

Case Study: Opportunity New Jersey — A Broadband Failure

(This is an excerpt from “\$200 Billion Broadband Scandal”, to be released January 2006)

By

Teletruth

Bruce Kushnick

Chairman, Teletruth

Executive Director, New Networks Institute

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Chapter 23 Case Study: Opportunity New Jersey—A Broadband Failure

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."¹

Opportunity New Jersey, the first of the “Opportunity” alternative regulation plans, turned out to be nothing more than an opportunity for Verizon (formerly Bell Atlantic) to make more money. Using this as a case study, we would like to demonstrate how the broken regulatory fabric and the massive Bell lobbying efforts, specifically Bell Atlantic, all worked in conjunction to overcharge customers without serious retribution from the state commission, the Advocate's Office, or even the state legislature.

Though we will return to all of these topics in other chapters, what happened in New Jersey pretty much sums up the process of regulation nationwide — a failure of the regulators to control Bell profits or monitor the Bells’ technology deployment promises.

What Happened to the Info Bahn in New Jersey?

According to a brief filed by the New Jersey's consumer advocate (Division of the Ratepayer Advocate) with the New Jersey Board of Regulatory Commissioners (BRC), NJ's state utility commission, on March 21, 1997:²

"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>

So much for the promise of the Info Bahn. Before delving into the telecom muck and how the Bell has prospered by not fulfilling promises and thus overcharging customers, let's go back to

1991, when New Jersey Bell presented a new plan created by Deloitte & Touche to move New Jersey into the future.

Background

In March of 1991, the findings of a report written by Deloitte & Touche on behalf of New Jersey Bell were presented to politicians and government regulators, from the Governor on down. Dubbed "Opportunity New Jersey", it stated that New Jersey needed to implement "policies that encourage development of an advanced telecommunication infrastructure". In fact, the study stated that fiber optics was essential for New Jersey's future.³

"(fiber optics is) essential for New Jersey to achieve the level of employment and job creation in that state",

"advance the public agenda for excellence in education",

"improve quality of care and cost reduction in the healthcare industry."

And this rhetoric was also repeated by the phone company. For example, Alfred C. Koepee, Vice President of New Jersey Bell, said the plan was New Jersey's future, building new networks to create jobs.⁴

"You have a choice as a regulator. You can move into the future, or you can put through a 10-cent reduction in somebody's bill. It makes a lot of sense to build the new technology to create new jobs."

Other States, Other Promises

This same campaign was being run throughout the United States. Bell Atlantic was promising to spend \$11 billion in its original territories, and would have 8.75 million households wired.

Bell Atlantic 1993 Annual Report

"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 expect Bell Atlantic's enhanced network will be ready to serve 8.75 million homes by the end of the year 2000. By the end of 1998, we plan to wire the top 20 markets.... These investments will help establish Bell Atlantic as a world leader...."

Here's a small portion of the stories that surrounded the Bell Atlantic fiber plans for New Jersey and Pennsylvania, followed by quotes for Ameritech and Pac Bell, California:

- **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
- **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
- **Ameritech expanding fiber optics to residential users**, Chicago Tribune, September 1, 1992⁵ "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."
- **Ameritech's fiber plan**, Chicago Tribune, January 27, 1994⁶ "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."
- **"Interactive TV Will Come to Valley in '94"**, Los Angeles Times, November 16^t, 1993⁷ "Areas of Canoga Park, Reseda, Sherman Oaks, Northridge, Van Nuys, Calabasas and Hidden Hills have been targeted for Pacific Bell's Los Angeles roll-out of a high-speed fiber

optic network that will bring customers everything from phone and cable television services to movies-on-demand, video catalogue shopping and video research libraries.”

- **“The Copper Age Is Over in California.”** PC Week, October 3, 1994⁸ "Hundreds of Pacific Bell technicians have begun yanking thousands of miles of twisted-pair copper telephone wire and replacing it with broadband fiber and coax. Lasers and light — that's the future for this Baby Bell's 10 million telephone customers, who will be among the first in the nation to ride on the information highway."

However, New Jersey was leading the charge.

According to an article by Rick Linsk titled "All the Right Connections — New Jersey Bell and the Wiring of a Regulatory Bonanza," from *The New Jersey Reporter*, the entire series of events that led up to the passage of Opportunity New Jersey by the state legislature and endorsed by the state utility commission was one of the most masterful lobbying jobs in the state's history.

