Excerpted from: "$200 Billion Broadband Scandal", now a free download:
http://www.newnetworks.com/broadbandscandals.htm

Part Three: How The Bell Mergers Killed Broadband and Competition.

This next series of chapters was written specifically to discuss one topic — How the Bell mergers killed off the fiber optic deployments and competition. (AT&T and MCI will be discussed separately.) The mergers include:

- **SBC** merged with Pacific Telesis, then SNET, and finally Ameritech (SBC was originally Southwestern Bell)
- **Verizon** mergers were Bell Atlantic with NYNEX and then GTE

Exhibit 21
Verizon and SBC Fiber Optic Broadband Spending and Households

	Money (billions)	**Households**	**Merger**	**Shutdown**
SBC				
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			
SBC Total	**$33.6**	**12,500,000**		
Verizon				
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
Verizon Total	$15.6	17,750,000		
TOTAL	**$48.9**	**36,500,000**		

The primary finding, which even surprised this author, was that at every merger, whatever fiber optic based services were being built or deployed, were shut down when the ink dried. This impacted 26 states, not including the 28 territories of GTE.

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. This was the fiber-to-the-home services we have previously highlighted, using their own data.

But that was only part of the story. SBC and Verizon were also supposed to compete with each other for local phone service. SBC promised to compete out of their own regions in 30 cities by 2000, Verizon was to be in 21 cities in 18 months. And, as we show, they never fulfilled virtually any of these plans, even though their merger plans were all based on competing with each other.

Teletruth has subsequently filed a complaint with the FTC, calling for an investigation into each of the previous mergers for using false, misleading and deceptive speech to make the mergers occur.[1]

But don't take our word for anything. Simply read what was promised and what was delivered to make up your own minds. Or at least consider these chapters a cautionary tale of what to expect in the future, especially with the Bell companies' new conquests of AT&T and MCI.

(NOTE: since the writing of this section, SBC merged with AT&T and changed the name of the company to AT&T. SBC also merged with BellSouth, encorporating another 12 states into the AT&T collection of 22 states. Verizon purchased MCI, as well as the incumbent Alltel, as well as sold off Maine, New Hampshire and Vermont as well as some of the GTE territories.

America is currently 15th in the world in broadband, and there has never been serious wireline competition outsides of the companies' territories.

Chapter 15 The SBC-Pacific Telesis-SNET-Ameritech Mergers Were the Death of State Fiber Optic Deployments.

Summary

We believe that the creation of SBC, formed from a merger of Southwestern Bell, Pacific Telesis, SNET and Ameritech should be investigated and broken up. This enlarged mega-Bell harmed the fiber optic based broadband deployments that were underway in EVERY state — from California-Pac Bell and Connecticut-SNET, to Ohio-Ameritech and Texas-Southwestern Bell. SBC never fulfilled its state obligations to upgrade the networks properly.

More importantly, when one company can control 40% of America’s digital future, and it decides to NOT do something, it impacts not only the 13 states the company controls (about 125 million people) but also the entire economy.

Exhibit 22
The SBC Hatchet of Fiber Optic Deployments
(Sources: Bell Annual Reports)

	Money (billions)	Households	Merger	Shutdown	Cable
Pacific Telesis	$16.0	5,500,000	1997	1997	0
Ameritech (3states)	$6.6	6,000,000	1999	2000	304,000
SNET	$4.5	1,000,000	1998	2000	31,000
SBC, Texas	$1.5				0
Pronto	$6.0				
Total	$33.6	12,500,000			

By 2002, over $33.6 billion should have been spent by the mega-Bell for fiber optic cable deployment in over 12.5 million households.

As discussed, Pacific Bell promised deployment in 5.5 million households and to spend $16 billion by 2000; Ameritech promised 6 million households at over $6.6 billion by 2000 (in just 3 states); SNET promised $4.5 billion for just Connecticut, Texas was to commit $1.5 billion to wire schools, libraries and government agencies with fiber optics, all by 2000.

We need to stress a vital point: 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".[2]

> "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***."

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

Secondly, the FCC completely failed to enforce the merger conditions when SBC-Ameritech deceptively opted to not create wireline competition outside of their regions. Besides the failure of "Project Pronto", by 2002, SBC-Ameritech was supposed to have been competing with wireline services in 30 cities "out-of-region" or pay large fines.[3]

> "At December 31, 2001, $1.9 billion in remaining potential payments could be triggered if the 'Out-of-Region Competition' and 'Opening Local Markets to Competition' conditions discussed below are not met. The following briefly summarizes all the major conditions:
>
> Out-of-Region Competition: In accordance with this condition, we will offer local exchange services in 30 new markets across the country. We are required by the FCC to enter these 30 markets as a provider of local services to business and residential customers by April 2002. Failure to meet the FCC condition requirement could result in a payment of up to $40 million for each market. Entrance into these new markets did not have a material effect on our results of operations or financial position."

None of this competition happened out of region and the FCC never enforced this condition. In fact, SBC believed it fulfilled its obligations by having 3 customers per 22 cities — 66 customers. Is this nationwide, robust competition?

We will also discuss elsewhere that Verizon, which was formed from NYNEX, Bell Atlantic and GTE, also promised to compete out of region and had also cut virtually every fiber optic deployment in its territories.

Both companies pulled one of the largest bait-and-switches in history. Not only did they both roll out an inferior product, DSL, which used the copper wiring, but both used the mergers to consolidate their own local service positions by taking the money and using it to roll out their long distance services.

Enlarging the mega-Bell SBC (which controls the fate of 125 million customers) is ridiculous on any level, and there are NO merger conditions that will be enforceable.

Let’s first focus on the fiber optic broadband deployments and closures, using data to make the case clear: the previous mergers were bad for broadband.

First, Who Is SBC?

During the 1990’s, Southwestern Bell became SBC, and starting in 1997, first acquired Pacific Telesis, then SNET, and then Ameritech. According to SBC's 1999 Annual Report:[4]

> “SBC was formed as one of several regional holding companies (RHCs) created to hold AT&T Corp.'s (AT&T) local telephone companies. On January 1, 1984, SBC was spun-off from AT&T pursuant to an anti-trust consent decree, becoming an independent publicly traded telecommunications services provider. At formation, SBC primarily operated in 5 southwestern states. SBC subsidiaries merged with Ameritech Corporation (Ameritech) in 1999, Southern New England Telecommunications Corporation (SNET) in 1998 and Pacific Telesis Group (PAC) in 1997, thereby expanding SBC's wireline operations into a total of 13 states.”

