Chapter 17 The Verizon-Bell Atlantic-NYNEX-GTE Mergers Were the Death of State Fiber Optic Deployments: The "Con Job".

As with our previous discussion of SBC, when Verizon became a mega-Bell through mergers, it left a path of fiber optic destruction, completely disregarding the commitments made on the state level.

We believe that the conglomerate Verizon, formed from a merger of Bell Atlantic, NYNEX and GTE should be investigated and broken up. This enlarged mega-Bell harmed the fiber optic based broadband deployments that were promised in EVERY one of its states, from Massachusetts-NYNEX and New Jersey-Bell Atlantic to the GTE territories.

Ironically, Verizon, like SBC, controls 13 primary states from the NYNEX-Bell Atlantic merger, as well as sections of an additional 28 states from GTE. We estimate that approximately 100 million people are impacted by any Verizon decision. If Verizon decides not do something, it impacts over 1/3 of America's citizens. With both SBC and Verizon, they have successfully impeded the majority of fiber optic deployments across America.

If SBC did a fiber optic hatchet job when the mergers occurred, Verizon did more of a con job — it never fulfilled its obligations under state laws nor rolled out virtually any services and cut GTE's deployments.

Exhibit 29

The Verizon "Con Job" Summary of Fiber Optic Deployments, by 2000

	Money (billions)	Households	Merger	Shutdown
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	1998
	$15.6	17,750,000		

This chart has a number of caveats.[198] As far as households, NYNEX promised 1.5 - 2 million households by 1996, Bell Atlantic stated it would have 8.75 million households by 2000, while GTE claimed it would have 7 million homes.

We did not include other quotes, however, that would raise this number. NYNEX stated it would be deployed throughout its entire region by 2010, while New Jersey would be fully deployed by 2010 for its fiber optic dreamland; Pennsylvania by 2015.

Like SBC, these mergers were sold as a public benefit. Verizon stated in every case that the mergers were good for broadband, competition and the economy, bringing upgrades, new services, etc. According to the Bell Atlantic press release, "Bell Atlantic and GTE Merger Promotes Vigorous Competition in Communications", December 23, 1998, this merger would "ignite nationwide competition" between the Bell companies.[199]

> "Bell Atlantic (NYSE:BEL) and GTE Corp. (NYSE:GTE) today will file reply comments with the Federal Communications Commission (FCC) on their proposed merger, saying the transaction would ***ignite nationwide competition*** in local, long distance, wireless, Internet and data communications services.
>
> "Local Service Competition — The new company created by the merger of Bell Atlantic and GTE will have a far greater ability to enter and compete quickly and effectively in key markets outside Bell Atlantic and GTE's current service areas. Local exchange customers in GTE's and Bell Atlantic's current service territories will also benefit from the combined company's ability to compete with others on price, service quality and range of product offerings."

Verizon promised not only wireline phone competition, but also spending $500 million in 36 months.

> "Within 36 months from merger closing, Bell Atlantic/GTE will spend a minimum of $500 million to provide competitive local service, including traditional local telecommunications services and advanced services, outside of its service areas or will provide competitive local service to at least 250,000 out-of-region customer lines."

Who is Verizon?

This is how Verizon views itself as of September 2005:[200]

> "With more than $71 billion in annual revenues, Verizon Communications Inc. (NYSE:VZ) is one of the world's leading providers of communications services. Verizon has a diverse work force of more than 214,000 in four business units: Domestic Telecom provides customers based in 28 states with wireline and other telecommunications services, including broadband. Verizon Wireless owns and operates the nation's most reliable wireless network, serving 47.4 million voice and data customers across the United States. Information Services operates directory publishing businesses and provides electronic commerce services. International includes wireline and wireless operations and investments, primarily in the Americas and Europe."

Verizon is the merger of GTE and Bell Atlantic.[201]

> "Verizon was formerly known as Bell Atlantic Corporation, which was incorporated in 1983 under the laws of the State of Delaware. We began doing business as Verizon Communications on June 30, 2000, when Bell Atlantic Corporation merged with GTE Corporation."

However, prior to Bell Atlantic taking over NYNEX, these two original Bell companies joined in 1997.[202]

> "Bell Atlantic Corporation was incorporated in 1983 under the laws of the State of Delaware and completed a merger with NYNEX Corporation on August 14, 1997."

Here are the official companies in the BA-NYNEX merger.[203]

> "Bell Atlantic is a telecommunications company that operates in a region stretching from Maine to Virginia. Our principal operating subsidiaries are: New York Telephone Company, Bell Atlantic - New Jersey, Inc., Bell Atlantic - Pennsylvania, Inc., New England Telephone and Telegraph Company, Bell Atlantic - Maryland, Inc., Bell Atlantic - Virginia, Inc., Bell Atlantic - West

> Virginia, Inc., Bell Atlantic - Delaware, Inc., Bell Atlantic - Washington, D.C., Inc."

These are the original 13 states and territories, including District of Columbia.

Exhibit 30
The Original Bell Atlantic/NYNEX States

Bell Atlantic			
• *New Jersey Bell*	New Jersey		
• *Bell of Pennsylvania*	Pennsylvania		
• *Chesapeake and Potomac*	West Virginia	Delaware	Virginia
	Maryland	District of Columbia	
NYNEX			
• *New York Telephone*	New York		
• *New England Telephone*	Massachusetts	Rhode Island	Vermont
	New Hampshire	Maine	

The 1999 Annual Report claims that Verizon covered 63 million people and 22 million households.[204]

> "The Consumer unit markets communications services to residential customers, as well as operator services, within our territory, 22 million households and 63 million people."

The 1999 Annual Report showed 43 million access lines.[205]

Adding GTE

GTE was a company whose properties were not continuous, like the 13 states of Bell Atlantic, but were spread throughout the country, having locations everywhere from Hawaii to Florida, and Los Angeles to Kentucky. The following quote regarding the revenues for "Network Services" gives a flavor of the various locations.

GTE 1999 Annual Report [206]

> "Subsidiaries accounting for the largest portion of total Network Services revenues are GTE California, 24%; GTE North, 22%; GTE Southwest, 13%; and GTE Florida, 12%. The largest cities served are Los Angeles, Long Beach and Santa Monica, California; Tampa and St. Petersburg, Florida; Honolulu, Hawaii; Lexington, Kentucky; Fort Wayne, Indiana; Everett, Washington; and the metropolitan area of Dallas, Texas."