"Above all, though, credit goes to a combination of muscle and merit and to one of the savviest, most complete and aggressive lobbying efforts ever to accompany a public issue in New Jersey. For nearly a year, Bell missionaries had swarmed over the state spreading the gospel of fiber optics to doctors, teachers, labor leaders, the (Governor) Florio Administration and the Legislature. It is now clear, in retrospect, that the hard-sell worked so well, and the connections forged by top-flight influence-peddling ran so deep, that Bell had won long before the first vote was cast.

"When the dust had settled, the Bell had spent \$640,000 on lobbying, a huge sum by New Jersey standards. For comparisons sake, Bell spent \$79,079 the year before." (Note: This figure does not include the Deloitte & Touche study.)

Others, such as Nancy Becker of the New Jersey Cable Association, believed that even the Deloitte & Touche study, at a cost of \$1.2 million, was nothing more than a lobbying document.⁹

"It was basically a lobbying document with the imprimatur of the board (Utility board) on it. It was a million-dollar lobbying document."

According to Linsk, other critics made it clear that the Board of Regulatory Commissioners, (BRC), specifically Edward Salmon, Chairman, was perceived as "too tight" with the Bell company.¹⁰

"Arthur Cooper, president of a pay-phone company that competes with the Bell: 'This is my opinion, but if everybody in the room was blindfolded, and without being introduced if he (Salmon) read his testimony, they would have thought he was not from the BRC; they would've thought he was from Bell'."

In 1992, the Telecommunications Act of 1992 was passed by the state legislature, and in April of 1993, the New Jersey Board of Regulatory Commissioners officially implemented Opportunity New Jersey, with a few other closing alterations later.¹¹

Speed Mattered and Deployment Was Set.

In 1993, the plan was **NOT** for DSL, which travels over the old, existing copper wiring, but for a new, rewired network and connections to the home and office with fiber optics.

On speed, the state commission Order quotes testimony given by Verizon (then New Jersey Bell). Broadband was 45 Mbps services (or higher) that was capable of "high definition video" in both directions, not the current DSL speed of less than 1 Mbps.¹²

"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."

And the deployment schedule, as outlined in the next exhibit, was also part of the Order. According to the Order,¹³ \$1.5 billion was to be spent from 1992-1999. The "BAU", (business as usual), is the deployment schedule without the new plan being in place, while "ONJ" is what would be deployed if the plan went through. For example, the old plan would have "AIN"

services starting in 1992 and 100% would be implemented by 2001. Under ONJ, the work would start in 1992 but be completed in 1998, saving three years.

More to the point, under the new plan, “Wideband Digital Service” would have a speed of 1.5 Mbps, and there would be 100% deployment by 2000, while the “Broadband Digital Service” would have speeds of 45 Mbps and would start in 1996 and be completed by 2010. Without the plan, “broadband” would be delivered by 2030.

Exhibit 45

New Jersey Bell Advanced Network and Broadband Deployment Schedule, 1993

	BAU		ONJ	
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, that allows customers, for example, to program the public switched network to forward their calls automatically to different locations depending on the time of day.				
Narrowband Digital Service	1992	Post 2001	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	Before 2030	1994	2000
Switching Capabilities matched with transmission capabilities supporting data rates up to 1,500,000 bits per second , that will allow students, for example, to remotely access multimedia information, including video, from home or school				
Broadband Digital Service	1996	2030	1996	2010
Switching capabilities matched with transmission capabilities supporting data rates up to 45,000,000 bits per second (45 Mbps) and higher, which enables services, that will allow residential and business customers, for example, to receive high definition video and to send and receive interactive (i.e., two way) video signals."				

384 Channels of Video: The Video Dialtone Commitments

Around the same time that Bell Atlantic, New Jersey was pitching the state, Bell Atlantic also put in requests with the FCC to offer video dialtone services for Dover Township, New Jersey, and other locations. Bell Atlantic committed to 384 channel of services.

“The Commission's grant is conditioned on the requirement that any video dialtone service offered after January 3, 1995, have available 384 channels of capacity and that all video programmer- customers pay the tariffed rates filed with and approved by the FCC.”¹⁴

And it is clear from Bell Atlantic's releases that this network was tied directly to Opportunity New Jersey with “all” of the customers getting interactive video “during the next several years”. That's 1996-1997, not 2006-2007.