This one company now controls most of the telecommunications in 13 states:[5]

> "the term 'SBC/Ameritech' shall mean Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, Nevada Bell, The Ohio Bell Telephone Company, Pacific Bell, The Southern New England Telephone Company ('SNET'), Southwestern Bell Telephone Company ('SWBT'), and Wisconsin Bell, Inc.; any successor or assign of such company that provides wireline telephone exchange service; and Ameritech Corporation, SBC Communications Inc., and any successor of either company."

The states are:

- Ameritech — Ohio, Illinois, Indiana, Wisconsin, Michigan
- Southwestern Bell — Texas, Oklahoma, Missouri, Kansas, Arkansas
- Pacific Telesis — California and Nevada
- SNET — Connecticut

In terms of market reach, SBC now controls two of the largest states in terms of population. According to the 2004 World Almanac,[6]quoting 2002 Census data by state, SBC controls California, which has about 35 million people, while Texas has 21 million; about 56 million people combined. When all of the states are added together, the population coverage is approximately 125 million people; about 40% of the entire United States. (We note that in each state there are other incumbents, such as Verizon (formerly GTE). However, SBC is the largest incumbant by far, and none of the companies compete with each other directly.

We need to make it clear that SBC controls 90+% of wireline phone service in most of their states. This is because even their competitors must rent the wires. Also, SBC and BellSouth own Cingular, which also gives them about 40% of the entire wireless markets. In broadband, SBC was so successful in putting most ISPs out of business that they now own 90+% of the wireline DSL market.

Besides market size, let's review the circumstances in California that we've discussed in our case studies, and also look at SNET and Ameritech. We also discuss Texas (a Southwestern Bell state) and Project Pronto.

Pacific Bell: California Dreamin'

(Note: We suggest you read the chapter dedicated to California's failed broadband deployments.)

As discussed in previous sections, Pacific Telesis, the parent of Pacific Bell and Nevada Bell, told regulators, investors, and the public that it was going to spend $16 billion on the fiber optic info highway in California.

According to Pacific Telesis's 1993 Annual Report:[7]

> "In November 1993, Pacific Bell ***announced a capital investment plan totaling $16 billion over the next seven years*** to upgrade core network infrastructure and to begin building California's 'Communications superhighway'. This will be an integrated telecommunications, information and entertainment network providing advanced voice, data and video services. ***Using a combination of fiber optics and coaxial cable, Pacific Bell expects to provide broadband services to more than 1.5 million homes by the end of 1996, 5 million homes by the end of the decade.***"

We also presented video dialtone application materials that showed that specific parts of California were scheduled to be rewired.[8]

Exhibit 23

Pacific Bell Video Dialtone Deployments, 1995

Application	Phone Co.	Location	Households	Approved
12/20/93	Pacific Bell	Orange Co., CA	210,000	7/19/95
12/20/93	Pacific Bell	So. San Francisco Bay	490,000	7/19/95
12/20/93	Pacific Bell	Los Angeles, CA	360,000	7/19/95
12/20/93	Pacific Bell	San Diego, CA	250,000	719/95
TOTAL			1,310,000	

Like the other video dialtone applications, this was fiber to the home, replacing the old copper wiring, and it had channels galore. Also, the number of households was for immediate deployment. Pac Bell stated that by 1996 it would have 1.5 million households wired. This data shows 1.3 million.

SBC Does a Hatchet Job on Pac Bell's Fiber Optic Plans: Merger 1997, Shutdown 1997.

When SBC merged with Pacific Telesis, SBC did a hatchet job on Pacific Bell's existing fiber optic deployment. While Pacific Bell at least gave the appearance that it cared, though didn't fulfill any of these obligations, SBC simply pulled the plug on all of these plans. [9]

> "Pacific and Southwestern Video Curtailment/Purchase Commitments - SBC also announced in 1997 that it was scaling back its limited direct investment in video services in the areas also served by Pacific Bell Telephone Company (PacBell) and Southwestern Bell Telephone Company (SWBell). As a result of this curtailment, SBC halted construction on the Advanced Communications Network (ACN) in California. As part of an agreement with the ACN vendor, SBC paid the liabilities of the ACN trust that owned and financed ACN construction, incurred costs to shut down all construction previously conducted under the trust and received certain consideration from the vendor. In the second quarter of 1997, SBC recognized net expense of $553 million ($346 million net of tax) associated with these activities. During the third quarter of 1997, SBC recorded the corresponding short-term debt of $610 million previously incurred by the ACN trust on its balance sheet."

What this says is that SBC pulled the plug early and therefore had to pay off the various vendors, whether or not the work had been completed. There is no indication of the actual expenditures versus the payoffs to terminate early.

As we pointed out in the case study, and is clear from this quote, Pac Bell never came close to spending any serious money on this project, certainly not anywhere near the $16 billion as stated in their annual reports.

According to the 1999 Annual Report, SBC also shut down the video dialtone trials in Richardson Texas and San Jose, as well as scaled back the TELE-TV work.[10]

> "Additionally, SBC curtailed certain other video-related activities including discontinuing its broadband network video trials in Richardson, Texas, and San Jose, California, substantially scaling back its involvement in the TELE-TV joint venture and withdrawing its operations in territory served by SWBell from the Americast venture. During 1999, SBC negotiated a settlement with its Americast partners related to the withdrawal. The settlement did not have a material impact on SBC's financial condition or results of operations. The collective impact of these decisions and actions by SBC resulted in a charge of $145 million ($92 million net of tax) in the second quarter of 1997."

If the incumbent closes down the entire operations for the entire state, who is left to deploy the fiber optic networks which were upgrades to the current network? As we discussed in the case study, the deployment plans of Pac Bell were in place since the early 1990's and led to the deregulation of the company's revenues and profits on the state level.

SNET

SNET (Southern New England Telephone) told the state of Connecticut, investors and the public that it would be spending $4.5 billion over 15 years.[11]

> "On January 13, 1994, the Telephone Company announced its intention to invest $4.5 billion over the next 15 years to build a statewide information superhighway ("I-SNET"). I-SNET will be an interactive multimedia network capable of delivering voice, video and a full range of information and interactive services. The Telephone Company expects I-SNET will reach approximately 500,000 residences and businesses through 1997."

As previously quoted, the materials filed with the FCC showed that they would be rolling out 1 million households of video dialtone services. [12]

Exhibit 24

SNET's Filed Connecticut Fiber Optic Video Dialtone Deployments, 1995

Date of application	telco	state	homes	type
4/28/95	SNET	CT	1,000,000	permanent

The SBC Hatchet on Connecticut: Merger 1998, Shutdown, 2000

In comes the SBC hatchet. By 1999, the SBC 1999 Annual Report calls it a "cable" service with 31,000 customers, and by 2000, SBC decided to close down this service.