And before the merger, GTE covered 28 states with 26 million access lines.[207]

> "GTE's telephone operating subsidiaries in the United States served approximately 26 million access lines in 28 states as of December 31, 1999."

Exhibit 31
Verizon US Territories, 2004

Verizon California Inc.	Arizona	Nevada	
Verizon Florida Inc.			
Verizon Hawaii Inc.			
Verizon North Inc.	Illinois	Indiana	Michigan
	Pennsylvania	Ohio	Wisconsin
Verizon Northwest Inc.	California	Idaho	Oregon
	Washington		
Verizon Maryland Inc.			
Verizon Delaware Inc.			
Verizon Pennsylvania Inc.			
Verizon New England Inc.	New Hampshire	Massachusetts	Maine
	Rhode Island	Vermont	
Verizon New Jersey Inc.			
Verizon Virginia Inc.			
Verizon Washington, DC Inc.			
Verizon New York Inc.	Connecticut		
Verizon South Inc.	North Carolina	South Carolina	Virginia
Verizon West Virginia Inc.			
Verizon Southwest	Texas		

Total Population, Total Lines

Because of the spread-factor, it is hard to exactly pinpoint the actual number of customers impacted by a Verizon decision. We estimate that GTE impacted 38 million customers.[208] Therefore, we estimate that a Verizon decision would impact approximately 101 million people (38+63 million). Obviously, there is overlap with our accounting of SBC since we are using state data based on the census information to derive that number which would include overlap with various GTE properties in the same state.

Other Verizon Holdings

Verizon has a great deal of other properties it does business throughout the world. (We will discuss the losses from overseas investments elsewhere.) Some of the other Verizon holdings include 100% of Northern Mariana Island, 100% of the Dominican Republic and 52% interest in Puerto Rico, a phone company that receives some of the largest endowments from the Universal Service Fund. [209]

> "Puerto Rico: As of December 31, 2004, we owned a 52% interest in TELPRI, which owns Puerto Rico Telephone Company (PRTC), Puerto Rico's principal wireline company. Verizon Wireless Puerto Rico (VWPR), a division of PRTC, is Puerto Rico's second largest wireless company. At December 31, 2004, PRTC served 1.2 million access lines and VWPR provided wireless services to approximately 387,000 customers."

> "Northern Mariana Islands: We are the sole shareholder of Micronesian Telecommunications Corporation (MTC), a full-service telecommunications provider. At December 31, 2004, MTC served approximately 32,000 access lines and 23,000 wireless customers on the islands of Saipan, Tinian and Rota. In November 2001 an agreement was signed to sell MTC, which is pending due to regulatory approvals."

> "Dominican Republic: We own 100% of Verizon Dominicana, the principal telecommunications provider in the Dominican Republic. Verizon Dominicana

> provides local, wireless, national and international long distance and Internet access services throughout the Dominican Republic. At December 31, 2004, Verizon Dominicana served approximately 793,000 access lines and 1.3 million wireless customers."

This list is changing since Verizon decided to sell off Hawaii in 2004.[210]

> "During the second quarter of 2004, we entered into an agreement to sell our wireline-related businesses in Hawaii, which operates 707,000 switched access lines, for $1,650 million in cash, less debt. The closing of the transaction, expected in the first half of 2005."

The NYNEX, Bell Atlantic, GTE Video Dialtone Applications

According to the filed documents, Verizon collectively planned to deliver services to 4.7 million households within a few years of the filings. This was for fiber optic services, 45 Mbps in both directions, capable of 500+ channels, with all of the caveats we discussed in previous sections.

Exhibit 32
Summary of Video Dialtone Filings by Verizon, 1992-1994

NYNEX	466,000
Bell Atlantic	3,200,000
GTE	1,041,000
	4,707,000

This is the breakout by phone company of the various proposed deployments.

Exhibit 33
Video Dialtone Filings by Verizon, 1992-1995

Date	Telephone Company	Location	Homes	Proposal
10/21/92	Bell Atlantic-VA	Arlington, VA	2,000	technical
11/16/92	New Jersey Bell	Florham Park, NJ	11,700	permanent
12/15/92	New Jersey Bell	Dover Township, NJ	38,000	permanent
12/16/93	Bell Atlantic	MD & VA	300,000	permanent
06/16/94	Bell Atlantic	Wash. DC LATA	1,200,000	permanent
06/16/94	Bell Atlantic	Baltimore, MD; Northern NJ; DE; Philadelphia, PA; Pittsburgh, PA; and S.E. VA	2,000,000	permanent
10/30/92	NYNEX	New York, NY	2,500	technical
07/08/94	NYNEX	RI	63,000	permanent
07/08/94	NYNEX	MA	334,000	permanent
05/23/94	GTE - Contel of Va.	Manassas, VA	109,000	permanent
05/23/94	GTE Florida Inc.	Pinella and Pasco Co., FL	476,000	permanent
05/23/94	GTE California Inc.	Ventura Co., CA	122,000	permanent
05/23/94	GTE Hawaiian Tel.	Honolulu, HA	334,000	permanent

Bell Atlantic

Bell Atlantic 1993 Annual Report[211]

> "First, we announced our intention to lead the country in the deployment of the information highway.... ***We will spend $11 billion over the next five years*** to rapidly build full-service networks capable of providing these services within the Bell Atlantic Region."

We've created separate chapters on New Jersey and Pennsylvania, which were some of the earliest alternative regulation plans to go through. The New Jersey plan was presented with a $1 million report from Deloitte & Touche, exclaiming that the future had to be fiber optics. The report was so compelling to law makers that it was replicated in Pennsylvania, as well as various Ameritech states including Ohio, Illinois and Indiana.