"This video dialtone network is significant to New Jersey because it reaffirms the state's historic leadership in introducing new telecommunications technology that benefits consumers, the economy and quality of life. *Under Bell Atlantic-New Jersey's Opportunity New Jersey plan, we will offer interactive video capability to all of our customers during the next several years.*"¹⁵

The FCC materials clearly demonstrate that this was new fiber-based networks, not simply a rehash of the old copper wiring.¹⁶

“New Jersey Bell states that the video signal will travel over *fiber optic cable to the curb* and over coaxial cable from the curb to the home.”

“Common Carrier” Provisions Were Included to Make Sure the Networks Were Open to Competitors.

The FCC's video dialtone decisions clearly laid out that these networks had “common carrier” provisions for use by competitive services. Common carrier means open to competitors for the public interest.¹⁷

“In the Video Dialtone Order, released in August 1992, the Commission established the video dialtone regulatory framework. The Commission defined video dialtone as the provision of a basic common carrier platform to multiple video programmers on a non-discriminatory basis. A 'basic platform' is a common carriage transmission service that enables customers to gain access to video programming carried on that platform. If a local telephone company provides such a basic platform, it may also provide enhanced and unregulated services related to the provision of video programming.”

The Commission also made sure that these networks would not be funded through customers or discriminate against competitors by the companies controlling the wires.¹⁸

“The Commission granted the application subject to conditions that will help protect against improper cross-subsidization and discrimination by New Jersey Bell, and help ensure that sufficient video dialtone capacity is available for video programmer-customers.”

The issue of keeping the networks open to competition was repeated page after page in the state Commission's decision. “Unbundling” means to make competitive services available by selling necessary components of the network for the use by a competitor.¹⁹

“Staff submits that the unbundling provision must apply to all competitive services and not just a for new filings to make a service competitive...”

“The Board 'FINDS' that it is essential that this Board encourage optimal use of the public switched networks, and that therefore NJ Bell shall be required to unbundle all noncompetitive service into service arrangements... so that competitors may market such services.”

The Outcome — Opportunity for the Bell

According to the NJ Advocate, the original rate of return regulation was replaced by Opportunity New Jersey, an alternative regulation plan based primarily on the promise of "greatly accelerated deployment of advanced technologies ... approximately \$1.5 billion dollars above current expenditures".²⁰

"The ONJ (Opportunity New Jersey) plan replaced traditional rate-base/rate of return regulation with an incentive ratemaking system in exchange for a commitment from BA-NJ to greatly accelerate deployment of advanced technologies in its communications network to the entire State by the year 2010 at *an estimated additional capital expenditure of approximately \$1.5 billion above 'business as usual' from 1992 through 1999*. Through the incentive of alternative regulation under the ONJ Plan, BA-NJ was given the financial flexibility to operate in the new competitive telecommunications market in exchange for commitments to upgrade the network in order to realize 'positive benefits' to the New Jersey economy."

In fact, according to the Advocate, the Bell company only spent \$79 million, not the \$1.5 billion promised.²¹

"Although BA-NJ projected that it would expend approximately \$1.5 billion in network investment above "business as usual" by the end of 1999.... However, the Ratepayer Advocate has calculated that *BA-NJ has spent a total of \$79 million above 'business as usual' over these years.*"(1992-1995)

More to the point, the actual dollars spent on construction dropped below normal levels from 1992-1995.²²

"BA-NJ can hardly be characterized as having made capital expenditures beyond 'business as usual' during the first three years of ONJ. (1992-1995) Indeed, in constant 1987 dollars, the company's capital expenditures have actually decreased. "

How did Bell Atlantic prosper from the plan? — By 1997, almost one billion dollars of excess profits and a return on equity almost twice what a regulated monopoly should be making was their reward.²³

"Since the time of the adoption of the ONJ Plan, BA-NJ has received enormous financial benefits, greatly in excess of the Company's original projections. The gains captured by BA-NJ, which probably would not have been achievable but for the Plan, as set forth immediately below, involve earnings, dividends, return on equity, cost of debt and additional benefits."

During this period: (1992-1995)

- "BA-NJ paid out an additional \$954.8 million in dividends* over what was
- projected in 1992." (1992-1995)
- "the Company is earning a return on equity in excess of 21%, well above the average New Jersey State utility rate of return (11.25%) and substantially higher than any rate of return authorized by the Board in recent memory."
- "net earnings have increased by \$85 million, its cost of debt has declined substantially resulting in an annual savings of \$22 million in interest expense."

NOTE: *Dividends, in this case, are the monies that New Jersey Bell paid to Bell Atlantic, the holding company.

