BOOK VII

Customers and Conclusions

Chapter 43 Consumers And Telephone Service — What They Don't Know Can Hurt Them.

In order to complete the picture of the Bell's impacts on customers, and what needs to be fixed, we'll like to summarize the NNI consumer data presented and add some new details. We're going to focus on:

- Customer confusion is universal.
- Consumer data supports replacing many state rules, with new federal guidelines, saving on the costs of 50 legal battles..
- State and federal laws are diametrically opposed to customer needs.
- Some groups, such as Seniors, to small businesses users were adversely impacted by Deregulation.
- Since most customers Never wanted the Info Bahn, or really care about competitors, what should happen next?

So let's add some more facts, focusing on NNI's consumer surveys.

Consumers Have No Idea What Anything Costs and Phonebills are Unreadable. (627)

Most people believe that a root canal is more pleasant that reading a telephone bill. Of course it could be because the bill was not meant to be read. Take for example, the next quote from an early Candice Bergen Sprint advertisement, circa, February 1993.

"This is the Structure of DNA. *(Shows Picture of DNA)*
This is a Schematic for the B1 Bomber. *(Shows Picture of B1 Bomber)*
This is a Long-Distance Calling Plan. *(Shows Picture of Long-Distance Plan)*
What do they have in common?
You can't read them."
Sprint Ad, February 1993

The Bells constantly advertise their companies on continual basis. However, the adds focus more on image advertising to extol their virtue — "We're all Together", (628) or the "Heart of Communications" (629). But when it comes to customer education, the companies have been either totally ineffective or totally missing. Why? It could be that an educated consumer is their worst enemy. And just how much the customer doesn't know, allows the company to use this lack of knowledge to their advantage.

What does the customer knows about their charges? Nothing. Nada. Zip. Not a thing. In fact: (630)

0% of the population can answer basic questions about the cost of the telephone services. This includes people who do or do not read their entire bill or the "bill stuffers" i.e.; the accompanying information.

For example, some charges are total ciphers. We found only 28% believe they are paying the FCC Subscriber Line Charge, even though everyone in America pays the charge. Meanwhile, 70% either don't know or think there is no charge. (631)

EXHIBIT 131
Are you Paying an FCC or Subscriber Line Charge?

	Paying the Charge	No Charge	Don't Know
FCC Line Charge	28%	23%	49%

Source: NNI, 1993

While the guesstimates for FCC Line Charges show that it's closer to a flip of the coin than actually knowing the price, the cost of directory assistance faired worse. As we mentioned previously only 2 out of 1000 people were accurate in their answer. Almost half, 46%, thought that directory was free or they received free calls.

Reading the Bill or Bill Stuffer — No Better Answers

You'd think that if someone stated they read the entire telephone bill or the Bill Stuffer, the material that comes with the bill, that they would get more correct answers. Most people believe that the bill is too difficult to read. And only 6% of the population reads the entire thing. In fact, virtually no one reads the Bill stuffer. And when they do, it doesn't matter. (632)

EXHIBIT 132

What People Read on a Telephone Bill*

Long Distance Calls	31%
Amount Due	27%
Call When and where	15%
Check for Errors	8%
Read it all	6%
Taxes Charges	4%
Other	4%
Local Call	3%
Bill stuffer	1%
Due Date	1%
Total	100%

Source: New Networks Institute, 1993

These findings bring up a specific point. Regulators have failed to make sure that the Bells used some of their ad dollars to educate the customer.

And besides education, the telephone bill and all of its charges are too complicated. In some cases, the definitions of the services such as the FCC Line charges, are so obtuse as to be almost non-sense. And we believe it stops the customer from realizing there's a problem. and then complaining.

No Major Geographic Differences or RBOC Differences — Yet 50 Different State Laws (633)

Regardless of where a respondent lived, in question after question there were virtually no differences in consumer responses. Whether the question was "Are you paying an FCC Subscriber Line Charge?", or whether the customer wasn't interested in new technologies, from Des Moines to Atlanta, there was little, if any, state or regional differences. In the exhibit below, an average of 28% thought they were paying an FCC line charge, with little regional variation, while an average of 16% of America were 'very interested in videophone", no matter where they lived. (634)

EXHIBIT 134

No Regional Differences for Consumer Responses, 1993

	Northeast	South	MidW	West	Avg.
I am paying an FCC...	27%	31%	25%	29%	28%
Very Interested in Videophone	13%	17%	15%	19%	16%

Source: New Networks Institute, 1993

And there were very few state differences to any answer. The customer in New York or the customer in California had no idea what a directory assistance call cost. In short, while the Bells and regulators yell that their specific fiefdom is different, there were virtually no differences in consumer responses based solely on geography, either by region, RBOC, or by state.

These findings seriously question the need for 50 different state laws, with 50 different legal proceedings. While there are some differences between Rural vs Urban needs, and there are pockets of different group needs, such as Silicon Alley, or more seniors, such as Florida, there is nothing to suggest that there is a need for 50 of everything.

In the most recent challenge of the FCC's interconnection rules, the states complained that federal regulation is improper. We believe that since the customer's desires are quite similar throughout America, then Federal rules makes the most sense, cutting back on fifty costly examinations, and fifty different fiefdoms controls, which has traditionally only helped the Bells.

Age Is One Of The Major Determinants To Consumer Attitudes And Perceptions (635)

Almost all responses to questions pertaining to attitudes show that age, not geography, is the most important criteria for analysis. For example, the younger you are, the more likely you want new technology, cheaper prices, or give lower ratings for telephone and cable companies. The younger the respondent:

- the more "telephone active" they are.
- the more they want new technology, i.e., videophone or movies on demand. This includes everything from the use of answering machines and owning VCRs to custom calling features.
- the less loyal toward their telephone company and more willing to leave for cheaper prices.
- the more they spend on telephone services.

Conversely, the older the respondent:

- the less likely they are to use the telephone a lot. ("telephone inactives").
- the less they want new technology.
- the more loyal they are to their current telephone services.