SBC 1999 Annual Report[13]

> "Cable Television - SBC also operates a cable television system under the SNET brand in Connecticut that is currently included in the Wireline segment. SNET began offering cable television service in the first quarter of 1997. As of December 31, 1999, SNET provided cable television services to approximately 31,000 households in Connecticut."

SBC 2000 Annual Report[14]

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

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

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

Ameritech

The oddest closing of all was by Ameritech, which simultaneously closed down its fiber optic deployments in 5 states. According to the 1994 Investor Fact Book, Ameritech was building a video network that was going to extend to 6 million customers by 2000.

Ameritech Investor Fact Book, March 1994: [15]

> "We're building a video network that will extend to six million customers within six years."

Ameritech also filed its video dialtone applications with the FCC, which listed 1.3 million households in Detroit, Columbus, and Chicago, among other places.

Exhibit 25
Ameritech Video Dialtone Requested Permanent Authorizations

- 232,000 homes in Detroit, MI
- 262,000 homes in Columbus and Cleveland, OH
- 115,000 homes in Indianapolis, IN
- 501,000 homes in Chicago, IL
- 146,000 homes in Milwaukee, WI
- **1,256,000 Total homes**

And let's be clear. This is all fiber video dialtone stuff.

Ameritech petitioned the FCC for ALL five states. [16]

> "Ameritech Operating Companies for authority pursuant to Section 214 of the Communications Act of 1934, as amended, to construct, operate, own, and maintain ***advanced fiber optic facilities*** and equipment to provide video dialtone service

> within geographically defined areas in Illinois, Indiana, Michigan, Ohio, and Wisconsin."

Ameritech, in five states, would roll out 390 channels in an "economically diverse section 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." [17]

Billions of Spending on the State Level

Ameritech also made state-by-state commitments to update their networks and sold them as a "fiber optic future." The Ameritech 1993 Investor Fact Book[18] shows that at least $6.6 billion was to be spent in just three states: Illinois, Ohio and Michigan. These commitments were all for "alternative regulation" plans (deregulation) that gave these companies more money in the form of higher phone rates for many services and no caps on the companies' profits.

Exhibit 26
Ameritech Investment Commitments, 1992-1998
The Ameritech Investor Fact Book, 1993

Illinois	$3.0 billion	Investment commitment over 5 years
Ohio	$1.6 billion	Investment commitment over 5 years
Michigan	$2.0 billion	Investment commitment, 1992-1995
Indiana	$150 million	• $120 million in "Digital Broadband Facilities" to connect schools, hospitals, and government over the next 6 years • $30 million for the next six years for educational hardware, software and training
Wisconsin		pending legislation

We need to make it clear that state laws were changed because of a massive press campaign with multiple promises over several years. Below is a collection of articles and their summaries from the Chicago Tribune from 1992 to 1994. To sum up, Illinois Bell would spend $3 billion on a “massive upgrading” of its fiber optics in exchange for removing its 13.1% profit cap. This would bring fiber optics to Chicago area suburbs and 40 others. Ameritech, the holding company, would spend $5 billion for the mid-west information superhighway and $1 billion with two electronic equipment suppliers for hardware to supply fiber optic service to 5 million of its 16 million customers by 1995! This was supposed to be distributed over six metropolitan areas in the five states to start.

- **Ameritech Fiber Links Going to Suburbs First**, February 2, 1994[19] “Ameritech's plan to bring digital video services to customers through optical fiber will start by targeting nearly two dozen Chicago-area suburbs and parts of more than 40 others, but not the city itself."
- **Ameritech's Fiber Plan**, January 27, 1994[20] “Ameritech will announce a plan 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, including Illinois."
- **Bell Rate Plan Appears Right on Line**, December 2, 1992[21] "Illinois Bell Telephone Co. is likely to find a willing ear among state regulators for its new rate plan, which would lift the profit cap on the state's largest phone utility in exchange for $3 billion in new fiber optic lines."
- **Bell Seeks Rate Overhaul**, December 1, 1992 [22] "Illinois Bell Telephone Co is expected to ask state regulators to lift the utility's 13.1% profit cap in exchange for a massive upgrading of its system, including widespread installation of fiber optic cables."
- **Ameritech Expanding Fiber Optics to Residential Users** September 1, 1992 [23] "Ameritech will spend almost $1 billion with two electronic equipment suppliers for hardware to supply fiber optic service to 5 million of its 16 million customers by 1995, the company said Monday."

We will return to this information later.

We need to note that Ameritech was proud that it was able to change the regulation in their favor. From the 1994 Investor Fact Book:

> "In 1994, Ameritech proactively changed the way in which we are regulated. We have replaced rate of return regulation with price-cap plans without earnings sharing in all five states in which we are franchised as a communications carrier.
>
> "As a result 100% of Ameritech's $8 billion of intrastate revenues are now regulated by prices , not earnings. The plans foster market based pricing and give Ameritech greater incentive to earn more by allowing us to keep all that we earn."

To paraphrase — Ameritech got rid of anyone looking at their profits, even though they were still a monopoly. Some services could now be "market priced." Ameritech could charge what customers were willing to pay, even though there was no competition in 1994. In this bucket would be "calling features", such as Call Waiting, Call Forwarding, etc., that cost about one penny to offer, but could sell for $5.00 per month per line. We will return to this topic in future sections.

Ameritech's Profits Went Through the Roof. A Summary 10 Year Model for Ameritech, 1988-1998.

We need to note that while Ameritech was deploying some new networks, it is clear that the real benefit was to their corporate profits. We go into overcharging and other financial information in the 20th anniversary section, and explain each of the items we discuss here in more detail. But we decided to show just how much money these companies, such as Ameritech were able to garner through the alternative regulation plans. 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%.[24]

Virtually every Bell had similar growth in profits, dividends and returns on equity.

SBC's Next Hatchet Job: Ameritech's Fiber Networks: Merger 1999, Shutdown 2000

SBC, once again waiting for the ink to dry on its merger agreements, took over in 1999 and by 2000 it was getting rid of the entire Ameritech network.

SBC 2000 Annual Report — “Cable Television Services”[25]

> “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.”

Ironically, the Bell companies have been getting various federal and state Senators and Congressmen to write bills so that they can offer cable services with limited or no franchises. Curiously, Ameritech had 115 franchises that it owned and then SBC threw away.
SBC 2000 Annual Report —”Cable Television Services”[26]

> “ANM’s cable television systems are subject to Federal, state and local regulation, including regulation by the FCC and local franchising authorities. ANM has entered into approximately 115 cable television franchise agreements with local government authorities. Generally, these franchise agreements are in effect for a period of 15 years, and are transferable with regulatory approval.”

The Sale of Ameritech's Cable Plant — WOW, What a Deal.