Oh-Oh, Another Billion Owed? What About the Massive Network Write-offs?

The Advocate found that Bell Atlantic-NJ dividends were excessive and that the return on equity had doubled, but there was another billion dollars of extra profits that they didn't include. It was accrued from a massive network write-off, based on a change in accounting, a change that was implemented because of Opportunity New Jersey.

"Depreciation" is a business accounting term that describes how a company writes-off its construction expenses. We explain this issue in more detail in other sections and in Volume Two.

Essentially, by accelerating the write-offs, the Bell companies were able to garner billions in basically free cash. This cash was supposed to be used specifically to build the fiber optic highway, but virtually nothing was ever built.

More to the point of our story, in examining the 1994 Bell Atlantic-New Jersey Annual Report, we find that with the implementation of Opportunity New Jersey, the telephone company changed its accounting principles and took additional write-offs, adding over \$1 billion in free money. This accounting change is called "FAS 71" for "Financial Accounting Standard 71".²⁴

EXHIBIT 46

Bell Atlantic New Jersey, Write Off Bonanza, 1994

(in the millions)

Increase in plant and equipment depreciation reserve	\$ 946
Other regulatory assets and liability elimination	\$ 67
Total	\$ 1,013

Source: New Jersey -Bell Atlantic Annual Report 1994

This billion dollars was applied to income tax, and so the company showed the charges as a savings of \$423 million in taxes and a charge of \$589.7 million in extra cash.²⁵

"In connection with the decision to discontinue regulatory accounting principles under Statement No. 71, the Company recorded a noncash, ***after-tax extraordinary charge of \$589.7 million, which is net of an income tax benefit of \$423.2 million.***"

And make no doubt about it. These savings were accrued because of Opportunity New Jersey.²⁶

"The Company's determination that it was no longer eligible for continued application of the accounting required by Statement No. 71. It was based on the belief that the convergence of competition, ***technological change (including the Company's technology deployment plans)***, actual and potential regulatory, legislative and judicial actions, and other factors are creating fully open and competitive markets."

Other Analyses Demonstrates' Verizon's Ability to Benefit from ONJ Over Customers.

The Advocate's report was not the only data to show that Verizon-New Jersey had essentially gamed the regulatory system in order to make more money. A study done by Economics & Technology found many of the same issues; a failure to invest coupled with cuts in expenses and new profits, and the only opportunity was to New Jersey Bell, not the customers.²⁷

“The state's current regulation system, which was authorized by the New Jersey legislature in its 1992 *Telecommunications Act*, offers Bell Atlantic-New Jersey, Inc. (“BA-NJ”) expanded pricing flexibility and the opportunity for significantly increased earnings in exchange for a commitment by BA-NJ to substantially increase its level of investment in New Jersey's telecommunications infrastructure under the so-called “Opportunity New Jersey” (ONJ) Plan.

“In the five years following the Board of Public Utilities' adoption of the ONJ Plan, BA-NJ has enjoyed major financial benefits even though it has not increased its investment as promised and has opposed competition at every turn. The increased pricing and earnings flexibility coupled with reduced investment and continued monopoly pricing practices has enabled BA-NJ's profits to soar under alternative regulation. Consumers clearly have suffered under the ONJ Plan from unnecessarily inflated prices for many services, and have received few benefits in the form of new services and increased competitive choices.”

The report continues: “Since the adoption of the ONJ Plan in 1993:

- BA-NJ's financial return on equity (ROE) jumped from 22% to almost 40%.
- Rather than put those profits back into its telecommunications infrastructure, BA-NJ actually *disinvested* some \$76-million between 1993 and 1995. (“Disinvestment” is to write off more than you put into new construction.)
- BA-NJ has paid increasing dividends to its parent holding company since 1993, and in fact, BA-NJ's dividend payments to Bell Atlantic Corp. are among the highest, on both a relative and an absolute basis, of any BA operating company.

- In 1997, BA-NJ provided a \$559-million dividend to its parent — equating to approximately \$93.17 per access line per year (or \$7.76 per line per month). By way of comparison, BA NY's dividend was only \$42.52 on a per-access line basis (\$3.54 per line per month);

A Case of Fraud and Deception: The Equipment Didn't Work and the Network Couldn't Be Built.

It is now clear in 2005 that Bell Atlantic could not build the networks that they had committed to, not for the price and even the technology standards were unobtainable.