And it was all about the fiber optic future. Here's just a sample of the article headlines for Pennsylvania and New Jersey:

- **PA Senate OKs Fiber Optics Bill**, Philadelphia Daily News, June 24, 1993,
- **PA Legislature Compromises On Fiber Optics Bill. The Measure Calls for the State to Be Wired by 2015**. Philadelphia Inquirer, June 25, 1993
- **N.J. Bell Rewiring Approved By State. About 56 Million Miles of Wire Will Be Replaced with Fiber Optic Cable,** Philadelphia Inquirer, December 23, 1992
- **Fiber Optic TV Coming to N.J.** Philadelphia Daily News, November 17, 1992
- **Bell Clears a Hurdle in Quest to Offer Video. A Judge Overturned Part of a Federal Law. Now Bell Atlantic Will Try Offering Video Services Regionwide.** Philadelphia Daily News, July 28, 1993
- **A Fiber Field of Dreams. The Switch in the Way Phone Signals Are Sent Promises Not Only Faster Transmission, but also Bright New Ideas for Using the Technology** Philadelphia Inquirer, June 2, 1993
- **Phone Bill Goes to House. the Pa. Measure Would Limit Rate Increases and Require a Fiber Optic Network By 2015**. Philadelphia Inquirer, May 24, 1993
- **N.J. Bell Will Alter Its Fiber optic Plans. A Subsidiary Will Run the Network. Newspapers Wanted a Guarantee that They Would have Access to It,** Philadelphia Inquirer, February 7, 1993
- **Working Together to Build a Highway for Information. A Fiber Optic Network Could Move 25 Trillion Bits of Information a Second. Today's Rate? 100 Million Bits.** Philadelphia Inquirer, January 18, 1993

But the truly significant difference between NYNEX and the Bell Atlantic state decisions is that the PA and NJ decisions have specific timeframes for deployment of services.

The next exhibit was taken directly from the New Jersey Bell Order [212] that outlined the speed of service and the year it was supposed to be available. This chart shows that the “Opportunity New Jersey” (ONJ) plan went from 1992 through 2010. “Digital Broadband Service”, at 45 Mbps, was to be available starting in 1996 and reach 100% by 2010. The other column, “BAU” (“Business As Usual”), was to show when these services would be available if the company didn’t get more money from the customers: the year 2030.

Exhibit 34

New Jersey Bell Advanced Network and Broadband Deployment Schedule, 1993

	BAU		ONJ	
	start	100%	start	100%
Advanced Intelligent Network (AIN)	1992	2001	1992	1998
Digital switching and signaling systems deployed to provide call routing and database access, which enables "follow me" type services, for example, that allows customers to program the public switched network to forward their calls automatically to different locations depending on the time of day.				
Narrowband Digital Service	1992	Post2001	1992	1998
Switching technologies attached to support data rates up to **144,000 bits per second** which will enable customers who use any combination of work stations, personal computers or fax machines and telephones.				
Wideband Digital Service	1994	Before2030	1994	2000
Switching capabilities matched with transmission capabilities supporting data rates up to **1,500,000 bits per second**, for example, that will allow students to remotely access multimedia information, including video, from home or school				
Broadband Digital Service	1996	2030	1996	2010
Broadband Digital Service— Switching capabilities matched with transmission capabilities supporting data rates up to **45,000,000 bits per second** (45 Mbps) and higher, which enables services, for example, that will allow residential and business customers to receive high definition video and to send and receive interactive (i.e., two way) video signals."				

Similarly, the Pennsylvania law explained that 20% would be rewired by 1998 in rural, urban and suburban rate centers, 50% would be completed by 2004.[213]

> "Verizon PA has committed to making 20% of its access lines in each of rural, suburban, and urban rate centers broadband capable within five days from the customer request date by end of year 1998; 50% by 2004; and 100% by 2015."

As we discuss, according to the Pennsylvania Public Utility Commission, in 2003 the law was for 45 Mbps in both directions.[214]

> "In view of Bell's commitment to providing 45 Mbps for digital video transmission both upstream and downstream, we look forward to Bell's providing this two-way digital video transmission at 45 Mbps."

As late as July 1996, Bell Atlantic was still making signs that it was going to deliver fiber-to-the-curb throughout the territories starting in 1997 and have 12 million customers wired by 2000.

> "Later this year, Bell Atlantic will begin installing fiber optic facilities and electronics to replace the predominantly copper cables between its telephone switching offices and customers. Fiber optics provide higher quality and more reliable telephone services at lower operating and maintenance costs. The company plans to add digital video broadcast capabilities to ***this "fiber-to-the-curb" switched broadband network by the third quarter of 1997***, and broadband Internet access, data communications and interactive multimedia capabilities in late 1997 or early 1998.

> "The fiber-to-the-curb architecture that Bell Atlantic will build is the next step in the company's ongoing, aggressive network modernization program. Bell Atlantic plans to begin its network upgrade in Philadelphia and southeastern Pennsylvania later this year. The company plans to expand this Full Service Network deployment to other key markets over the next three years. ***Ultimately, Bell Atlantic expects to serve most of the 12 million homes and small businesses across the mid-Atlantic region with switched broadband networks."*** (by 2000) [215]

Maryland

It seems that other Bell Atlantic states also had alternative regulation plans for modernizing/fiberizing their states. Maryland's ambitious. plan, according to the "Modernization of the Maryland Telecommunications Infrastructure: A Summary of Plans to Upgrade the Local Networks", was for fiber-to-the-home to be completed by 2010, and all copper wiring between the offices should have been upgraded by 1994.[216]

* ISDN 100% by 1995
* Fiber to the feeder 100% by 2008
* Fiber to the home 100% by 2010
* Fiber-interoffice (all copper retired) 100% by 1994

NYNEX

NYNEX, 1993 Annual Report [217]

> "We're prepared to install between ***1.5 and 2 million fiber optic lines through 1996*** to begin building our portion of the Information Superhighway."

Even in 1995, NYNEX was sounding like it was going to be a major player in the video entertainment and information services arena.

NYNEX 1995 10K[218]

> "VIDEO ENTERTAINMENT AND INFORMATION SERVICES
> NYNEX Entertainment & Information Services Company ("NEIS") licenses, acquires, and packages entertainment, information and other services for distribution over wireless and wireline networks in the NYNEX region. In addition, NEIS provides coordination, support and oversight to NYNEX's video and information services interests around the globe. NYNEX plans to introduce a branded, price-competitive package of video and information services."