An article in ***Telephony*** magazine, “Wow, What a Deal”,[27] told of a quite bizarre end to the fiber optic future in the entire Ameritech region. As previously discussed, Ameritech promised 6 million households by 2000. In the middle of 2001, WideOpenWest purchased the entire plant, about 300,000 customers, for about $1000 a subscriber.

> "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."

What is really odd is that this service was supposed to offer 390 channels and fiber to the home, as told by the video dialtone applications.

> “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.” [28]

Ameritech put in the fiber! And, according to the article, it was two-way, with a “high fiber count”:

> “Mark Haverkate, WOW's president and CEO.… 'It's definitely a two-way system', Haverkate said. 'It's a high fiber count, small home-per-node size [estimated at about 200 homes]. The system was extremely well built — top-of-the-line equipment across the board. It's been extremely well-maintained.'"[29]

And yet, while it had the capabilities to offer more, the system, as rolled out by Ameritech, was based on one-way analog services.

> "'The Americast system is only being used for one-way analog services but can easily support digital and Internet services', Haverkate said."[30]

What is odd from any direction of analysis is that SBC stated in the article that its plan was to get fiber “into the neighborhoods” for video and broadband, and the installed fiber optic system could do this with its eyes closed. Instead, SBC decided to close down the entire system for $300 million dollars.

> "SBC has been trying to shed the cable properties it acquired with Ameritech while trying to get some return on the investment because being a cable provider 'didn't fit with our business strategy,' said a company spokesman. 'That strategy doesn't preclude video and high-speed data; it just won't be done over conventional cable networks.'

"'We've invested $6 billion in Project Pronto, which is to get fiber into the neighborhoods,' the spokesman said. 'Video streaming is certainly going to be part of what they'll be able to get from broadband and have it delivered by DSL.'"[31]

The Project Pronto quote shows the "say anything" mentality of SBC, since it would never spend the $6 billion it kept quoting to the press.

WOW currently offers a series of services, including digital phone at speeds of up to 6 Mbps (500 kbps upstream). See: http://www1.wowway.com/wowStory.asp?id=1002

Outcome for Pac Bell, SNET, Ameritech and SBC?

SBC trashed all of the various plans when it bought the other phone companies.[32] This piece of irony from an FCC document on the topic is about what we expect.

"115. Prior to the 1997 Report, SBC acquired Pacific Telesis, and its Pacific Bell Video Services subsidiary. Subsequently, SBC ended its own in-region video efforts, sold its out-of-region systems, scaled back the video plans of Pacific Bell Video Services, and, later, sold most of its interest in Pacific Bell Video Services. SBC later acquired SNET, and proposed to acquire Ameritech. In front of the Senate's Antitrust Subcommittee, SBC Chairman Edward Whitacre would not commit to maintaining Ameritech's cable overbuild operation. SBC, however, as a condition of approval of the SBC-SNET merger, promised the Connecticut Department of Public Utility to continue cable operations for two years. The Connecticut Department of Public Utility gave SBC the right to petition for modification of the state-wide franchise agreement once SBC studies SNET's cable operations. Some have observed that since Ameritech has a well-established cable operation, one that has continued to expand even as the merger is pending, it is less likely that it will be sold or abandoned. Some analysts also have pointed out that the Ameritech cable operation could become more important, in terms of offering a complete package of telecommunications services, in light of the pending AT&T-TCI merger."

The scorecard: 3 mergers and every state retrenched or canceled its fiber optic deployments, and as the quote demonstrates, the FCC had no clue to what was really going on.

SBC's "Southwestern Bell" Own Fiber Plans?

In reviewing the materials, it is obvious that Southwestern Bell's (now SBC) announcements on video dialtone/broadband services were more constrained than the other companies in the mid-1990's. However, Southwestern Bell was one of the first to discuss online services when it had touted ISDN back in 1986, almost two decades ago.

Southwestern Bell, **1986** Annual Report: [33]

> "At the forefront of new technology is ISDN. Scheduled for commercial availability in 1988, ISDN will revolutionize day-to-day communications by allowing simultaneous transmission of voice, data and images over a single telephone line.
>
> "With ISDN customers will have the potential to access videotex, telemetry, alarm services, sophisticated calling features, teleconferencing much more economically than they can today."

We bring this up because the company was positively destructive to the info highway projects in every state in the 1990's.

SBC, originally known as "Southwestern Bell", owned five states prior to any merger. These included Texas, Missouri, Oklahoma, Kansas, and Arkansas. However, deployment plans were shrouded in secrecy. In the chapter on Texas, we show that the company had committed to spending $1.5 billion to rewire the schools, libraries, hospitals and government agencies with 45 Mbps services.

An SBC press release revealed that SBC, in 1996, was pro-broadband. "GTE to join Disney, Ameritech, BellSouth and SBC in Home Entertainment partnership. Increases venture reach to 68 million access lines, 32 states." July 7, 1996. [34]

> “SBC is building a traditional cable network in Richardson, Texas that will be in service in the fourth quarter of this year. It also is constructing a broadband network that will allow the company to offer cable and interactive services to up to 47,000 Dallas area households in 1996. SBC may provide video-on-demand — as well as a host of other interactive services such as home shopping, education programs, and interactive games — to those 47,000 households. SBC, which recently won court approval to provide video programming in its telephone subsidiary's five-state territory, is working with Microsoft, Lockheed and others to develop the delivery system.”

SBC also told the San Antonio Business Journal that Americast was about to purchase $1 billion worth of digital set top boxes:[35]

> “Americast — the television venture between locally based SBC Communications Inc. and four other companies — last week announced the purchase of $1 billion worth of high-tech boxes, referred to as digital set-top boxes.”

And the article surmised that, from this purchase, SBC was serious about video services and that they’d be coming out in 1997 or 1998.

> “SBC officials have been tight-lipped regarding their video plans. However, telecommunications analysts say they expect the San Antonio-based firm to begin offering some type of video services in its major markets in 1997 or 1998….'You should expect to see Southwestern Bell-branded entertainment products in the near future,' says SBC spokesman Bob Ferguson. 'We're very much committed to moving forward with plans to have video offerings for our customers."'[36]

It seems it was all wishful thinking. By the time of the SBC-Pacific Telesis merger in 1997, the company was pulling out of cable TV and Americast, the joint venture with Ameritech, BellSouth, and Disney. According to Telephony magazine:[37]

> "SBC effectively ended its attempt to enter the wireline cable TV market last week, selling its 94.6% stake in two Washington-area systems for $606 million to an investment group that includes Prime Cable.
>
> "The company has also withdrawn from the Americast partnership and sold an option to purchase 75% of Prime Cable of Chicago to the same investment group."

As previously quoted, the company wrote-off the Richardson, Texas, deployment along with the Pac Bell deployments in 1997.

Questions Remain.