How do we know this? Well, Verizon, of course, is one source. The simplest example: compare the following statements. Verizon, in 2004, claims it was just starting to roll out a new fiber optic technology. However, starting in 1992, the company made claims that it was rewiring whole states with fiber-to-the-home by 2000, as told by other statements below, made a decade earlier.

Verizon May, 2004

- **Verizon, May 19, 2004** "Verizon has begun installing in Keller a new technology known as fiber to the premises (FTTP), which uses fiber optic cable and optical electronics to directly link homes and businesses to Verizon's network. The fiber-optic connections will replace traditional copper-wire links.... Although the use of fiber optic technology is common throughout the telecom industry, Verizon is the first company to begin using it to directly connect homes and businesses to the network on a widespread scale."
- **Verizon, May 19, 2004** "FTTP is moving from field trials and the lab to the real world, and it's happening in Keller first," Verizon Network Services Group President Paul Lacouture said at a news conference with city officials here today.... In short, we are building a new network that will make us the broadband leader in the 21st century... Overall, Verizon plans to pass about 1 million homes in parts of nine states with this new technology by the end of the year."

Bell Atlantic, 1993-1996

- **Bell Atlantic 1993 Annual Report** "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 expect Bell Atlantic's enhanced network will be ready to serve 8.75 million homes by the end of the year 2000. By the end of 1998, we plan to wire the top 20 markets.... These investments will help establish Bell Atlantic as a world leader...."
- **Bell Atlantic Press Release, July 1996** "The company plans to add digital video broadcast capabilities to this "fiber-to-the-curb," switched broadband network by the third quarter of 1997.... Bell Atlantic plans to begin its network upgrade in Philadelphia and southeastern Pennsylvania later this year.... Ultimately, Bell Atlantic expects to serve most of the 12 million homes and small businesses across the mid-Atlantic region with switched broadband networks."

The last two quotes by Bell Atlantic (pre Verizon), are just a few of tens of thousands of statements, filings, testimony, state commission orders, state legislature decisions, all to change state and federal laws to give these companies more money — money that was supposed to be spent on fiber optic-to-the-home upgrades that did not happen.

Unfortunately there was a very dark secret — the system couldn't be built. As discussed in other sections, the technology wasn't available — not for the price that the companies had outlayed for each home, and there were even questions if it could be built for any sum. According to a report titled "The Information Superhighway: Get a Grip", by New Networks Institute, 1994:²⁸

“Numerous speeches given at a conference titled 'Interactive Marketing', May 1994 ('Interactive Marketing Conference', Orlando Florida, May 11, 1994; now part of Soft Bank Conferences), discussed the technological and manufacturing hurdles required to bring to the residential subscriber full-motion, interactive video services. The consensus was simple:

- The boxes required computer chips that were not yet being mass manufactured.
- The initial boxes would cost \$2,000–\$5,000 per unit, since they are, in reality, high-speed computers and not production models.
- The mass market manufacturing price would most likely wholesale for \$1,200–\$1,500 per unit.

“In fact, in most of the interactive TV trials during 1994-1995, the price per set-top box was between \$4,000-\$5,000. The Time Warner trials in Orlando, originally scheduled for spring 1994 (and shut down in 1997) were delayed a year because even the prototypes were not fully operational and the boxes reportedly cost \$5,000. In another trial by Viacom and AT&T in Castro Valley, that was also canceled, the cost was \$4,000 per box. This \$4000-\$5000 box didn't take into account the network upgrades, or the digital switches and servers, which were believed to cost an additional \$1,000 to \$1,200 per subscriber.”

And there were obvious signs that there were problems with the Info highway build. For example, Bell Atlantic halted its video service plans in April of 1995.

“Bell Atlantic Halts Plan for Video Services”, *The New York Times*, April 26, 1995²⁹

“Bell Atlantic Corporation called an abrupt halt to its scramble into television yesterday. Saying it wanted to rethink its strategy for upgrading its telephone network, the company asked the Federal Communications Commission to suspend its application to offer video services to as many as three million telephone customers....”