As we discussed earlier, when consumers were asked if they were interested in Interactive Services, only 82% of 18 to 24 year olds were interested in new services, as compared to only 30% of Seniors. The overall average of non-interested customers was 42%.

The Active vs. Inactive Distinctions

Some customers and families are heavy users of telecom services, while others use it infrequently. And while age is a major criteria for determining attitudes, within the overall population, and therefore each age category, there are two primary distinctions between telephone users: **Actives** and **Inactives**. (636)

The active profile shows:

- 40% of the population are Actives, and they spend about twice as much Inactives, and make 2/3rds of all phonecalls.
- Actives are somewhat younger, but each age group has active and inactive users.

- Actives use many services, such as touchtone and other calling features unlisted numbers, answering machines, make more long-distance calls.

Conversely, Inactives:

- 60% of the population only makes 1/3 of the calls
- The customers only have a few calling features
- Makes much fewer long distance calls.
- Inactives spend almost 1/2 the amount of an Active family.

These distinctions are found for almost all human endeavors, and is commonly known in marketing as the 80-20 rule—20% of the population making or purchasing 80% of all items. For example, an active Mc Donald's customer might eat there 3 times a week, while and Inactive might eat there every two months or less. Therefore, the active customer would eat there 150 times a year compared to the inactive who eats there 6 times. If they each ordered the same meal, the first customer would bring in 140 meals more.

Nothing Matters When it Comes to Consumer Education — Every Group, Everywhere, Doesn't have a Clue. (637)

One very clear point is that nothing matters when it the customer's telephone bill education. From knowing the price of service, such as the cost of directory assistance, to whether the customer is paying an FCC line charge or E911 charges:

> **NOTHING Matters when it comes to consumer awareness of their Phone Services. NOT Age. NOT Geography. NOT User Groups. NOT Actives of Inactives. No One has a clue.**

Notice there is little change between the 6 age groups. Every answer is virtually a "guesstimate". (18-24 years old is the first group) (638)

EXHIBIT 135

Stated they were Paying an FCC Line Charge or E911, by Age

FCC Line Charge

Average	18-24	25-34	35-44	45-54	55-64	65+
28%	22%	33%	33%	27%	26%	25%

E911

Average	18-24	25-34	35-44	45-54	55-64	65+
37	31%	39%	37%	39%	38%	38%

Source: New Networks Institute, 1993

Consumer Needs Clash with Regulation

Besides the failure of the politicians and phone companies to convince the populace that they should want the Info-Bahn, and besides the fact that Congress and the phone companies keep yelling that competition is good for customers, even if they don't want it and it raises prices, regulation has been anti-customer.

- State Regulations that promised new services were doomed. — there never was consumer interest.
- The Telecom Act of 96 is a bust to date — few care about competition.

Using our findings about Consumer behavior and knowledge, what how has it played out.

How Does Telecom Regulation Impact the Differences in the Customer's "Age" or the "Active" or "Inactive" Distinction?

The Hosing of Seniors: Deregulation and the Break-up

From the Bell's beginning, the regulations stacked the cards against. Seniors. Historically Seniors, including my Aunt Ethel, tend to be more phone inactive, and so the deregulation of the telephone and wire was nothing more than a dramatic raising of prices. Seniors didn't know, understand, or care about the changes in these products. They just kept what they had and were severely penalized for their inaction.

As we pointed out, most Seniors were still renting phones even after the price had increased 400%. Also they were not going to rewire their homes, so inside wiring charges mounted up. And when it came to the cost of directory, the Seniors weren't educated to the fact that these services were no longer free. Remember, they had been brought up in an era when Directory was free.

This group has had low usage of Long distance, having been brought up in a time when long distance calls were expensive. Therefore, flat-per month charges such as the FCC line charge, which was to defray long distance charges, as well as the fact that this group rarely qualifies for discount plans, and therefore paid retail, were all new extras that cost Seniors money.

Finally, many state laws required that customers be charged more to pay for the info-bahn, something this group never wanted or would rarely, if ever, use.

Considering that this group lives on pensions, savings and social security, what happened to Seniors ranks as a major scandal. However, the real irony is that many of the regulators mistakenly thought that these were the very people they were protecting, never realizing, or never applying careful analysis to examine the effects their laws had.

"Actives" and Small Home Businesses are also on Hold.

State laws, including the info Bahn Alternate Regulations, have cost this group money in numerous ways.

First, the technology wasn't deployed and this group would been heavy users of advanced services--- so and so they would have had dramatic savings if the promises of the future had actually arrived.

But other costs hit their wallets. To start, the implementation of Measured service, many times mandatory, was just one of the first monetary increases that hit Actives and Small home businesses. As we have shown, the removal of flat-rate service to a per minute charge disproportionately cost more to those who use the phone the most. But this group also pays through the nose for all added features, from Call Waiting to Caller ID. On the home business side, Actives are also strapped with the charges for a second line and installation fees used primarily for fax or the Internet. We have argued that second installations should never been required because a second channel on the same one wire should have been made available a decade ago.

Topping it off, the FCC has just imposed a new second line tax, which went into effect in 1998.

Universal Service Ain't Universal: Who Has Phone Service?

Probably the most impacted by the high costs of telephone service is a group never discussed: the low income and minority households. Because of the costs of installation and start-up fees, as well as a host of other charges, this group has had the most serious problem — just being able to pay for and maintain service. For example, According to the FCC and Census, only 85% of black households in the US had phone service in 1994. (639)

> "Census data show that a smaller percentage of black households have telephone service than other households. In November 1994, about 85.5% of black households subscribed to telephone service."