Were customers illegally charged for the SNET and Ameritech cable roll outs? In the case of Ameritech and SNET, a separate investigation needs to be considered. How did all of these video dialtone offerings become regular cable services? We discuss the federal changes to the video dialtone laws in other sections, but at issue is the fact that if the state regulators signed off on a proposed rewiring of the state for a fiber optic service with more capabilities than a collection of cable channels, then this changeover could have been a "bait-and switch".

Two other items need mentioning: Texas and Project Pronto (though there may have also been promises in the other Southwestern Bell states, such as Oklahoma, Missouri, Arkansas and Kansas). Texas is addressed separately in a case study as it was not a merger-based fiber optic plan. However, the outcome was the same as in all of the other SBC states.

Project Pronto Was Part of the SBC-Ameritech Merger Conditions.

According to SBC, the company's broadband plan for the SBC-Ameritech merger was "Project Pronto", and the company announced it would be spending $6 billion in three years to reach 77 million customers (August 9, 2000). We believe Project Pronto was needed to show that SBC had a genuine interest in broadband, even though it had cut virtually every fiber optic plan in every state.

> "The DSL deployment is part of Project Pronto, a $6 billion initiative that will transform Ameritech's parent company, SBC Communications, Inc., into America's largest single broadband provider. Project Pronto will make SBC's DSL service available to approximately 77 million people by 2002 and will dramatically increase the speed of DSL service."

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.'"

Notice that these two statements are in contradiction, since DSL goes over the old copper wiring, therefore, fiber optics is being used as a selling tool, a glimpse of the future. Of course, this is ironic, when one thinks of all of the promises made in 1992 for full state deployments by 2000 of fiber-based services.

Irony aside, it was clear in 2001 that Project Pronto was nothing but a snail yearning for fast speeds. Dave Burstein, publisher of the respected DSL Prime, did this account of the rollout of DSL by SBC in October 2001. We couldn’t have said it better.

> “Subject: SBC's disingenuous financials and Pronto 'cutbacks'. Sent: Monday, October 22, 2001 4:01 PM
>
> “DSL is my speciality, so I was surprised and appalled listening to SBC's call this morning…. I remind everyone that universal broadband service and separation to protect competitors were part of the Ameritech merger deal, voluntarily accepted by SBC. It's a repudiation of a deal they made only two years ago. SBC is now

behind BellSouth, Verizon, Bell Canada, Germany, Japan, and Korea in DSL deployment as a percent of lines, despite all the 'Pronto' hype.

“Selim Bingol has disagreements with this work, but after an hour did not have any facts to disprove it either. He did not elaborate, in particular, on how much Pronto is being cut back, and asserted the decision was made late in Q3. Other than initial startup costs of the new subsidiary, he did not offer any facts to explain why it would cost 'hundreds of millions more' - highly unlikely, because the same work needs to be done either in SBC or the subsidiary.

“1- Either SBC's claim they are now cutting Pronto to reduce capital spending is untrue, or last quarter's statement (that most of the capex is behind them) is untrue.

“This is important because delivering broadband to all Americans can jumpstart the economy. It is also a false economy, that will cost SBC over time, done presumably to pretty up the financials and/or pressure Washington into anti-consumer policies.

“They also had in the first quarter said Pronto was behind, with conclusion of the first stage, 80%, being postponed from 2002 to 2003. The one hard fact they released is that they have only installed 4,000 of the 17,000 Pronto DLCs, and only 300 since Q1, which suggests their prior quarters' statements were untrue, and/or that the Pronto build was dropped more than five months ago, despite claims to the contrary in D.C..

“Also from SBC Q2 — SBC views DSL as a strategic growth driver for the future — capable of delivering to residential and business end-users a host of entertainment, information and time-management services, as well as high-speed Internet access. In the second quarter: there is nothing in the last quarter - or year - that makes that any less true today.

“2- SBC said putting DSL in a separate subsidiary added 'hundreds of millions' to costs. Hogwash and unsupportable. SBC's DSL subsidiary is a $500M business, and only a very small fraction of this - a tenth of what they claim at most - can be explained by the organizational structure. Whether they are part of the parent company or not, they still have essentially the same costs - the same equipment, provisioning, customer acquisition, support, billing etc. SBC has never justified that number because they cannot.

"The only way the number could be true is if SBC's own subsidiary is getting screwed in a major way by how SBC treats independents. We're sure SBC will not make that claim.

"3- Whitacre (I believe it was his voice) said he thought 'regulation had gotten tougher'. I leave you to judge the reasonableness of this statement. Everything I know, and dozens of opinions I've read, believe that Mike Powell's FCC is a less active regulator. This is evidenced, for example, by his acquiescence in so many price increases, and I can give many other examples. What does this say about the man's judgment or veracity?"

The piece continues, but it is clear that in the 2000-2002 timeframe the company was not fulfilling its obligations under Project Pronto.

SBC's Lightspeed. Another Fiber Optic Scam?

Before we leave this issue of fiber optic deployments we should once again mention SBC's newest plan, called "Lightspeed". Though the puns are many, if history is our guide, this, too, is nothing more than window dressing for the AT&T merger and other regulatory perks the company is trying to achieve. It is NOT real today. There have been no major rollouts. Here's a sample of the fiber to the release.

SBC, November 11, 2004[38]

"SBC Communications Inc. (NYSE:SBC) today will provide operational and financial details on its plans to deploy fiber optics closer to customers and build an advanced, IP-based (Internet Protocol) network capable of delivering a rich array of integrated next-generation television, data and voice services

> substantially beyond what is available from today's telephone, cable or satellite TV providers.
>
> "In a conference call today, the company will say network lab and field trials are under way, network construction is scheduled to begin in the first quarter of 2005 and SBC's new IP-based network is expected to be available to 18 million households by the end of 2007. The launch of IP-based TV services over the new network is planned for the fourth quarter of 2005."

However, the real issue is — who's paying for it? Well, according to SBC, what-ever they build, the money is coming out of the budgets for local phone service.

> "SBC now expects that three-year deployment costs for Project Lightspeed will be approximately $4 billion, at the low end of its previously announced range of $4 billion to $6 billion. In addition, there will be customer-activation capital expenditures of approximately $1 billion spread over 2006 and 2007. ***Because a significant portion of capital expenditures for Project Lightspeed will replace and refocus ongoing spending for its current network, SBC expects incremental capital investment for this project to be relatively small."***

Chapter 16 Failure to Compete, Failure of the FCC to Enforce Merger Conditions.