And just to remind us, NYNEX was instrumental in the creation of TELE-TV. [219]

> "Our TELE-TV joint venture with Bell Atlantic and Pacific Telesis is getting ready to entertain you, delivering nationally branded entertainment and information services over our networks. As NYNEX and its partners work to deploy full-service broadband networks, we plan to begin offering TELE-TV service later this year through our investment in CAI Wireless. This investment will give us the ability to reach up to 7 million NYNEX customers with digital wireless cable technology."

NYNEX, in its video dialtone petition at the FCC, claimed that it would have the majority of its region fully deployed by the year 2010.[220]

> "NYNEX proposes to deploy hybrid fiber optic and coaxial (HFC) broadband networks that will provide advanced voice, data, and video services, including interactive video entertainment, multimedia education, and health care services. ***NYNEX plans to deploy this type of network to the majority of its customers by the year 2010."***

We should also point out that NYNEX was building other fiber optic systems in other parts of the world, including a $3 billion broadband network in the UK.

> "CABLECOMMS: NYNEX CableComms is constructing and operating a $3 billion broadband (high capacity) network, to be substantially completed by 1997, for the provision of cable television and telecommunications services in certain licensed areas in the United Kingdom."[221]

Massachusetts

NOTE: See the separate chapter on Massachusetts's failed broadband deployment.

Pertaining to Massachusetts and Rhode Island, NYNEX was not shy about its plans, which gave exact numbers as part of its filing with the state commission to receive financial incentives under the alternative regulation plans, as well as the FCC's video dialtone proceedings.

Exhibit 35

NYNEX Video Dialtone Announcements, 1992-1994

Date	Telco	Location	Homes	Type of Proposal
07/08/94	NYNEX	RI	63,000	permanent
07/08/94	NYNEX	MA	334,000	permanent

The NYNEX video dialtone applications clearly laid out the number of homes and business.

> "On July 8, 1994, NYNEX filed two (Section 214) applications for authority to provide video dialtone service in certain areas of Massachusetts and Rhode Island. The application to provide video dialtone service in Massachusetts proposes a system that will pass approximately 334,000 homes and businesses." [222]

NYNEX put forward a very specific technological definition of what it would offer if granted relief — fiber optics and coax capable of 400 to 800 digital channels. As the FCC understood the NYNEX proposal:

> "NYNEX proposes to deploy hybrid ***fiber optic and coaxial (HFC) broadband*** networks that will provide advanced voice, data, and video services, including interactive video entertainment, multimedia education and health care services. NYNEX's proposed video dialtone systems make available three types of service arrangements: analog broadcast, digital broadcast, and digital interactive service. Video programmers may deliver an 'analog, digital, or other agreed-upon signal' that NYNEX plans to modulate or encode as necessary. The allocation plan provides for the offering of 21 analog channels, all but one of which will be used for over-the-air broadcast programming services, and, depending on compression rates, ***between 400 an 800 digital channels***." [223]

And the hype for these service offerings started blowing strong by 1994, when the plans were first presented. NYNEX spun a very compelling vision of the consumer benefits the new technology would allow:[224]

> “[T]he new technology would give Massachusetts residents access to a wide range of information and entertainment services. Among the new types of services envisioned are improved cable television, home banking and shopping, civic and community-based forums and bulletin boards and new forms of interactive entertainment such as movies on demand.
>
> “Ultimately, the broadband network would help Massachusetts education institutions further expand interactive and distance learning opportunities for students of all ages. The health care industry would gain advanced communications capabilities to reduce costs and expand delivery of services, including remote diagnoses and other forms of telemedicine.”

Massachusetts’s alternative regulation plan was pushed through in late 1995, just before the passage of the Telecom Act when the “wind was at the back” of the Bell companies’ getting what they wanted as a rubber stamp. The exact law that was written had only a passing mention of the fiber optic deployments the company had told the public about. This was the opposite of the earlier Bell Atlantic states’ deregulation, especially New Jersey and Pennsylvania, where very specific deployment timelines were used.

In the chapter on Massachusetts, we explain how NYNEX told the public it would spend half billion dollars in the Bay state. The company laid out the communities to be wired — “Somerville, Revere and Winthrop, then move to Brookline, Cambridge and neighborhoods in Boston, including Roxbury, Brighton, Beacon Hill and the Back Bay….” The work was supposed to start in late 1994.

As we write in our analysis:

> “In statement after statement, before consumers, advocates, regulators and the press, employees and executives at the top echelon of New England Telephone made repeated and unambiguous representations that NYNEX would spend over $500 million to build the fiber optic network in Massachusetts, commencing in 1995. On July 15, 1994, New England Telephone Chairman Paul O’Brien announced that NYNEX was ‘putting its money behind its beliefs. We recently

> announced plans to build what is essentially a new … state-of-the-art broadband network … capable of providing video-on-demand and interactive information services.' O'Brien went on to promise that construction would begin late that year, 1994, in eastern Massachusetts. He was also emphatic 'NYNEX plans to spend nearly half a billion dollars for 330,000 lines in Massachusetts'.
>
> "A few months later, the *Patriot Ledger* quoted NYNEX spokesman Kenneth Horne describing a very specific plan: 'In Massachusetts, NYNEX plans to begin the new service in Somerville, Revere and Winthrop, then move to Brookline, Cambridge and neighborhoods in Boston, including Roxbury, Brighton, Beacon Hill and the Back Bay….'."

Even though the company was granted most of the financial incentives it requested, in Massachusetts the company did not spend $500 million on the networks and there were no fiber optic networks available to customers. Rumors exist that some streets were wired in Somerville, Massachusetts, but were never turned on or connected to homes. In our complaint in 1999, we estimated that customers paid over $1 billion in extra profits to the phone company, not to mention an additional $800 million in improper tax deductions.

GTE

As previously stated, GTE (now owned by Verizon) promised 7 million homes by 2004 in 66 key markets.[225]

> "In 1991, GTE Telephone Operations became the first telephone company in the United States to offer interactive video services…. Expanding on this success, the company in 1994 announced plans to build video networks in 66 key markets in the next 10 years. When completed, the new network will pass 7 million homes and will provide broadcast, cable and interactive television programming.

> ”GTE's pending applications seek authority to build hybrid fiber optic and coaxial-cable video networks in Ventura County, Calif.; St. Petersburg and Clearwater, Fla.; Honolulu, Hawaii; and northern Virginia.”