But a much more revealing statement about the problem came from Larry Irving of the National Telecommunications and Information Agency. (NTIA) Testifying in front of Senate Judiciary Committee hearing about the proposed bills in Congress in 1995, he gave a startling glimpse into the other side of the mass marketplace, that whole areas of America are not as universal as we are led to believe. (640)

> "The Commerce Committee along with Commissioner Andrew Barrett of the FCC have done five hearings around the country. We've gone to South Central LA.., Indianapolis, North Carolina, New Mexico, and we've looked at the issue of Universal Service and who's being left out.
>
> "Mr. Chairman, there are some really troubling problems out there.
>
> "We found that 20% of some communities don't have telephone service. I grew up in Brooklyn. In Bushwick, Brooklyn, 28% don't have telephone service. Ten communities in New York City alone, one-fifth don't have telephone service. Even worse, 65% of some Navajo reservations don't have telephone service.

> "We have a very, very, serious problem. If you are poor in this country you are less likely to have telephone service. If you are poor and a minority, you are even less likely to have telephone service. If you are poor, a minority, and a single woman you have a 43% chance of having telephone service in this nation.
>
> "You talk about the Superhighway. We have people without a foot path and we have to do something about that."

While the overall FCC estimate of households with phone service is 94%, (641) we believe that it is closer to 90-92%, mainly due to the fact that the FCC's statistics are based on census information, and this information has been found to consistently undercount low income/minorities.

And the question of households without phones effects almost all telephone research — especially because it make the picture seem rosier than it really is. For example, NNI has found that many Internet studies done through polling refuse to recalculate their numbers for households without phone service. According to Dr. Donna Hoffman, of Vanderbuilt U, the AC Nielsen /Commercenet Internet study did not take into account households that do not have telephones. This problem runs through almost all major studies including the study done by Intelliquest. According to Intelliquest: (643)

> "The process begins with the random selection of households using a random digit dial (RDD) approach that creates an equal probability of household selection and prevents non-coverage as much as possible (Waksberg 1978). <u>This eliminates all non-coverage bias except the minor amount introduced by households without telephones." (Rich 1977, Tull and Albaum 1977, Wolfe 1979, Weaver, Holmes and Glenn 1975)</u> [Emphasis added]

In 1997 there were almost as many people who reside in households without a telephone than there were people using online services!

Chapter 44 Info-Scandal: A CALL TO ACTION

As I stare at my Aunt Ethel's rotary telephone, having cost over $1,100 dollars or think about the additional charge my parents would have to pay if they wanted Touchtone service ($1.33 monthly), to put it bluntly, the Bells have not fulfilled their promises of the Information Age. There are no fiber-optic, full-motion, interactive 500 channel services. Yet telephone subscribers paid for it. As Blossom Peretz, New Jersey Ratepayer Advocate told The New York Times about New Jersey/Bell Atlantic's fiber-optic deployment : (644)

> "Low income and residential customers had paid for fiber optic lines every month, but had not yet benefited?

In fact, we contend the Bells have cost the average customer hundreds, if not thousands of extra dollars per phoneline — and it's time to get it back.

The Bells, however, think otherwise. Bell Atlantic, in its "1996 Year in Review" states that they have delivered on their Information Age promises. Headlined "Consumers Use Technology to Prosper in the Information Age", their review states: (645)

> "One year ago, Bell Atlantic promised to find more ways to meet the needs of customers who wanted more than "plain old telephone service," and to move them closer to the wonders of the information age.
>
> "Assisted by the growth of computer technology, the Internet and historic changes in telecommunications law, <u>Bell Atlantic delivered on its promise in 1996 by introducing a wide array of services to make life easier for its customers</u>." [emphasis added]

In fact, Bell Atlantic highlights its info age rollout, not with the glitz of full-motion video-on-demand, distance learning, fiber-optic something, or even the extra $11 billion they had promised to spend, but with an easy-to-use Internet service, ISDN, Caller ID, and of course, voice mail — almost all services developed before the Baby Bells were born. (646)

> "In 1996, Bell Atlantic introduced affordable packages for residential ISDN (integrated services digital network) lines to give consumers high-speed connections from home to cyberspace. It launched an easy-to-use Internet access service, enhanced and expanded its own World Wide Web home page and introduced a home page for vendors to sell their products. The company added value to its Caller ID service by expanding the ability of customers to get name information on long distance calls, and the company added new features to its voice mail services to give its customers more flexibility.
>
> "Throughout 1996, Bell Atlantic led the way in ensuring people had the tools they needed to prosper in the information age."

Ameritech's CEO Richard C. Notebaert even scoffed at the idea of bringing new technologies to the customer. At the company's 1997 Annual Meeting, April 16, 1997, he mocked Info Age products, such as videophone. (647)

> "Actually, it is still very tempting for members of our industry to let technology drive their strategies. If something is technically feasible, that's what they pursue. Remember Picturephone? Never mind that it didn't meet the perceived needs of customers... or that its' quality level was not in sync with customer demands... or that its' price point was beyond what customers were willing to pay. It was technically possible! So it was trotted out as a brilliant strategic move. But it wasn't.
>
> "Does this mean that Ameritech ignores futuristic ideas -- or that we shy away from technological breakthroughs? Of course not. But we always let customers set our priorities. Because in the end, customers are the ones who are best able to help us build value for Ameritech's shareowners."

This is a far cry from the cover of Ameritech's 1992 Annual Report, promising "Your link to a better life", with a picture of a blonde-haired boy seeing his ethnic, dark-haired friend via a videophone surrounded by various TV screens displaying The Taj Mahal, Rome Coliseum and the Sphinx. The caption reads: "Dear Jason. How's my English? Your Spanish is better since we've been studying geography together." (648)

In fact, Ameritech isn't focusing on anything like fiber optics. The company now has three basic strategies: 1) roll-out voice mail and other calling features, 2) roll out cable services and 3) focus on international business. (649)

> "The best place to start is with Strategy One -- to achieve significant growth in our core business. When Heather Kiernan of Glen Ellyn lets Voice Mail pick up the calls she can't get to, she is taking advantage of Ameritech's bedrock capabilities.
>
> "... Actually, Strategy Two is already teeming with success. Take cable TV, for instance. Our Americast cable service is now up and running in more than 20 communities in or around Detroit, Cleveland, Columbus -- and right here in suburban Chicago, where young Jordan Kramer has obviously mastered his Red Jr. remote control!
>
> "Despite some fairly desperate attempts by the incumbent cable providers to stop us, we've already been awarded 34 franchises -- and negotiations with additional communities are going forward full throttle.
>
> "That brings us to Strategy Three -- expanding geographically across America and into countries around the world. And here, too, we are making real progress -- in fact, our international activities contributed more than one-third of Ameritech's earnings growth in 1996." (AUTHOR NOTE: Not profits.)