Part two of this merger quagmire involves the FCC. The FCC is virtually useless in enforcing any merger conditions, especially pertaining to competition and broadband. For example, the SBC 2001 Annual Report claims that they could be liable for $1.9 billion if the company was not competing in 30 cities outside their own territories by 2002.[39]

> "At December 31, 2001, $1.9 billion in remaining potential payments could be triggered if the 'Out-of-Region Competition' and 'Opening Local Markets to Competition' conditions discussed below are not met. The following briefly summarizes all the major conditions:
>
> "Out-of-Region Competition: "In accordance with this condition, we will offer local exchange services in 30 new markets across the country. We are required by the FCC to enter these 30 markets as a provider of local services to business and residential customers by April 2002. Failure to meet the FCC condition requirement could result in a payment of up to $40 million for each market. Entrance into these new markets did not have a material effect on our results of operations or financial position."

Exhibit 27

SBC "Out-of Region" Cities, National-Local Strategy

1. New York	2 Philadelphia	3. Boston	4. Washington DC	5. Miami-Ft. Lauderdale
6. Atlanta	7. Minneapolis-St. Paul	8. Phoenix	9. Baltimore	10. Seattle-Everett.
11. Denver-Boulder	12. Pittsburgh	13. Tampa-St. Petersburg	14. Portland	15. Cincinnati
16. Salt Lake City-Ogden	17. Orlando	18. Buffalo	19 New Orleans	20. Nashville-Davidson
21. Memphis	22. Las Vegas	23. Norfolk - Virginia Beach	24. Rochester	25.Greensboro Winston-Salem
26. Louisville	27.Birmingham	28. Honolulu	29. Providence - Warwick	30.Albany-Troy Schenectady

The FCC agreed to this merger because the Bell company committed to competing outside its regions in 30 of the largest US cities, offering both business and residential customers local phone service. The claim was that this would stimulate nationwide competition as well. The FCC writes:[40]

> "This will ensure that residential consumers and business customers outside of SBC/Ameritech’s territory benefit from facilities-based competitive service by a major incumbent LEC. This condition effectively requires SBC and Ameritech to redeem their promise that their merger will form the basis for a new, powerful, truly nationwide multi-purpose competitive telecommunications carrier. We also anticipate that this condition will stimulate competitive entry into the SBC/Ameritech region by the affected incumbent LECs."

This was wireline competition that was supposed to be deployed using their own facilities as well as “Unbundled Network Elements” (UNE-P) that were wholesale services sold by the incumbent to a competitive company.

Phone calls by the author and others over the last few years to purchase SBC wireline residential service were in vain and anyone else reading this knows that SBC wireline service is not available in virtually any city in the United states, especially for local residential phone service. Yet, the FCC agreed that SBC had fulfilled its obligations.

What should be obvious is that SBC gamed the regulatory system on multiple levels. SBC claimed that the entire reason for the merger with Ameritech was to give it the size it needed to compete. SBC lied. Numerous documents go on for hundreds of pages about this point. (From testimony by James S. Kahan, Senior VP SBC)

> "SBC/Ameritech would not undertake this merger without National-Local strategy.
>
> "In the absence of the merger with Ameritech, the National-Local strategy will not work. The problem is not primarily that SBC on a stand alone basis, is incapable of raising the capital necessary to fund the national a local strategy. The more important constraints are a) customer base, b) personnel and earnings dilution and market reactions."

Make no mistake about it; this merger was touted as having many benefits for the public. SBC claimed that it would facilitate more competition in the 30 markets they entered.

> "By implementing the National-local strategy, SBC believes that its actions will accelerate the development of competition in all market segments. There should be no question that the national-local strategy will have pro-competitive effects in the 30 new markets SBC will enter."

We also need to make it clear that SBC wasn't simply gaming the regulatory system, but was papering the country with promises of competition. Just look at the headlines highlighting states/cities that SBC would be competing in, as well as touting the benefits of the merger in states that the company already served.

- **New Jersey** Customers to Have New Telecom Choice.
  San Antonio, Texas — October 11, 1999.
- **Baltimore** Will Have New Telecom Choice.
  San Antonio, Texas — October 11, 1999.
- **Philadelphia** to Have New Telecom Choice.
  San Antonio, Texas — October 11, 1999
- **Orlando** Will Have New Telecom Choice.
  San Antonio, Texas — October 11, 1999
- **Atlanta** Will Have New Telecom Choice.
  San Antonio, Texas — October 11, 1999
- SBC Files to Provide Local Exchange Service in **Florida, Massachusetts, Washington.**
  San Antonio, Texas — April 16, 1999.
- **Ameritech** Chief Says Merger Will Speed Competition; Criticizes AT&T for Hypocritical Anti-Merger Efforts Detroit, Michigan — March 16, 1999.
- **Illinois** Consumers and Business Customers Will Benefit from SBC-Ameritech Merger, Chicago, Illinois — March 11, 1999.
- SBC-Ameritech to Compete in **Boston, Miami and Seattle** First -San Antonio, Texas — February 4, 1999..
- **SBC-PacTel** Merger Brought Job Growth, Improved Service and Increased Giving Chicago, Illinois — January 26, 1999.

- SBC-Ameritech Merger Will Offer Consumers More Choices; Vital to Midwest Growth and Jobs Chicago, Illinois — January 25, 1999.

Expectations, at least those being told to the public, were very high. By 2003 the company was to have a positive cashflow of $2 billion and it would have 5-10% of the business and residential customers. Within 10 years the company would have 30 million households and 10 million small businesses.[41]

> "Revenues and customer penetration is targeted to grow quickly under the National-Local strategy. We are aiming for $2 billion in revenue by 2003 and more than $7 billion in revenues by 2008. Earnings are estimated to turn positive in 2003. SBC expects to capture between 5-10% of addressable business and residential customers by the end of the plan.
>
> ***"Within the next 10 years, the 30 out-of-region markets will have 30 million households and 10 million small businesses."***

NOTE: In doing these calculations we discovered that if SBC-Ameritech had garnered 30 million households outside their own regions by 2010, and if the company already had 35-40% of phone customers, at about 35 million households, SBC was claiming it would have an additional 1/3 for 70% of all American households.. This, of course, would assume that they did not lose market share within their own territories, something that they did not comment on in any testimony about competing with the other Bell companies.

Timing? SBC was supposed to start serving residential customers within one year of the closing and by 2003, the majority of customers in every city should have been offered service. SBC also stated that it would be spending approximately $1.4 billion (approximately $500 per customer) for customer acquisition.

> "SBC will begin offering service to residential customers within one year of closing with Ameritech and plans to offer service to a majority of households in the 30 out-of-region markets within four years of closing. We will achieve an

overall penetration rate of 4% of the residential customers in all of these 30 markets.

"To achieve these results SBC anticipates spending approximately $500 per line ultimately served on customer acquisition, product development and marketing expenses related to residential and small business — a total of $1.4 billion."