Meanwhile, an article in *The New York Times*, December 18, 1995, stated that:

“Bell Atlantic revealed that it cost \$17,000 per household to build and deliver a Full-Service network.” (in Toms River, New Jersey) ³⁰

Deception Impacting Every Verizon State

We need to also make clear that while this chapter pertains to Verizon-New Jersey, Verizon essentially used the same pitch in 13 states, and there is no evidence that any massive fiber-based undertaking in any one of the states occurred. Pennsylvania, New Jersey, Massachusetts, Rhode Island and other states had state fiber optic deregulatory plans that had passed in 1993-1995. NYNEX, in Massachusetts, had told the public and regulators it would have 330,000 lines installed by 1995. Pennsylvania's commitments were to have 50% wired in rural, urban and suburban areas wired by 2004. Nothing was put in, though these companies argue that the fiber wiring somewhere in the phone networks' ether is what was promised. Poppycock. — That wiring is, at best, a highway with no on-and-off ramps.

Verizon's Own Data Shows the Company Is Involved in a Case of Deception.

Let's go back to the money issues. If the Ratepayer Advocate's information or the findings of Economics & Technology weren't damaging enough, it is clear that Verizon was able to simply say anything added by a regulatory body that had no interest in investigating the actual facts of Opportunity New Jersey.

But don't take our word for this. Here's Verizon's own information as supplied by their own annual reports.

Employees and Construction in New Jersey Are a Joke.

According to the Bell Atlantic 1997 Infrastructure Deployment Report, the company had invested \$3.3 billion and had hired 4,355 employees.³¹

"ONJ and Access New Jersey, the company has invested \$3.3 billion and hired 4,355 employees in New Jersey since the implementation of ONJ."

Employees

Basic analysis of this statement in 2005 clearly shows the company lied. From 1993 through 1997, there are only decreases in the number of employees, a loss of 2,500 jobs to be exact.

While there were some increases during 1997 to 2000, by 2004 Verizon had cut 45% of the staff, from 15,000 in 1993 to 8,240 employees in 2004. The proof are the company's own annual reports and the FCC's last published report "Statistics of Telecommunications Carriers, 2004-2005". This information is supplied by the phone companies to the FCC.³²

Exhibit 47

Verizon New Jersey Employees, 1993-2003

	1993	1994	1996	1997	1999	2003	2004	%
Employees	15,000	14,500	12,100	12,500	13,000	8300	8,240	-45%

The next series of quotes just reinforces this exhibit with the actual quotes.

New Jersey Bell 1993 Annual Report³³

"As of December 31, 1993, the Company employed *approximately 15,000 persons*, including employees of the centralized staff at NSI. This represents approximately a 1% decrease from the number of employees at December 31, 1992."

New Jersey Bell 1994 Annual Report³⁴

"As of December 31, 1994, the Company employed *approximately 14,500 persons*, including personnel managed by the centralized staff of NSI. This represents a decrease of approximately 5% from December 31, 1993."

New Jersey Bell 1996 Annual Report³⁵

"As of December 31, 1996, the Company had approximately *12,100 employees*."

New Jersey Bell 1997 Annual Report³⁶

"As of December 31, 1997, the Company had approximately *12,500 employees*."

New Jersey Bell 1999 Annual Report³⁷

"As of December 31, 1999, we had approximately **13,000 employees**."

New Jersey Bell 2003 Annual Report³⁸

"As of December 31, 2003, we had approximately **8,300 employees**."

But to show that Verizon is simply playing with the numbers, in its most recent phone bill insert, November 2005, it now claims that there are "almost 15,000 employees".³⁹ Verizon is clearly attempting to mislead the public by combining its wireless services with its local phone service to prop up the employment numbers. The latest phone bill insert is at odds with a third set of numbers as testimony provided by Verizon at the NJBPU public hearing on January 5, 2005, when Verizon claimed that Verizon had 12,000 employees.⁴⁰

Construction

Verizon also claimed that it had been investing in networks. Their 1997 Infrastructure report stated:⁴¹

"Bell Atlantic has invested \$3.3 billion in New Jersey in the five years since the plan was approved."

More to the point, The phone bill insert for November 2005 claims that weekly investment is \$7.9 million a week or \$411 million.⁴²

"Weekly investment in NJ \$7.9 million."

This is embarrassing on multiple levels. First, prior to ONJ, the company averaged \$600 million a year. From 1993-1997, the ONJ years, the company's spending over what they were spending in 1991-1992, is only \$392 million total — off by a factor of 10. Meanwhile, for 2003 and 2005, the company under-spent \$345 million. (We could not find a similar source for 2004.)