So much for the promise of the Information Age, huh? No full motion this, no fiber optic that, just plain old voice mail, Caller ID and cable services. Of course three years ago, Ameritech's original "Strategy Two", as stated in its 1993 Annual Report, was all interactive services: (650)

> "We will deliver interactive services to homes and business through our new video network. We've stated out position in interactive services for health care administration, education, government, libraries, travel and commerce, as well as entertainment, games and home shopping."

A CALL TO ACTION: We believe there are a series of actions that should be taken immediately.

Chapter 45 The Problems: Let's Review What's Broken in Telecom — Well Everything

• **No Fiber Optic Highway — Just the Same Dirt Road.** To date, there are no plans for any full-blown fiber-optic rollouts, and based on RBOC statements, all the plans have gone decidedly low tech, or no tech.

Where are our 500 Channels? Where are the Interactive Services? When will the monies be returned? It can be argued that telephone subscribers have paid an extra $120+ billion and received nothing more than Voice Mail and Caller ID at super-retail prices.

• **The Bells Still Can't Deliver Some Basic Services.** From the ability to have two phone calls over the same wire, (so that a second wire, installation and therefore new fees is not required), or the ability to allow customers to keep their phone number when they move, there are numerous things that the Bells should have done, but didn't. Worse, many states still charge for Touchtone Service, the ultimate bad joke of the Information Age.

• **The Bell Have Become Some Of The Most Profitable Companies In America— From Not Deploying New Technology.** An example: The New Jersey consumer advocate in her analysis of Opportunity New Jersey (ONJ) found that Bell dividends were one billion above projections from 1983-1996**.** Meanwhile, the Bell's fiber deployment was approximately $1.3 billion short. (651)

• **The Telecommunications Act Of 1996 Was Supposed To Fix Everything, But It Is Seriously Flawed.** The Act was written to bring in local competition and stimulate new technology deployment. Unfortunately, it was based on a series of bad assumptions, and manipulated by a great deal of phone company lobbying —"The most lobbied bill in history", according to Senator Pressler. No wonder there is still no competition almost two years after the fact.

• **NO Second Networks Being Rolled Out.** The basic bad assumption which started in 1991 and was no longer valid by 1996, was that there would be a separate second competing network, such as the cable company or even the electric utility. who would offer local phone service. However, there are no new networks so everything will still be controlled by the incumbents, the Bells. While wireless may become price competitive in five years, there are no plans for anyone to build a new telephone network, especially rewiring homes. Unless the laws are radically changed, the Bells are still in control.

There are a host of other problems that the bill didn't fix:

On the regulatory side, the Telecom Act kept the Public Utilities commissions in power.

• **State Laws are Many Times Lawless** The Public Utility Commissions have created a patchwork quilt of laws, with fifty different states producing fifty different regulations, many of which seem to only favor the Bells. And many of the commissions have allowed flawed state Alternate Regulations that promised, but did not deliver on, technology or competition. They just only raised prices. How else can Ameritech state: "Federal and State Regulators no longer examine the company's profits." (652)

In fact, state laws are now driving up prices. In California, Pac Tel was barely scratched from competition of toll calls, yet the PUC allowed for a "rebalancing" of the charges on the telephone bill, adding 35% to local service. In fact, in many states, any new funds the Bells lose through a competitor reselling their network will be made up from by new surcharges and additional access fees, thus raising prices.

• **Competitors Have No Room to Move.** Most of the state laws are charging competitors inflated network charges, with very small, 20%, margins to make money. According to competitors, they can not make a profit or charge less than the incumbent when they are paying high fees. MCI states that BellSouth's costs to competitors in Florida totals $33.83 per line, while the same phoneline retails for residential customers at only $14.15 a month. (653) So where are the massive savings to the customers going to come from?

Meanwhile, the state PUC's successfully sued the FCC alongside the Bell companies to stop the FCC's interconnection order, that gave the FCC, not the 50 different states, the right to determine the costs to competitors!

Worse, the pragmatic reality is that massive Bell staff cuts of over 50% (employees-per-line) have left the remaining staff to handle an ever increasing work-load, and competitor's needs will always be last. Also, the Bells believe the other companies are interlopers and, to date, have done almost everything to impede competitors.

- **Ten Thousand other problems that need fixing** From Digital Spew, the addition of charges on telephone bills that were not ordered, to the erosion of customer service provisioning, the list of what is broken would take up an entire book.

- **Telecom Subsidies are Corporate Welfare Subsidies: A Shell Game with Your Money.** Arguments abound that local service must fund a host of subsidies, such as Universal Service. Meanwhile, there are those that argue that Business customers subsidize residential subscribers and that Urban users subsidize Rural and suburban subscribers.

Unfortunately, after all of the revenues and profits are totaled the only real subsidy is that telephone subscribers are subsidizing the Bell shareholders' excessive profits and entry into other businesses. Without audits and actual costs being analyzed, and to date no total audits exist by any government regulator, all other arguments of subsidy are mute.

- **Consumers Won't Complain— How Can They?** Consumer research shows that the customer is starting to be more concerned about customer phone company services, but there is virtually no concern of who is the utility phone provider. Secondly, customers have no idea about the charges on their telephone bill. They think that rates are protected. Finally, there is no effective voice for change, and so there is no expectation that a revolution is at hand.

Chapter 46 Refunds, Rebates and Lower Prices! — Audits And investigations

The Solution? Start at the Beginning

FIRST QUESTION: Every regulator and local phone company should be forced to answer a basic question — Where is the 500 channel universe and how have the supposedly regulated local phone monopolies become some of the richest companies in America?

