is clearly biased against assigning costs to the non-regulated activity."

One example from the study found that because of staff reductions, savings of \$236 million should have accrued from 1990 to 1992. However, the expenses grew at a rate much faster than inflation, with no savings, due to questionable staff shifting. The exhibit below highlights the estimates of questionable charges outlined in the report.

### **The SBC-Ameritech merger closed/sold off the fiber optic deployments that had actually started as cable networks.**

SBC's 2000 Annual Report — "Cable Television Services"

"We offer enhanced cable television services in the Chicago, Cleveland, Columbus and Detroit metropolitan areas through our subsidiary Ameritech New Media, Inc. (ANM). As of December 31, 2000, ANM provided cable services to approximately 304,000 customers in approximately 100 Midwestern communities. In 2000, ANM scaled back its construction of additional cable networks and expansion plans for new cable franchises and we are currently in negotiations to sell ANM."

"According to an industry source, WOW agreed to pay about \$1000 per subscriber, although neither company would confirm the figure.... When the deal closes in October or November, WOW will grow from 200 Denver-area subscribers to 310,000 users in Chicago, Detroit, Denver, Cleveland and Columbus, Ohio."

**Illinois Consumers and Business Customers Will Benefit from SBC-Ameritech Merger, Chicago, Illinois — March 11, 1999.**

"Since we installed our first Americast® customer in May 1996, we've won more than 200,000 cable TV subscribers, who have made Ameritech the largest competitive cable company in the nation. We've improved the quality of life for midwestern cable viewers, and we look forward to extending those benefits to the people of Chicago Heights.

"Ameritech has built systems in and now competes for cable television viewers in 84 cities and towns in the Detroit, Chicago, Cleveland and Columbus, Ohio, areas."

As soon as Ameritech was bought by SBC, all bets were off, and these new fiber optic-based cable companies were essentially sold off. See our chapter on the mergers for more details.

**Pause. Let us add this part up.**

**\$7 Billion in "new construction never happened".**

Michigan Bell was supposed to spend \$2 billion on upgrades of the copper networks to fiber optics for video services; Illinois Bell was to spend \$3 billion; Ohio Bell, over a \$1 billion and Wisconsin Bell \$700 million, all by the end of 2000. Indiana Bell was to spend about \$150 million -

Let's call it \$7 billion dollars in new construction budgets.

**Six Million Households Were Never Upgraded**

Second, as discussed, besides the state telecom utilities failure to have 6 million households covered by 2000, with over 1.3 million 'video dialtone' homes including Detroit.

**300,000 Total Subscribers Were Sold Off To Another Cable Company -- In 5 States.**

Then, Ameritech merges with SBC, another Baby Bell company, that takes a hatchet to all of the fiber optic plans and sells them off to WOW -- but the reports show only 300,000 total subscribers by 2000 in 5 states.

**Welcome to Digital Divide: Part of the Fiber Optic Broadband Scandal.**

The company was able to manipulate all aspects of this [Of what?]and we can find no evidence that Ameritech lowered rates in Michigan or its other states, gave refunds to customers, or was held accountable for its failures by the state PSCs.

**More history:**

To read more about the Ameritech story see:

<http://www.newnetworks.com/broadbandscandals.htm>

To read more about the failure of the SBC-Ameritech merger:

<http://www.teletruth.org/docs/SBCMergerharms.pdf>

Harvard's Nieman fiber story: "Where's that broadband fiber-optic access?", March 14, 2006

[http://www.niemanwatchdog.org/index.cfm?fuseaction=Ask\\_this.view&askthisid=186](http://www.niemanwatchdog.org/index.cfm?fuseaction=Ask_this.view&askthisid=186)

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<sup>1</sup> Ameritech 1993 Fact Book

<sup>2</sup> Ameritech 1994 Fact Book

<sup>3</sup> Ameritech Investor Alert 1994

<sup>4</sup> This exhibit used Ameritech annual reports and Fact Books for the compilation.