SBC's 2001 Annual Report states that it introduced service in 22 new markets outside their region and therefore has fulfilled its obligations, even though the company "scaled back" the service offerings.

"As of December 31, 2001 we had introduced service in 22 new markets (Boston, Fort Lauderdale, Miami, New York, Seattle, Atlanta, Denver, Minneapolis, Philadelphia, Phoenix, Baltimore, Bergen-Passaic, Middlesex, Nassau, Newark, Orlando, Salt Lake City, Tampa, Washington D.C., West Palm Beach, Louisville and Charlotte), and plan to enter at least eight more by April 2002. In March of 2001, we scaled back our service offerings in these areas in response to certain economic environment and regulatory factors, while still fulfilling our FCC merger condition requirements."

Since we could not find any competitive SBC Local wireline residential services being offered in any state, we went back to the original merger conditions, and found that the FCC's conditions were essentially useless; a bad joke on what was promised versus what would actually be delivered.

The Fine Print?

SBC claims it is in compliance because it had "**at least three customers" in 22 states** or at least 66 customers.

- On March 28, 2001, the Company notified the Commission that it had installed local telephone exchange switching capacity and was providing facilities-based local exchange service to **at least three** unaffiliated customers in the **following seven markets : Atlanta, Denver, Ft. Lauderdale, Minneapolis, New York, Philadelphia and Phoenix.**

- On April 9, 2002, the Company notified the Commissioner that it had installed by April 8, 2001 local exchange switching capacity and was providing local exchange service to **at least three unaffiliated customers** in the following **10 markets**: **Baltimore, Bergen-Passaic, Middlesex, Nassau, Newark, Orlando, Salt Lake City, Tampa, Washington DC and West Palm Beach**.
- In total, SBC notified the FCC that it had installed in 2001 a local telephone exchange switching capacity and was providing facilities-based local exchange service to **at least three unaffiliated customers** in the above listed seventeen markets, **five more than the required additional twelve markets** to be deployed by April 8, 2001. **Additionally SBC started operations in the Charlotte and Louisville markets in November 2001, making a total of nineteen new markets that SBC entered in 2001.**

Meanwhile, the FCC also believed that SBC was in compliance. According to an article in XChange magazine.[42]

> "'In fact, SBC had met the terms of its commitment to launch facilities-based local voice services in 30 markets by the second quarter of this year', says John Winston, assistant bureau chief at the FCC's Enforcement Bureau. 'They have complied,' Winston says. 'That's all I have to say on the matter.'"

Unfortunately, the FCC has failed to read its own rulings because SBC's obligation was to also have offered competitive services to **ALL** residential and business customers through resale and UNE-p services.

> "collocating in each of ten wire centers; offering facilities-based service to all business and all residential customers served by each of those ten wire centers; ***and offering service, whether by resale, unbundled elements or facilities, to all business and all residential customers within the entire service area of the incumbent RBOC*** or Tier 1 incumbent LEC in the market or make voluntary incentive payments to a state-designated fund (or as governed by state law) in the

> amount of $110,000 per day for each missed entry requirement, for a total of $1.1 million per entry requirement per market."

There was never any advertising to entire cities that we could find. They gamed the regulatory system and got away with not having to pay $1.9 billion in damages.

In an interview with a reporter for a major Boston daily newspaper in 2003, when asked if there was SBC wireline competition in Boston, the reporter responded:[43]

> "No sign of SBC here in Boston, plenty of signs of Cingular. I thought it was a fairly open dirty secret that SBC did nothing more than barely live up to the letter of the FCC decrees, 'offering' service within xx months of the merger in these markets, then shutting it down six months later. Haven't they sort of all but said publicly they have done the bare minimum needed to meet the FCC regs???"

Three customers in twenty-two markets are NOT robust competition. The FCC should never have set a threshold for the merger that could be met with three friends out for a late night beer who are talked into getting some SBC service. America depended on the FCC to make sure that the mergers were in the public interest and both SBC and the FCC failed to do this.

The SBC-Ameritech-SNET-Pac Bell Punchline

By the end of 2002 there is no mention of the "National-Local" strategy in the SBC 2002 Annual Report. There is also no mention of any other city or state outside of their original territories with any significant wireline services being offered.

The Largest Bait and Switch in History: SBC Enters Long Distance.

In his book ***The Billionaire Shell Game***[44], published by Doubleday in October 1998, award-winning, former ***New York Times*** reporter L. J. Davis describes the Bell operating companies' bait and switch tactics employed in every state and at the federal level in Washington. Based on independent interviews and a survey of the documentary evidence, we came to many of the same conclusions as described here. Further, Davis posits that the tactics for selling broadband were part of the RBOC plans to win approval to enter the long distance markets earlier than they would have otherwise been allowed to under normal market movement. They never really cared about broadband.

> "Like the other six regional telephone companies that had come into independent existence with the break up of AT&T in 1984, Bell Atlantic had a single great goal in the autumn of 1993. Bell Atlantic and the other six baby bells were determined to enter the lucrative long distance business before the march of science rendered their existing equipment vulnerable, obsolete, or both, but getting there was no simple task. Before Bell Atlantic could offer a long distance service — even within its own part of the country, using its own lines and switches — sixty years of federal law and judicial decisions had to be overthrown, and there was only one certain, reliable, and simple way to do it: persuade Congress to pass bold new legislation that would remake Bell Atlantic's world.
>
> "Unfortunately, there was no great public outcry for such a new law. There was, in fact, not a peep from the public, whose indifference on the subject of telecommunications law was as large as the public's very considerable ignorance of it, and it was extremely difficult to explain why Bell Atlantic, a company with annual profits of over a billion dollars, felt a compelling need to overturn more than half a century of lawmaking in order to make more money. The easy part had already been done; influential congressman had been provided with large sums of money and more would be forthcoming, but encouraging the legislators to think correct thoughts was only part of the task. It was also essential to provide Congress with a plausible and, above all, a popular and easily understood reason for writing the new law. The secret of the trick, Bell Atlantic and other regional television companies had correctly come to believe, was cable television.
>
> "With great fanfare, the telephone companies announced that, if only one small condition was met, they would provide cheap, friendly, and reliable cable television service, using their existing networks. The cable companies would no longer hold the country in the iron grip of monopoly, and the viewing public would soon be happy. All it took was a small change in the existing laws— and, while the

> legislators were at it, they might as well make a few additional and long-overdue modifications of the statutes in the interest of tidiness and for the benefit of all. To the regional telephone companies, God — long distance service — would be found in the modifications. Television was the cover story.
>
> "The regional telephone companies had never been interested in television, and most of them weren't interested now. The goal had always been the long distance business, and the goal never changed. Once the new telecommunications bill was passed and signed, the telephone companies could run a few inexpensive tests in places like Omaha, El Cerrito and Richardson, Texas. If the tests succeeded, well and good, the telephone companies could make some extra money. If the test failed, no great harm was done; the telephone companies could claim technical difficulties and public indifference and quietly abandon the undertaking. In the meantime, it was important to feign enthusiasm until the law changed.…"

We could not have said this better. What happened was a bait and switch of massive proportions. Let us put some facts into this equation. We have just proved that the fiber optic deployments that were being conducted were all closed down as soon as the ink was dry on the mergers. Whether or not each Bell company would have actually rolled out anything looking like what they had promised is, of course, an additional question, requiring additional investigations.