Failure to deliver on High Tech Deployment. We believe that $30-$50 billion dollars should be refunded for failure to deliver on promised fiber-optic products and services and prices should be immediately lowered. The Bells will argue that their plans changed. That's fine. Just pay back the extra money collected, because the customer never received the items that they were paying for.

$70-$90 Billion in Questionable Charges — From excessive profits made from "competitive" services that are not competitive, to cross-subsidization between regulated and non-regulated companies, we've outlined hundreds of problems that should be examined for excessive profiteering and use of the monopoly position to garner profits.

Ameritech stated that "state and federal regulators no longer examine the companies profits" — What are they waiting for?

Step 1:Audits and Investigations

States should investigate all Alternate regulation that have promised technology roll-outs, from early ISDN, to I-Way construction and refund the approximately $30 billion that was granted due the removal of profit regulations.

In some cases, such as Ameritech, who rollout out cable services instead of full-service network, the monies for these new networks should be refunded to the subscribers, or the subscribers should become de-facto owners, since almost all of the funds came from overcharging.

Congress and the FCC should set-up its own separate investigations, focusing on:

- Fiber-optic technology deployments,
- state PUCs' ability to adequately monitor the Bells, both for company profits and delivering technology.

The Department of Justice should answer the question — "When did the Bells and their consultants know that they wouldn't roll-out the technology deployments and were the documents submitted by the consultants biased or were the there "cooked books?"

The IRS, FCC, the SEC and the Department of Justice should investigate the "$21 billion dollar 'give-away"— which was excess depreciation charges garnered from the Bell's changing their accounting principles prematurely, from a utility to a free marker company — and all based on their deployment of fiber-optic technology.

The FCC should be required to get accurate statistics. In 1993, NNI filed a formal complaint with the FCC because the statistics presented had serious flaws. For example, NNI found that the prices listed for items such as installations, could be over 370% from actual costs, or the fact that directory charges were not accounted for in basic telephone service statistics. These numbers hide many of the problems. Also, the FCC does not examine the actual telephone charges someone pays nor do they calculate the profits. In fact, according to a 1992 GAO study, the FCC only completes 17% of the audits it has declared "most critical."

The PhoneBill Audit

Today, No Regulator looks at the entire profits of the telephone subscribers bills, and we believe that an independent analysis will show that the profits are 100% higher than a regulated monopoly should be making.

As we have demonstrated, almost all deregulated product revenues, from Caller ID to Call Waiting were declared "competitive" primarily to fund the I-Way projects. Therefore, all charges should be rebalanced and calculated in the return-on-equity. As pointed out, while Call Waiting may cost the customer $5, it only cost a few pennies to provide— and the company pockets the remainder. Instead, all products should be required to fund the basis for the cost of the network.

The FCC and each state should be required to do a cost analysis for all residential and business customers and all services. And all Access fees should be considered pass-throughs paid by customers. This analysis should not include items that are not germane to offering services, from Bellcore Expenses to lawyers and lobbyists, and corporate staff.

Remove all charges for services that have no costs, such as Touchtone Service, or Unlisted numbers, to mention a few.

Repeal all Surcharges and taxes. From the NYS/MTA tax in New York that pays the phone company taxes and gives money to the Transit Authority, to the hard-wired revenues from Deaf Relay to E911, all charges should be a)germane to phone service, and b) all revenues for mandated services should be put up for bid and not direct revenue to the phone companies, c) all services should be examined for profitability to the Bell.

Remove FCC Line Charge and all new FCC additions The Bells are some of the most profitable companies in America. It isn't rocket science to show that an additional charge of $3.50 per residential line, plus $6.00 per business lines is one of the ways the Bells are so profitable.

Cross-Subsidization is rampant and unchecked — fix it. Almost every partial audit done to date has shown that the Bell's have charged subscribers for items that should have been paid for by shareholders. And these partial audits should have been repeated by every state, since many of the audits found identical problems.

<u>Step II</u> — Partition the Bells.

Chapter 47 The Holding Companies Were A Bad Idea — It's Time To Separate, Partition, Break-Up, Or Just Get Rid Of Them.

The seven, (now five) artificially created Bell Holding companies have, in almost every way, put shareholders before subscribers. They have drained the local companies of profits, assets, and staff, and used the monies to purchase everything from furniture leasing companies and real estate, to ownership of telephone companies from New Zealand to Czechoslovakia.

In fact, from the start, the Holding Companies have pleaded poverty, but rarely returned the money to the local subscribers in the form of new services. After 13 years we never received the promise of the Information Age, from delivering ISDN to delivery the Info Bahn.

And telephone rates, the money that customers paid, just keeps going up even though every year the telephone network gets cheaper and cheaper to supply basic services. — It's only electrons traveling through wires, controlled by large computers.

In 1992, we proposed "Divestiture II", a plan that would dismantle the holding companies and allow for the local phone companies to be made into local open access companies to all competitors — and have the network costs be 'regulated'. (654) This would allow prices to remain as low as feasible, provide the customer with great service, and allow competition to drive new enhanced services — all over the primary telephone wire — copper. The cost to customers would fall dramatically because the holding companies dividends and markups would be eliminated.

There are others who have said quite similar things, before and after us. For example, Carol Wilson, a columnist for Interactive Week, 7/2/97, wrote an article titled "It's Time to Break Up the Bells", after hearing about the most recent slew of new combinations. She stated: (655)

> "If there is going to be true competition for all aspects of communication services right down to basic telephone, however, then we need to talk about breaking up the local telephone companies, not growing them."

She also cites one of the original plans from 1990 by Probe Research. According to Wilson, in their ground-breaking report "Taking Over the Telephone Companies", Probe "advised the Bell companies to voluntarily divide themselves into wholes and retain units as a way of gaining access to the long distance markets". (655)

More recently, Bob Metcalfe, the inventor of Ethernet, a founder of 3Com, and more recently a columnist appearing in Infoworld, believes that the Number One problem of the Information Age is the phone monopolies and he has proposed what he calls the "Coppertone Decision" to break up the Bells. Using the metaphor of the movie "Star Wars", where the phone companies are the "Evil Empire" in control of "Death Stars", he states: (657)

> "It is now clear that to destroy the Death Stars we must split the Telopoly Death Star's wiring plant off into regulated monopolies, separate from their voice services, which can then be opened up to competition."