Exhibit 48**New Construction by New Jersey Bell, 1991-2003**

	1991	1992	1993	1994	1995	1996	1997	2003	2005
New Construction	\$609	\$596	\$590	\$629	\$604	\$772	\$787	\$444	\$411
ONJ Spending				\$29	\$4	\$172	\$187	-\$156	-\$189
Under Construction	\$187	\$174	\$203	\$278	\$240	\$128	\$132	\$59	

However, if you examine the **'under construction'** numbers after ONJ was passed, the company dropped spending to BELOW what they were spending prior to ONJ— they never put the money in the ground. In 2003, the last published number, the company only spent \$444 and only \$59 million was for new 'in progress' construction. The 2005 statistics shows that new construction is at an all time low.

Construction and Staff Cuts in Relationship to Increased Revenues.

In examining the Bell companies' overall revenues from 1984-2004 for this book, we found that while revenues increased 128% since 1984, construction and staff in relationship to the increased revenues were down about 65%. Without full audits, it would be impossible to determine all of the revenues in New Jersey because we contend that a great deal of the current expenses are being 'cross-subsidized', meaning that DSL, long distance and other services are being funded out of the local phone business, such as the mailing for the "insert" in the bill. Under the current deregulation, the phone companies get to move the monies around and so the actual cuts in construction or staffing would have to be examined through the costs of just local phone service, as well as the revenues that are not being collected from the other subsidiaries.

Profits Go Through the Roof When the Safeguards of Regulation are Removed.

As we demonstrated in previous sections, once there was no constraint on cutting staff, writing off the networks or construction, the companies became a cash machine, and New Jersey Bell was one of the greediest. The exhibit below shows that the Bell companies' return on equity went from 17.4% (still high for a utility) to 37.7% in 1997.

Exhibit 49
New Jersey Bell Return on Equity, 1991-1997.

	1990	1991	1992	1993	1994	1995	1996	1997	Growth
ROE	17.5%	21.0%	21.7%	22.9%	29.3%	31.8%	30.6%	37.7%	115%

With a national average of 10-12% for a utility as standard returns, these returns should have been decreased through rate reductions throughout the 1990's. Instead, the company was able to increase these obscene profits by 115%.

Overcharging Estimate

New Jersey, the first Deloitte & Touche Opportunity plan, clearly shows how just how much a company can get away with when no one is properly monitoring a monopoly provider.

\$5-\$6 Billion in Overcharging — Based on our current estimates of overcharging, we believe that New Jersey Bell got approximately \$5 to \$6 billion dollars in excess profits since 1992, the exact amount would require a full audit.

Over \$2000 per Household. — As we explain in the other sections, we estimate that nationwide the average household is owed over \$2000.00, and we consider this to the LOW number when all factors are taken into consideration.

\$150 Billion Loss to the Economy — We estimate that this state lost over \$150 billion in economic growth, about \$15 billion a year. However, because of the Verizon pull out of fiber optic plans, other New Jersey based companies, including Lucent, were also directly harmed.

Additional Billions in Missing Equipment Added to Phone Rates. In 1999, the FCC released a series of reports which showed that 20-25% of all equipment on the companies' books was either missing or 'unverifiable'. Nationwide, the FCC found \$18.6 billion, but that only represented ¼ of the potential audits. During an interview⁴³ with a former Bell staffer who had worked on the books in New Jersey, it was clear that over 1/3 of the equipment was missing at the time of divestiture in 1984. This is important in that the equipment in the network was used in the rate

making process for ALL rate of return analyses. Thus, we contend that every charge in New Jersey was inflated and never properly adjusted.

Teletruth filed a complaint with the New Jersey commission and the IRS over these matters. The New Jersey Commission rejected our request for an investigation.⁴⁴

FIOS FIASCO.

Volume II goes into detail about the lame deployment of FIOS, Verizon's newest fiber optic fiasco.

However, Verizon is now claiming that this "FIOS" is the fulfillment of the Opportunity New Jersey commitment to rewire the state — which is patently not true. According to a letter from New Jersey League of Municipalities, Verizon is claiming that as long as they deliver fiber by 2010, they're in the clear.⁴⁵

"In 1993 the Board of Public Utilities (BPU) came to an agreement with Verizon, called Opportunity New Jersey, which obligates Verizon to upgrade its telephone network by 2010 to include broadband access throughout its service area. Verizon's installation of fiber optic cable is part of this telephone system upgrade and subject to BPU review for compliance with applicable laws governing the telephone system.

"Verizon has assured us on several occasions that they intend to abide by all appropriate state and municipal processes, including franchising, if and when they officially seek to offer video service over their fiber optic network."

Verizon has also started to apply for franchise agreements to be allowed to offer cable services. According to an article in NorthJersey.com,⁴⁶ the company plans to roll out services, possibly by 2006.