GTE also stated it would be investing $250 million to build out its video networks in four locations in 1995.[226]

> “GTE Telephone Operations will invest about $250 million to build broadband video networks in four markets during 1995. GTE's pending applications seek authority to build hybrid fiber optic and coaxial-cable video networks in Ventura County, Calif.; St. Petersburg and Clearwater, Fla.; Honolulu, Hawaii; and northern Virginia.”

The 1995 video investments are in addition to the approximately $2.7 billion GTE spent each year to upgrade and maintain its national telecommunications network.[227]

A Con Job? Verizon Fiber Optic Deployments Were Vaporware.

New Jersey Ratepayer Advocate, April 1997:

> "low income and residential customers have paid for the fiber optic lines every month but have not yet benefited." [228]

As we discuss at length, we believe that the promise to fiberize America by Verizon was more for the purpose of getting rid of regulation that controlled the companies’ profits and entering the long distance markets than delivering on the broadband future. As discussed in our chapters on New Jersey and Pennsylvania, there were other critics of the phone companies’ failed broadband deployments.

According to a brief filed by the New Jersey's Division of the Ratepayer Advocate with the New Jersey Board of Regulatory Commissioners (BRC), NJ's state public utility commission, on March 21, 1997: [229]

> "Bell Atlantic-New Jersey (BA-NJ) has over-earned, underspent and inequitably deployed advanced telecommunications technology to business customers, while largely neglecting schools and libraries, low-income and residential ratepayers and consumers in Urban Enterprise Zones as well as urban and rural areas."

To read the full report see: http://www.rpa.state.nj.us/onj.htm

Other critics also chimed in on this and the other state alternative regulation plans. Testimony by Economics & Technology on Verizon's Pennsylvania failed deployments found $4 billion in excessive financial gains in that state alone for the failed deployments.

> "Verizon PA has realized financial gains in excess of $4-billion as a direct result of Chapter 30 alternative regulation. Pennsylvania is far from realizing a next generation broadband network." [230]

The irony of it all is that *nothing* was built so there was very little to close down (much less write-off) and that is provable. It is also no coincidence that the write-offs and pull-outs in the various states were timed to be done either before or right after the companies merged.

How Much Did Bell Atlantic and NYNEX Really Spend? —- Chump Change.

Below are the actual write-offs of the projects as outlined in the Bell Atlantic Annual Report for 1998 — $266 million for NYNEX and Bell Atlantic, combined. This is compared to the promises of over $11 billion in the Bell Atlantic territories or half billion dollars in Massachusetts. Also, it is clear that Bell Atlantic and NYNEX had to keep a fake-front because they had told their TELE-TV group that everything was going to be rewired by 2000. They lied.

Bell Atlantic Annual Report, 1998[231]

> "YEAR 1997: Video-related Charges: In 1997, we recognized total pre-tax charges of $243 million related to certain video investments and operations. We determined that we would no longer pursue a multichannel, multipoint, distribution system (MMDS) as part of our video strategy. As a result, we

> recognized liabilities for purchase commitments associated with the MMDS technology and costs associated with closing the operations of our TELE-TV partnership because this operation no longer supports our video strategy. We also wrote-down our remaining investment in CAI Wireless Systems, Inc."
>
> "Video-related Charges: In 1998, we recorded pre-tax charges of $23 million primarily related to wireline and other nonsatellite video initiatives. We made a strategic decision in 1998 to focus our video efforts on satellite service being offered in conjunction with DirecTV and USSB. We communicated the decision to stop providing wireline video services to subscribers and offered them the opportunity to subscribe to the satellite-based video service that we introduced in 1998. In the third quarter of 1998, we decided to dispose of these assets by sale or abandonment, and we conducted an impairment review under the requirements of SFAS No. 121, 'Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.' We based our estimate on an estimate of the cash flows expected to result from the use of the assets prior to their disposal and the net proceeds (if any) expected to result from disposal. We are currently providing video service exclusively in conjunction with our arrangements with DirecTV and USSB."

We would also like to point out that when NYNEX or Bell Atlantic discussed their future plans with broadband, they also included wireless as the other solution. Most, if not all of which, never worked out.

The other item to note is the timing. In 1996, Bell Atlantic and NYNEX decided to merge, and by 1997 it was a done deal. At the same time, the companies closed down whatever activities were underfoot. From these write-offs we now know that they gamed virtually every state, using fiber-to-the-home services as the bait.

GTE's Fiber Optic Hatchet: Clean House to Get Ready to be Sold?

In 1998, GTE started to shut down the video business as well as close down its fiber coax plans in what looks like preparation for the sale to Verizon. According to the GTE 1999 Annual Report:[232]

"During the first quarter of 1998, the Company also committed to a plan to exit a number of other non-strategic business activities. As a result, the Company recorded a pretax charge of $156 million to reduce the carrying value of affected assets to expected net salvage value and to recognize costs resulting from the exit plan. The major components of the charge included:

- the write-off of network equipment and supplies for discontinued wireless products and services ($81 million);
- the shutdown of business units developing interactive video products and services and excess printing facilities ($42 million);
- the write-off of impaired assets in Latin America ($33 million).

"After completing the review of its operations, the Company also decided to scale back the deployment of the hybrid fiber coax (HFC) video networks that it had built in certain test markets. Although the Company is obligated to, and will continue to, use the existing HFC networks to provide video service in these markets, technological innovations have created alternative ways for the Company to deliver video and high-speed data services in the future at a significantly lower cost. Due to the significant change in the scale of the HFC networks and the effect on future revenues and expenses, the Company recorded a pretax charge for impairment of approximately $161 million based on estimated future cash flows. GTE continues to evaluate its long-term strategic options associated with its video business."

GTE still had some video properties and received franchises in 1999.

"At the end of 1999, GTE had been granted nine video franchises in the Pinellas County, Florida market and five video franchises in the Ventura County, California market. Video services offerings have also been launched utilizing digital wireless broadcast technology in Oahu, Hawaii. GTE continues to evaluate its long-term strategic options associated with its video business."

The accounting of all of these numbers seems to indicate that very little was actually built based on the promises made by GTE, and that Verizon planned on unloading all of its properties.