Another version of this separation is "Loop-Co", proposed by of Roy Morris of US One, a company that tried to be a competitor of the Bells, only to find that in 1997 it was impossible.

> "The Loop-co proposal is based on US One's extensive experience. US One has found that ubiquitous entry in local service to be an impossible task with no economic solutions in sight."

Like other proposals, US ONE recommends a separate, unaffiliated local company that would give all competitors a fair chance to use all services. Though the details in all of these proposals might be somewhat different, the main tenets are a separation of the holding company, and the creation of a separate non affiliated local company.

During the editing of this book, LCI proposed their own version of breaking up the Bells, which would separate the wholesale and retail parts of the company. (659) Meanwhile, MCI stated that the LCI proposal didn't go far enough and their sentiments echoes the NNI proposal of 1992 --- full separation of the holding companies from the local phone companies (660)

Far Fetched? Well, remember, the Bells were artificially created and they have just cost customers money. These proposals would remove the Bell's steep dividends, cross-subsidizations and other problems, and return the local companies to a regulated, read lower cost network for everyone.

<u>Step III</u>

Other Provisions

No Bell Entry into Long Distance The Bell's are currently suing the FCC and parts of the Telecommunications Act, in an attempt to enter the long distance markets. Since there is no other second network being built, and therefore no competition for Access fees, the Bells are still in control and can keep prices inflated. Therefore, the Bells should never be allowed into long distance market because they can and will cross-subsidize these markets with excess profits.

Secondly, their failure to deliver on their promises of fiber-optic and technology deployment should be a trigger that allows them into Long Distance. Until these commitments are met, or until the monies have been refunded, the Bell's should not be allowed into Long Distance.

Bell Mergers Were Never "Merger of Equals" and Congress Should Investigate the Misrepresentation. While the Bells billed their mergers as "a merger of equals", the truth is that they were buyouts purchases, and their statements were misleading. In fact, the companies used this business arrangement so that Congressional approval would not be required. Also, making the companies larger was not in the Public Interest. It has not lowered prices. It just made the monopoly stronger.

Examine the Bell's Impacts on Other "Competitive" Industries. The Bells are currently moving into other industries, from Internet access and Alarm services to the cable industry. Since many of these services are being developed with customer overcharging, all of these competitive areas should be examined.

For example, some of the Bells are including Internet access for free when a customer gets a second line, thus using its regulated monopoly to help sell its non-regulated products.

Bell's Complaint that Internet Usage Costs Money is Bogus. Conversely, any business the Bells' can't conquer they try to squash, such as the Bell's filings with the FCC that they companies are losing money from Internet Use, the onliners tying up their networks with congestion.

The truth is if the Bell's had fulfilled their Fiber optic rollout and upgraded their network as promised, then there would be excess capacity. Ironically, the Bell customers would have spent hours watching movies, which would have created much higher congestion since movies require more network usage.

Also, numerous groups, included the Internet Access Coalition have shown that the revenues from Internet users who have second lines more than adequately compensates the Bells.

Investigate The School Wiring Scandal

Pac Bell promised that all of California schools would be wired with ISDN by 1995. (661) Yet according to CNN (662) only 60% of schools even had computers and only half of those were wired, almost all to POTS. Also, schools that try to get supposed discount rates, are finding that these funds are either tied to specific phone companies, and problems abound from there.

With billions of dollars tied to the new Universal Service fund, or state funding for school wiring, (which is adding new charges on telephone bills,) this entire process is more than another way for the phone companies to make more revenues

<u>Step IV — Next steps</u>

Chapter 48 Fiber-optics Was a Lie. Copper Lives. So Where Do we go From Here?

An entire volume could be added on the various 'future technologies, from XDSL, or to HDTV, etc. (663) However, there is a simple answer — if we wait for fiber we will be very old. So instead, advances in computer technologies increasing bandwidth over the regular copper phone network, will most likely be the theme.

More importantly, the basic services that were not deployed, including two telephone calls over the same wire, or the ability for a customer to take their telephone number when they move, should have already been put in place. But obviously, these simple details were overlooked.

So where do we go from here? It is not technological. It is much more basic...

Enforce the Laws on the Books... Duh?

As stated throughout this book, the Bells have not complied with many laws. They have not fulfilled their "competitive checklist" which would have allowed competitors equal access to the networks, and according to many Internet providers and C-LECs, they are supplying sub-standard customer services.

Also, because of federal and state budgets and politics, important audits have not been done, and billions of dollars are in question. The FCC and state regulators should address these issues immediately, because as more competitors try to enter the market, the worse, not better, the situation will become.

Tear Down the Walls— Remove and Repeal the Rate Doctrine.

Ma Bell, and then her children, the Baby Bells, had over 100 years to build walls around their revenues, using lobbyists and lawyers to carefully create legal and regulatory structures that protect their interests.

For example, the author acted as consultant to a series of court cases that tried to get refunds for telephone subscribers. In one case, the plan was to get refunds for Bellcore expenses that were being charged to all Bell customers but were not related to telephone subscribers. (664)

Even though Bellcore is owned by the Holding companies, the Bells apply the fees to each state, which in turn is charged to customers. However, because of the laws protecting the utility, the cases had to be taken by the PUCs. In the case of New Jersey, it was the PUC that had caused the problems by allowing the charges in the first place and then not examining them since 1985. In fact, any rate the PUC sets can not be sued for, unless one want to sue the PUC, which to date, is incredibly hard and expensive.

Similarly, there is something called the "Rate Doctrine", which essentially states that any rate set by the PUCs is unquestionable, unless there is fraud, even if the data used to set that rate was seriously flawed! — A Rate is a rate.