"Verizon said it will be ready to turn on TV service in 70 towns by year-end. If the franchise process begins on a town-by-town basis this summer, consumers won't see service until mid-2006."

FIOS is a Bait and Switch.

Exhibit
The Verizon ONJ Commitments vs FIOS

	Promised to Customers	FIOS, 2006⁴⁷
First deployment of video	1996	A decade late, still doesn't work.
Households	75% of the state	"0" — 45 Mbps services.
Speed, Bi-directional	45 Mbps	Up to 30 Mbps/5 Mbps
Price	\$40 bucks	\$179.95 - \$199.95
Video	384 channels	NOT AVAILABLE YET
Layout	All Areas Equally	Wealthy Areas Mainly
Open or Closed?	Open To ALL Competition	Closed to ALL Competition

A Few Essential Points Need to be Stressed:

- 1) Under Opportunity New Jersey, over 75% of the state should have already been wired.
 Today, "0" households can offer the services promised in 1993.

Exhibit 51
ONJ's Broadband Digital Deployment vs Without ONJ

		1993	1994	1995	1996	1997	Commitment
Without ONJ	acceleration(est.)	0%	0%	0%	1%	1%	none
With ONJ	acceleration(act.)	n/a	n/a	13%	19%	34%	100% in 2010

Source: Bell Atlantic's Infrastructure Report Summary for 1997.⁴⁸

In examining the information supplied by Bell Atlantic in their 1997 Infrastructure Report, the "Broadband Digital Service", capable of 45 Mbps, was supposed to be delivered continuously starting in 1995 when there was supposed to be 13% of the state wired and continuing to 34% by 1997.

- 2) FIOS is over a decade late – that's right, its debut was to be 1995, not 2006 in New Jersey.

- 3) FIOS is not even close to the speed promised in 1993. Today's FIOS is essentially a one-way service, with the upstream being 5 Mbps or less, and the top speed of 30 Mbps.
- 4) FIOS Video Services is NOT available in New Jersey yet.
- 5) The ONJ Service promised had 384 digital channels. FIOS has 180 video and music channels.
- 6) Price: FIOS 30 Mbps service cost \$179-199 a month, not \$30-50 dollars. How is the FIOS price a 'consumer product'?
- 7) FIOS are Closed Networks. Customers funded an 'open to all competitors' network with 'common carrier' obligations. FIOS does not allow competitive services, video, etc..
- 8) Universal, Ubiquitous Service vs Verizon Pick and Choose. The original ONJ was to wire all communities, urban, suburban and rural equally, not just the richest communities.⁴⁹

"Bell Atlantic and its 17,651 employees in New Jersey are committed to deploying and using the most advanced technologies to ensure that *all New Jerseyans will have the opportunity to enjoy the promise of the Information Age. BA-NJ's advanced services are available to customers in urban, suburban and rural communities.*"

- 9) Customers were overcharged \$2000 per household already for a service that they still can't get and may never be available in their neighborhood, if at all.

In fact, only two communities in America are even being offered Verizon's FIOS TV as December 2005 --- Keller TX, and Herndon, VA, "First Rollout in East".⁵⁰

"The future of television arrives this week in this northern Virginia community, when Verizon unveils Verizon FiOS TV over its revolutionary fiber-optic network here.

"Herndon is the second community to date in which Verizon is offering FiOS TV. The service debuted Sept. 22 in Keller, Texas, and customer sales there have been strong. Verizon plans to make FiOS TV available in the future in other communities in Virginia and across the company's service territory."

Coda: The Outcome of Dover

An article in *The New York Times*, December 18, 1995, quoted Bell Atlantic, which stated that the price to deliver the "Wonderland" applications was about 17 times the original cost.⁵¹

"Bell Atlantic revealed that it cost \$17,000 per household to build and deliver a Full-Service network."

The project was dropped like a hot potato. By 2001, Telephony magazine wrote.⁵²

"Bell Atlantic, one of the earliest in the overbuilding game, gave up the ghost quickly, shuttering its Toms River, N.J., operation."

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- ²¹ Ibid.
- ²² Ibid.
- ²³ Ibid.
- ²⁴ Bell Atlantic-New Jersey 1994 Annual Report. Note that New Jersey Bell is also a public company and therefore had its own filing requirements. This has changed since Verizon took over. As of 2004 there is no longer separate reporting requirements, it seems.
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