What Is Long Distance and Why Is It Important?

- A ”**Long Distance”** call is a call between states, also known as “interstate”; i.e., a call from New York to New Jersey is interstate, or from New York to California.

When AT&T was broken up in 1984 the Bell phone companies were restricted from entering long distance because their monopoly power would allow them to gain too much market share just from being able to bundle their local service with long distance.

This is too complex to explain here, but needless to say, if you own the local phone customer and you can sell them long distance for another $20-$30 a month and use the existing advertising, etc. to sell it (commonly known today as a “package of local and long distance service”), then the local phone company generates almost double the amount of revenue from the same customer.

The reason they were not allowed into long distance is now clear; they would easily be able to out-muscle the long distance companies, AT&T, MCI and Sprint. Verizon, who now has control over the “PSTN” (that’s “Public” Switched Telephone Network), was able to get over 50% of its customers to buy both local and long distance as a package by 2004. With the current restrictions that block AT&T and MCI from selling local service (another long story), these companies were essentially taken apart. It is a primary reason they were sold off. The Bell companies were allowed into long distance before there was sustainable residential local phone competition.

Teletruth’s survey work on phone bills found that the majority of customers pay more for a package than they would if they purchased the service ala carte. This is because the advertised price of a package does not include all of the required taxes and surcharges, many of which, such as the “FCC Line Charge”, are, in actuality, more direct revenues to the phone companies. We will return to this topic at a later point.

We will now show that SBC not only did not compete for local phone service out-of-region and dumped their fiber optic promises, they instead took the money and entered long distance.

Long Distance Promise Versus the Fiber Optic and Competing Out-Of-Region Promises.

Let’s follow the money. First, we find in the SBC 2001 Annual Report that SBC had spent virtually no money in 2001 or even 2000 to fulfill its obligations of the merger conditions. SBC states that their costs "decreased approximately $90 million in 2001".[45]

> "Costs associated with our national expansion initiative decreased approximately $90 (million) in 2001, reflecting the initiative’s scaleback, compared to an increase of $300 (million) in 2000."

However, long distance spending was way up. In total contrast, SBC spent $320 million in 2001 and $260 million in 2000 for entry into just four states to offer long distance.

> "InterLATA long distance service expenses increased by approximately $320 million in 2001 compared to $260 million in 2000 primarily reflecting our entry into four new states."

As we previously mentioned, the 2001 plan for the company (as told by press releases) was to focus on long distance, and forget about their commitments to compete.[46]

> "SBC said that delays in regulatory approvals for its entry into in-region long-distance markets, primarily in California and its Ameritech states, have shifted the timing of expected revenues from, and investments in, wireline growth initiatives. SBC continues to work aggressively to accelerate approvals in all of its states.
>
> "'Our mission in 2001 is to build on our strengths and move SBC's transformation to the next level,' Whitacre said. 'That requires financial discipline, and it requires timely access to new markets - beginning with long distance. The freedom to compete in interLATA long distance throughout our markets is an important revenue driver and a key component in our wireline growth strategies.'
>
> "'In 2001, we will place additional emphasis on accelerating long-distance approvals,' Whitacre said. 'At the same time, we will pursue growth opportunities with intensity, balanced with a determined focus on enhanced financial strength and flexibility. We are confident that this balanced approach strongly positions SBC for sustained growth and value creation.'"

Here is a list of the status and approvals to enter long distance as written in the SBC 2001 Annual Report.

Exhibit 28

SBC Long Distance Applications and Status as of 2001

	Alternative Regulation	**Long Distance Application Status**
Arkansas	Yes	November 2001
California	Yes, review pending	Decision expected in 2002
Connecticut	Yes	Long distance service provided
Illinois	Yes, pending state approval	Decision expected in 2002
Indiana	Yes, through 12/2003	Filing planned in 2002
Kansas	Yes	March 2001
Michigan	Yes	Decision expected in 2002
Missouri	Yes	December 2001
Nevada	Yes	Decision expected in 2002
Ohio	Yes, through 1/2003	Decision expected in 2002
Oklahoma	Yes	March 2001
Texas	Yes	Long distance service provided
Wisconsin	Yes	Filing planned in 2002

The exhibit also highlights the fact that EVERY state had some form of alternative regulation plan, meaning more money than the previous "rate of return". This new alternative regulation was granted, for the most part, based on the fiber optic deployment plans.

By the end of 2002, SBC was able to offer long distance in 6 of the 13 states.[47]

> “Federal regulation prohibits us from providing interLATA wireline long-distance services in six of our 13 in-region states. We provide interLATA wireline long-distance to our customers in Texas, Kansas, Oklahoma, Arkansas, Missouri, California and Connecticut.”

And by the end of 2003, SBC was able to offer long distance service in ALL of the states.[48]

“Long-distance voice — Long-distance voice consists of all interLATA (traditional long-distance) and intraLATA (local toll) wireline revenues, including calling card and 1-800 services. Prior to 2003, Federal regulations prohibited us from offering interLATA wireline long-distance services in six of our 13 states. During 2003, we received regulatory approval to offer these services to customers in these remaining six states.”

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.[49] 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.[50]

> “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:[51]

> "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.[52]

> "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.[53]

> "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.[54]

> "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.[55]

> "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.[56]

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 [57]

> "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.[58]

> "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.[59] 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. [60]

> "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.[61]

> "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[62]

> "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 [63] 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.[64]

> "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.[65]

> "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) [66]

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.[67]

* 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 [68]

> “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[69]

> “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. [70]

> "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.[71]

> "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."[72]

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." [73]

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***." [74]

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:[75]

> “[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.[76]

> "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.[77]

> “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.[78]

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." [79]

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: [80]

> "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." [81]

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[82]

> "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:[83]

> "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.'" [84]

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:[85]

> “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.”[86]

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”.[87]

The FCC stated:[88]

> "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.[89]

> "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.[90]

> "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.[91]

> "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.[92]

"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.[93]

"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:[94]

> "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.[95]

> **"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.[96]

> “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[97]

> "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.[98]

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.[99]

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."[100]

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.[101]

> “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:[102]

> "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.[103]

> "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.

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