Like the stone walls of a medieval castle, trying to attack the ramparts is virtually impossible because it is so time consuming and expensive, and the laws for rate on the side of the monopoly, not on the side of the customer.

It's Time for Utilities and Regulators to Get a Conscience

The Bell's threw away their Utility image long ago, and since the 1980's have proven time and again that their first and foremost responsibility was their shareholder, not their subscriber. Downsizing made more profits and helped their bottom line, but also caused many customer service problems. And Lobbying and Lawyers were designed to only remove regulation to make more profits, not deliver better services. From cuts in construction expenses to cross-subsidizing expenses whenever convenient, the Bells all the while used their excess profits to double spending overseas, rarely remembering that their first and foremost obligation was to the public interest.

The copper wire lays there, paid off years ago, and until there is another wire or other technology that replaces it, phone service is destined to remain a utility and a monopoly, with all newcomers simply renting existing lines.

A new test, the test of public interest should once again be applied to everything the monopoly does, this time using fact and not lobbying monies to make laws.

Info-Scandal's Conclusion

It's time to get your money back and break up the Bells — so do something. This book was written with the intention of supplying enough information and hard facts to show that it is time to make serious changes in telecommunications. And by now it must be obvious that those in charge may never get up off their collective butts to do the right thing. Therefore, we are asking every reader:

- who wants to help us get their money back, between $500 and $2000 per-line,
- whose school is not wired,
- who is paying for Touchtone, Call Waiting or Call Forwarding charges,
- who has Digital Spew on their telephone bills, that they did not order,
- who is paying an FCC Subscriber line,
- who wants to revoke the "Internet and Small Business Tax",
- who's tired of paying 40% of their long distance bill to the local company,
- Who is paying for a second line (instead of the phone company supplying one line with two channels),
- who is waiting for their 500 Channel Interactive Services,
- who wanted ISDN but it was too expensive or didn't work in their region.
- who had bad phone company customer service,
- who believes the PUCs are not serving the public,
- who believes that Congress should get off its butt and fix the laws,
- who believes that the FCC should supply accurate statistics,
- who believes that the artificial Bell Holding Companies were a bad Idea,

...to join us. The specifics of how you can help can be found on the net: HTTP://WWW.newnetworks.com to get more information.

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And, of course, it goes without saying, that the rest of the telecom mafia must be acknowledged and appeased, for they are the ones who made it clear that the path I had taken would be biting the hand that fed me. To Plakman, Harris, Sieck, Reynolds, Seigal, Rosen, Miller, Haines, Berland and Krasilovsky — all friends and almost all Linksters to the end.

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Let's not forget my Washington "deep-throat" and friend, Cullen McCory, the crew at Probe, from Victor Schnee to Bernstein and Rita, Gail Koff and Emily Madoff et al, Kiki Ramirez, Southern Man McKnight, Savage, Santa's Banker Jonathan Petersen, my 10th grade English Teacher, the J-Girl, Bruce "phantom" Fancher, and my data babe, Leslie Contini, who supplied me with 12 feet of stuff and counting. And we must throw in Warneldo, Shirley, Leo, Aunt Ethel and Ralph for their support, not to mention Bauer, Serino, Toadman, Angel, Gottenberg, Dern, Ulhmann, Cattaneo, Young, Young, Blake-Smith, Gehrie, The Ladies at Bay Ridge Mail, Gehrie, Marcus, Sleeper, Mullis, Berse, Rob, and Rivette, Toncic, Ballan, Contessa, Isenberg, Sue-the-Bells, and Fair Telecom.

There are hundreds of others who were significant along the way, most of whom I would think would rather not be reminded, or at least not mentioned by name. Finally, I'd like to acknowledge my friends who still work for the Bells: Bell Atlantic, NYNEX, Pac Bell, Ameritech, SBC, etc.. They are the ones who climb the poles, go down the manholes and answer the phones. And a lot of them were left holding the bag by the corporate need for staff cuts. I hope you realize that I am doing this for all of us.

Coda: How I Came to Write this Book

I never believed any of the hype of the last seven years, but then again, the story for me started on a cold day in 1992. At the time I was a telecom insider — a respected, high-paid telecommunications analyst, having started as a Senior Analyst for Link Resources, in 1985, and then served as President of Strategic Telemedia since 1987. I was traveling around the world discussing the wonderous new interactive telephone technologies, from Interactive 800 and 900 Services, Caller ID and voicemail, to interactive fax and online services. My clients were all of the Baby Bells, including BellSouth and Pacific Telesis, and the long distance companies, including AT&T, MCI, and Sprint, as well as numerous other non-phone companies, from American Express to The Weather Channel.

Then on a cold day in January 1992, I had a small epiphany over a 37¢ call, of all things. I was examining my company's telephone bills and found a one minute call for 37¢, a call from New York City to Montauk NY, approximately 75 miles away. We had just completed a large study for a long distance company and I knew that a call across America only cost 21¢, and this was almost 75% higher. And when long distance company prices were applied to the same calls, nationally, there was a whopping $6 billion dollars of overcharging, annually.

But it was a few weeks later, when I examined the telephone bills of my Aunt Ethel, an elderly, legally blind 87 year old woman who walks, painfully, using a walker, that I realized that one of the largest scams in history had been perpetrated on the American public. And it had effected the elderly, and those who can least afford it, the hardest. And it was continuing unabated.

For example, from 1982-1996 my aunt paid over $1,100 for rental of one rotary telephone (she has two), including $360 to the local telephone company per phone, and she had paid over $625 for two "wire maintenance" charges, a service she stated emphatically she never ordered. For the record, in 1993, 25% of the elderly still rented telephones, and almost half of all US households that are paying wire maintenance fees never ordered it. (2)

"Isn't phone service regulated?" She asked. *"I thought they were protecting me!"* my Aunt exclaimed, while shaking her cane.