In 2002, we know that Verizon sold off the GTE properties that it had in Florida to Adelphia, and Time Warner was telling its Tampa Bay customers to sign up with them.

> "Talk about a cable company that really cares. Time Warner, the 800-pound gorilla of Tampa Bay area cable TV, recently sent a concerned letter to Pinellas County customers of Verizon Communications' much smaller Americast cable system.
>
> “'As you may already know, Verizon Americast will soon no longer be your cable operator,' the letter said. It added helpfully, 'We would be happy to make it easy for you to become a Time Warner customer.'" [233]

The scorecard on fiber optic deployment plans being fulfilled is virtually a “zero” for Bell Atlantic, NYNEX and GTE. However their press releases and past articles are enjoyable to read. The headline states, “Bell posts its itinerary on Information highway,” Baltimore Sun, December 2, 1993:[234]

> “Racing to solidify its competitive position before its telephone monopoly disappears, Bell Atlantic Corp. outlined an ambitious timetable yesterday under which 1.25 million households — some in Baltimore — will be able to order up movies on demand and place video phone calls before the end of 1995.
>
> “In subsequent years, the regional phone company plans to add 1.5 million homes a year to its fiber optic network, ensuring that some 8.75 million homes of the 11 million homes in its…

Because of the implications of the Verizon, MCI merger, let’s go over the GTE and Verizon merger conditions and the hype surrounding competitive issues.

Chapter 18 Analysis of Verizon's Merger Conditions and "Truth in Speech" Statements

Verizon submitted hundreds of documents and comments to the FCC, state regulators, Congress, and the public to make sure that the Bell Atlantic-GTE merger to create Verizon was completed.

According to a statement by Former FCC Commissioner Gloria Tristani, SBC and Verizon at the time of their merger would control 69% of phone service. Verizon controls 40% of the lines, 69 million phonelines.

> "With this merger, two companies – Bell Atlantic/GTE and SBC — will control a staggering 69 percent of the nation's access lines. Bell Atlantic/GTE alone will control nearly forty percent of those lines, approximately 69 million local exchange access lines."[235]

The reason for the creation of Verizon was that this new company would "attack the local markets of the other bells on a widespread and effective basis".[236]

The FCC stated:[237]

> "First, the merger will finally enable one of the Bell companies ***to attack the local markets of the other bells on a widespread and effective basis***.
>
> "The commission has concluded in recent orders that the Bell companies themselves may be among the most significant potential competitors to each other in the major metropolitan markets where their geographic regions are contiguous. However, Bell Atlantic today is not a significant potential competitor to any of the other Bell companies, its service areas are geographically separate from the major service areas of the other Bells and it lacks the presence that it needs to be effective to enter and compete in key urban markets of the other Bells' regions. The merger with GTE will immediately erase that limitation."

Why was the merger with GTE important? GTE is a collection of local phone companies spread throughout the US, unlike the other Bell companies that have specific states they control. According to the Verizon merger petition, it was an enabler to attack the other Bell strongholds.

> "With its local telephone facilities greatly dispersed throughout the US, GTE is the enabler that will allow Bell Atlantic to attack the Bell company strongholds across the country.... GTE shares an MSA or serves neighboring suburbs in several of the most attractive Bell markets outside Bell Atlantic's Region including Lose Angeles, San Francisco, San Diego, Dallas Fort Worth, Houston, Chicago, Cleveland, Indianapolis, Detroit Miami, Orlando, Jacksonville, Seattle Portland and others."

All of this was being done because these companies would be "pro-competitive" to provide "a broad-scale attack on the local markets of the other RBOC across the country," and it couldn't do it simply as Bell Atlantic or GTE.

> "The merger of Bell Atlantic and GTE will produce substantial pro-competitive and pro-consumer benefits in a host of telecommunications markets and no harm to competition in any relevant market. The merger therefore satisfies the Commissioner repeatedly articulated standards focusing on markets.
>
> "The merger promises what few other telecommunications providers have been able to offer: ***A broad-scale attack on the local markets of the other RBOC across the country.***
>
> "The merger creates real-work conditions necessary to succeed in such an out-of-franchisee entity that GTE already has demonstrated an interest in pursuing and makes meaningful entry possible where separate companies will not succeed."

What exactly was promised? Statements made over and over again, from the Verizon petition to even the statements by GTE's chairman, was that these companies would compete in at least 21 markets by 18 months of closing.[238]

"Based on the simple economic logic of the GTE-Bell Atlantic combination, GTE's Chairman Lee recently testified to Congress that the combined company plans to enter at least 21 markets in SBC's region within 18 months of closing.

- SBC Region — Los Angeles, San Francisco, San Diego, Dallas, Houston, Austin, San Antonio
- Ameritech Region — Chicago, Cleveland, Cincinnati, Indianapolis, Detroit
- BellSouth Region — Miami, Orlando, Jacksonville, Raleigh, Nashville, Memphis Louisville
- US West Region — Seattle, Portland"

The plans to build in GTE's territories demonstrated interest in entering the local market of the other RBOCs.[239]

"The merger therefore makes possible the first real facilities-based effort to compete on a broad scale against the other RBOCs."

How Were These Companies Going to Compete? — They Would Use "Resale", "UNE-P", and "Facilities".

The Bells successfully sued competitors and the FCC over the use of network services known as "UNE-P" (Unbundled Network Element — Platform) and "Resale". These are the exact same methods that Verizon and the other Bells were claiming they would use themselves to enter new markets — they would have to rent parts of the network from the incumbent, the other Bell. It is clear from testimony by Jeffrey Kissell of GTE, the company started its CLEC business with just resale but the margins were "too low" and so they also wanted to use platform (UNE-P) and facilities to compete.[240]

"GTE's strategy was to price service on a resale basis in markets near GTE. GTE also encountered problems with its service platform while attempting to implement its roll out plan. Moreover, low resale margins and higher than expected customer acquisition costs significantly impacted earnings. GTE has therefore concluded that a resale strategy can not succeed alone. Current plans call for a shift to a facilities based strategy…. Because a viable out-of-franchise business must therefore provide some facility-based services, a substantial investment in facilities is also necessary.

"The company's new larger scale will allow it to fund the necessary (UNE-P) platform and facilities investment required to compete in new out-of franchise CLEC markets."

"As already mentioned, GTECC's experience has demonstrated that some facilities-based service are necessary to succeed out-of franchise."

The Public Interest Merger Conditions

The FCC was supposed to base the merger on serving the public interest.[241]

"In order to persuade us to grant their applications, Bell Atlantic and GTE must demonstrate that their proposed transaction will serve the public interest, convenience, and necessity."

The FCC agreed to the merger because it would "enhance competition" and strengthen the merged companies' incentives to expand outside their territories.[242]

"4. The Applicants, however, have proposed conditions that will alter the public interest balance. These conditions are designed to mitigate the potential public interest harms of the Applicants' transaction, enhance competition in the local exchange and exchange access markets in which Bell Atlantic or GTE is the incumbent local exchange carrier (incumbent LEC), and strengthen the merged firm's incentives to expand competition outside of its territories. We believe that the voluntary merger conditions proposed by the Applicants and adopted in this Order will not only substantially mitigate the potential public interest harms of the merger, but also provide public interest benefits that extend beyond those resulting from the proposed transaction. Accordingly, we conclude that approval of the applications to transfer control of Commission licenses and lines from GTE to Bell Atlantic serves the public interest, convenience, and necessity and, therefore, satisfies sections 214 and 310(d) of the Communications Act given these significant and enforceable conditions."

The Merger Conditions Failed the Public Interest.

According to the FCC, the reason they agreed to this merger was:[243]

> "The merger conditions are designed to accomplish the following five public interest goals:
>
> 1) promote advanced services deployment;
> 2) enhance the openness of the merged company's in-region local telecommunications markets;
> 3) foster out-of-region local competition;
> 4) improve residential phone service; and,
> 5) provide for enforcement of the merger."

None of these items happened in a meaningful way and there is ample proof that service quality is worsening, the companies never went out of region, the advanced services were never rolled out with any more speed and the entire enforcement of this merger has failed to make the networks fully open to competition. Instead, it has strengthened the monopoly.

Did Verizon Fulfill Its Merger Obligations?

Remember this quote?

> "Based on the simple economic logic of the GTE-Bell Atlantic combination, GTE's Chairman Lee recently testified to Congress that the combined company plans to enter at least 21 markets in SBC's region within 18 months of closing."

There is virtually no competition out of region by Verizon, including GTE, today. Here are the merger conditions, which were to spend $500 million or have 250,000 customers by July 2003.[244]

> **“Merger Close Plus 36 Months or, Report Date Plus 60 Days, 6/30/03**
> Spend at least $500 Million or provide service to at least 250,000 customer lines on out of region entry. Pay 150% of shortfall if goal not met.”

Out-of-Territory Competitive Entry?

- “Within 36 months from merger closing, Bell Atlantic/GTE will spend a minimum of $500 million to provide competitive local service, including traditional local telecommunications services and advanced services, outside of its service areas or will provide competitive local service to at least 250,000 out-of-region customer lines.
- Bell Atlantic/GTE is liable for voluntary incentive payments up to $750 million dollars if it does not satisfy either of these out-of-region competition commitments.
- This condition will ensure that residential consumers and business customers outside of Bell Atlantic/GTE’s region benefit from increased facilities-based competitive service.”

However, the FCC had a different view because anything that Verizon submitted turned into fulfillment of their obligations.

Northpoint – A Sad Story

Northpoint was a promising competitive company that was offering DSL services. Verizon stated it would buy Northpoint and would give the company a large investment. Verizon did put in a smaller amount then was required. Then, while Northpoint stopped selling, waiting for its new owner, Verizon pulled out of the deal and the company was forced into bankruptcy and folded, leaving customers and shareholders stranded.

Verizon convinced the FCC to allow their investment in the company to be used as part of the $500 million, even though there would never be customers. This, of course, never helped the “public interest”.

For a full history of the Northpoint nightmare from the shareholders' point of view see: http://www.stockskill.net/ (Available as of this writing, September 2005)

The summary can best be described in this excerpt of an article from CLEC.com (now defunct), which quotes ALTS, an association representing CLECs.[245]

> "ALTS SAYS VERIZON IS LIKE PARENT-KILLING CHILD The Association for Local Telecommunications Services today declared its shock at the FCC's recent determination to count an investment from New York City-based Verizon Communications in now bankrupt data CLEC NorthPoint Communications towards Verizon's obligation to compete out of region, as stipulated by the Bell-Atlantic/GTE merger. Verizon deposited $150 million in NorthPoint, but then withdrew its offer to purchase the firm, which ALTS claims drove NorthPoint into bankruptcy. 'Verizon fabricated a patently absurd argument in its merger obligations to avoid having to compete out-of-region, and the FCC bought it', said Jonathan Askin, general counsel for ALTS. 'Even if Verizon has satisfied some absurdist literal reading of its merger commitment, it has certainly violated any reasonable interpretation of the spirit of that commitment and has made a mockery of the FCC process and the bargain that Verizon struck.' NorthPoint eventually sold its assets to New York City-based AT&T, so Verizon has never used any of NorthPoint's assets to compete out of region. 'Like the child who killed her parents and sought mercy from the judge because she's an orphan, Verizon wants to be rewarded for killing off its competitor', Askin claimed."

To add insult to injury, Verizon also wrote off their investment, taking a deduction on their taxes, which lowered their tax requirements.

Verizon 2001 10K[246]

> "Other charges and special items recorded during 2000 included the write-off of our investment in NorthPoint Communications Corp. (NorthPoint) of $155 million ($153 million after-tax, or $.06 per diluted share) as a result of the deterioration in NorthPoint's business, operations and financial condition."

Verizon Mergers' Perks for Top 6 Executives Exceeds the Money Spent on Local Phone Competition.[247]

The top six Verizon executives (including the former Chairman of GTE) received stock options and other perks in a three-year period that are estimated at $425 million to $1 billion, not to mention a combined salary of $195 million. (1999-2001) This largess included tens of millions for each executive from the GTE-Verizon merger.[248]

Suing to Block Competitors from Using the Networks? — Talk about Talking Out of Both Sides of Their Mouths.

Verizon, SBC and the other Bells took a series of state and federal law suits to block competitors from reselling and using the customer-funded networks. The claim was that these competitors were using the networks “below cost”.