So, in 1992, feeling deceived by my former clients, and guilty that I had helped them make billions of excess pennies, nickels, dimes and quarters, I left Strategic Telemedia and created New Networks Institute (NNI) to reveal what I had found. Over the next seven years we published the most comprehensive series of reports ever compiled about how the break-up of AT&T and the creation of the Baby Bells impacted subscribers. It is 14 volumes, over 1,900 pages, 910 exhibits, 2,100 consumer interviews, 6,000+ documents examined, two computer databases — and seven years of my life. (3)

And I was summarily ignored by most of the state and federal regulators, Senators, Congressman, and even the press. The first report, "Telephone Charges in America", was published by Probe Research, a respected telecommunications research/publishing firm. It documented that local telephone prices had climbed 275% since 1982, and that information pertaining to telephone prices or revenues provided by government agencies, including the Federal Communications Commission (FCC), was not only inaccurate, but off by billions of dollars.

Probe's own published findings indicated that there had been at least $35 billion in overcharging from 1984 through 1991. Other groups, including Consumer Federation of America, estimated that there had been $50 billion in overcharging, including taxes, since 1984.

And overcharging claims continue today. For example, in April 1997, MCI stated that the Bells and other local phone companies were overcharging $14 billion dollars just for Access fees, fees paid to the Bells to connect your long distance calls.

After sending out hundreds of our research summaries to government officials, state and local advocates, and a host of other groups, the only surprising outcome was that Vice President Gore's Office arranged a meeting for me with the FCC. There, I found that they were totally underfunded to do any accurate information collection.

My information was, in fact, more accurate than the government agency because I had used actual collections of telephone bills from across America, instead of telephone company supplied information. An example: The FCC's information showed that a New York City business Installation fee was $138.50. When I called NYNEX to order a line, requiring no visit or installation, it cost $598, tax not included. According to Washington Telecom Week. "Sources at the FCC conceded that the methodology used by NNI was more accurate than their own".(4)

Then in 1993, in conjunction with Probe Research, we published "Consumer Attitudes Toward Telephone and Cable Companies". It is based on a nationwide telephone survey of 1,000 consumer households, conducted by Fairfield Research. Another similar survey of an additional 1,000 consumers was conducted at the end of 1994.

We found that 0% of the population could read and understand their telephone bills, or could accurately state the price of any service, including directory assistance. Sprint used this research for their Candice Bergen campaign. Our survey question, like their ad campaign, asked: "Do you know how much you pay for long distance per minute?". Virtually no one has a clue.

Also, we found that most people, 71%, couldn't care less about new technology. They just want cheaper prices today, not the Info Bahn tomorrow.

The findings from the first two reports, and comments at our press conference in May 1993, so infuriated Southwestern Bell that they called all of the other telephone companies and told them to stop buying research from Probe. Probe filed a complaint with the Department of Justice, since it is illegal for the Bells to conspire to ruin someone. But it was never acted upon, and Probe decided that NNI's material would cost them more business than it brought in, so they stopped actively publishing the reports. I couldn't blame them.

Around the same time, my phone service was disconnected. I later received a letter from NYNEX stating that it was not their fault. No, a mysterious unidentified third party wanted me disconnected.

> "According to our records, the disconnection was arranged by someone that identified herself as your "wife". As you have informed us, you are not married.... <u>The party who placed the call to our office wanted your phone disconnected...</u> The disconnection of your service was not a result of negligence on the part of NYNEX...<u>The disconnection was an act of third party mystery motivation. "</u> (SIC)

I had to take the case to the New York Public Service Commission (PSC), and then I had to appeal the decision because the first time the PSC just sided with the telephone company without even contacting me. At the appeal, a year and half later, I learned that NYNEX was in error. But the PSC refused to give me any compensation, stating "We're just a judge, not a consumer advocate per-se." The person who ran the appeal also informed me later, when confronted, that he had "worked for the telephone company".

Then in 1994, "Regional Bell Revenues, Expenditures and Profits" was published, this time by Phillips Business Information. It received a cool reception even though it documented over $75 billion dollars in overcharging during the Bells' first decade, 1984-1993. This doesn't include the $30 billion for the I-Way. It also uncovered the fact that the Regional Bell Operating Companies, (RBOCs), which are holding companies that control the local Bell companies, were draining the local Bell phone companies of staff and all profits.

In fact, an article in the Washington Times even called me a "Phone Bill Fanatic" (5) because I had recommended that the Regional Bells be separated from the local companies to protect subscribers. While most considered the idea "outrageous", over the last few years US West separated their local phone company from other businesses, and Ameritech filed in Wisconsin to create a separate local phone company subsidiary. Unfortunately, none of these companies are doing it in the public interest.

But history and the excitement of the almost imminent Info Highway, with $90 billion dollars of mergers and over $30 billion in new promised Info Bahn spending, was upon us and no one cared too much about research.

I also wrote, "The Information Superhighway: Get A Grip" in 1994, which demonstrated that the I-Way plans were seriously flawed and it would never be implemented. There wasn't real consumer interest, the technology costs were much higher than announced, and the filings by the phone companies, written by well-paid consulting firms, including Deloitte & Touche, were biased toward the telephone companies' need to remove regulation and thereby increase profits.

This report was also ignored. However, as fate would have it, some other twists of destiny were upon me. First, being paranoid that the telephone companies had disconnected me on purpose, I wrote a novel "Touchtone", and through a strange connection, my 10th grade English teacher, it is now under development at Warner Brothers as a Made-For-TV movie. The novel is about a telecommunications analyst who finds $75 billion dollars of overcharging, which results in the phone companies trying to kill him.

Similarly surprising, in 1995 I chanced to see an advertisement by Jacoby & Meyers, which asked "Are you being hit by hidden telephone charges?" After some brief meetings, we helped to instigate approximately $5 billion in Class Action suits, hopefully reclaiming some money for my Aunt Ethel.

We are proposing an additional $30 billion in Class Action suits. Unfortunately, as you will see, regulations, laws and the public utility commissions now favor the Bells, and they work as shields against law suits and reclaiming money.