> "Today, competitors are eroding our core business by purchasing our local service from us at government controlled, below-cost rates."[249]

In another release, even the title shouts the SBC’s position: “SBC Calls Unbundling Rules and UNE-Platform Devastating. Regulations that Impede Investment and Undermine Facilities-Based Competition Must Be Modified,” July 17, 2002.[250]

> “Calling the UNE-Platform policy ‘devastating,’ SBC Communications Inc. today urged the FCC to abolish regulations that force incumbent local exchange carriers (ILECs) to sell portions of their telecommunications facilities that are available from other sources to competitors at bargain prices and to use the so-called UNE-P to cherry-pick only the most profitable customers without investing any capital and without deploying any facilities or networks.”

If this is true, then why didn't these Bell competitors go into each other's markets and use these below-cost networks to make a killing? Collusion? What's worse, SBC and Verizon both claimed they would use the discount plans for competitors to compete in out-of-region markets, known as "Resale and "UNE-P" — the same services that they successfully sued over.

This is one of the reasons AT&T and MCI are up for sale. The entire basis for entering local phone service competition was predicated on the availability of UNE-P and resale. These companies lost billions and were closed out of being able to offer a competitive product to the average customer.

We will discuss these new, proposed mergers in future sections.

Geography and Competition

But there is one other item in all of this — geography and competition. Wireline phone competition is easier to do once you own switches and facilities and it would be easy for Bell Atlantic to have competed with NYNEX in, say, New York City. Why? The "tri-state area" — New York City, Northern New Jersey, and Connecticut. Because of their proximity, these areas have overlapping media footprints, meaning that the same radio and TV stations that broadcast to New York City also reach areas of New Jersey, such as Newark and Hoboken.

Similarly, GTE has locations in Pennsylvania that are contiguous to Bell Atlantic's Pennsylvania holdings. It would have been a no-brainer to go into the other market for local phone service at virtually any time.

Or more poignant, SBC and Ameritech or any combination of Bells that have contiguous territories could have rolled out some switches at any time and started to compete. Competition for local service is just that — Local.

The companies, when they sold their case to regulators, knew they should be competing with each other and had considered it seriously, though nothing was done. In fact, in the case of the NYNEX-Bell Atlantic merger, the state Attorney General's Office found proof that Bell Atlantic was not telling the whole truth about their competitive yearnings.

The New York State Attorney General's Office asked the New York State Public Service Commission to stop the merger between NYNEX and Bell Atlantic because of untruthful statements. According to the *Wall Street Journal*, February 6, 1997:[251]

> "Attorney General Dennis Vacco said in the brief (to the PSC) that evidence obtained during his office's investigation indicated that Bell Atlantic had

> 'considered' entering the New York City market as a competitor to NYNEX. ***That conclusion directly contradicted repeated assertions by Bell Atlantic to federal and state regulators that it never intended to enter the New York market."***

Was the BA-NYNEX Merger a "Merger of Equals"? The Buy, Not Merge, Secret

NYNEX and Bell Atlantic promoted their merger as a "merger of equals", but instead, Bell Atlantic purchased NYNEX, just like SBC purchased Pac Bell. And NYNEX shareholders got only 77¢ on the dollar — so much for equals.[252]

> "On July 2, 1996, NYNEX and Bell Atlantic Corporation ("Bell Atlantic") executed an amendment to their definitive merger agreement (the "Merger"), effecting a technical change in the transaction structure of ***the merger of equals*** announced on April 22, 1996. As amended, the agreement provides that a newly formed subsidiary of Bell Atlantic will merge with and into NYNEX, thereby making NYNEX a wholly owned subsidiary of Bell Atlantic. There is no change in the fundamental elements of the proposed Merger. The exchange ratio for shares is restated to reflect the difference in the transaction**. *Each NYNEX shareholder will receive 0.768 shares of Bell Atlantic common stock in exchange for one share of NYNEX common stock."***

The reason for this purchase agreement is simple. This tactic side-stepped required congressional hearings and approval, as well as placed limits on the states' regulatory involvement.

AT&T, MCI, and the Consequences of Sibling Marriages

It is now clear that what has recently transpired, the eating of AT&T and MCI by SBC and Verizon have confirmed our worst fears — that the premature entrance into long distance by the utilities, allowed them to eat the long distance companies who were driven out of the market by the removal of the right to buy the network components at wholesale prices. Ironically, it was the creation of the wholesale market and the opening of the networks that would allow the Bell companies to enter the long distance markets prematurely.

However, the consequence is that we now have, as reporter and author Leslie Cauley put it, a Bell East and a Bell West. The problem is that we also allowed these companies to divvy up the two largest Internet backbones with the purchases of AT&T and MCI, who can therefore each have their own fiefdom and could seriously block other companies to use their Internet backbones, which is essential for all remaining competitors.

We will come back to this issue in Volume II. However, it should be abundantly clear that the mergers of SBC and Verizon were harmful and not a benefit to the public interest and fiber optic deployments.

Chapter 19 Follow the Money: The Regulations.

The Communications Act of 1934, the original congressional act that regulated telecommunications, specifically stated that services were supposed to be both universal as well as reasonably priced.[253]

> "The purpose of this Act is for regulating interstate and foreign commerce in communication by wire and radio so as to make it available, so far as possible, to all the people of the United States a rapid, efficient, Nation-wide, and world-wide wire and radio communications service with adequate *facilities* ***at reasonable charges."***

Also, the act specifically gives the FCC the right to investigate any overcharging or unreasonable increases.[254]

> "Section 47 U.S.C. 215 The Commission shall report to Congress … any undue or unreasonable increase in charges or in the maintenance of undue or unreasonable charges."

Continuing, the Telecommunications Act of 1996 clearly states that prices should be "just, reasonable, and affordable".[255]

> "CONSUMER PROTECTION — The Commission and the States should ensure that universal service is available at rates that ***are just, reasonable, and affordable."***

Opportunity New Jersey's final decision also uses the term "reasonable" throughout the Order.[256]

> "In the New Jersey Telecommunication Act of 1992, the Legislature declared that it is the policy of the State to, among other things '***ensure that customers pay only reasonable charges for local exchange telecommunications service'.*** To this end the Act permits the board to approve a plan for an alternative form of