

The Unauthorized Biography of
the Baby Bells
&
Info-Scandal

by

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With Foreword by:

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To all my telecom friends, my Aunt Ethel,
Vice President Al Gore,
and anyone else who uses a phone.

The Unauthorized Biography of the Baby Bells & Info-Scandal

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Foreword
by
Dr. Robert M. ("Bob") Metcalfe
(1/26/98)

Bruce Kushnick just spent seven years writing his "unauthorized biography" of the Bell telephone monopolies. His unpublished 475-page manuscript exposes how the Baby Bells have been ripping us off since they were born out of AT&T in 1984.

Kushnick has been living off credit-card debt in Brooklyn, New York. He wears black, vibrates with nervous energy, and jokes about his Bell paranoia.

After a letter from NYNEX saying a "mysterious third-party" is after him, Kushnick also wrote a semi-autobiographical novel, now a screenplay in development at Warner Brothers. "Touchtone" is about the Bells conspiring to kill a telecom analyst with an unpublished manuscript.

Reliable sources do confirm Kushnick is credible. He's been a telecom analyst for 15 years, associating at times with Link Resources, Probe Research, and Phillips Business Information. He lists former clients including AT&T, MCI, Sprint, Nortel, British Telecom, PacBell, and BellSouth. And the manuscript is heavily footnoted, so (not that I have) his findings can be checked.

Kushnick's main finding is that Ameritech, Bell Atlantic, BellSouth, NYNEX (now within Bell Atlantic), Pacific Bell, SBC (now including PacBell), and US West -- are annually overcharging us \$14 billion.

But wait, aren't profits on the Bells' \$100 billion in revenues regulated by our Federal Communications Commission (FCC) and 51 state public utilities commissions (PUCs)? Well, actually, no.

Kushnick finds that understaffed regulators must rely on information provided by the Bells. Independent audits are rare, often find gross overcharging, and only get the Bells slapped on their thick wrists.

And worse, since the Telecommunications Act of 1996, the most heavily lobbied bill in legislative history, the Bells have been "deregulated," which just means more gouging of their choiceless customers.

And the Bells' gouging is not evident on phone bills. Kushnick finds zero percent of telephone customers understand their bills. Bells overcharge for calls -- like 75% more for intrastate than coast-to-coast. They overcharge for unordered services -- like

home wiring maintenance. They overcharge the unwary -- like Kushnick's legally-blind 87-year-old Aunt Ethel, who has paid \$1,100 since divestiture for the rental of an old rotary telephone. And then there's "digital spew" -- like the posting of bogus charges on phone bills.

Kushnick finds -- get this -- it's a myth the Bells lose money on local telephone lines. They've been shoveling expenses into their regulated local services while shifting revenues out into unregulated subsidiaries. With line numbers growing, the Bells are lowering per-line headcounts, deinvesting per line, and increasing actual prices.

The FCC and PUCs do already report Bell prices are up, and that's scandal enough, but reported prices are for reduced services, for the rare least-expensive installation, without deposits and substantial charges for initiating services. Reported prices are gross understatements of total prices actually paid. Kushnick finds telephone bill charges up an average of 275 percent since 1983.

Kushnick finds at the bottom line the Bells financially outperform other regulated utilities, 28 versus 11 percent. Bell shareholders have enjoyed guaranteed returns 55% higher than those by investors in the S&P 500.

The part of Kushnick's expose that angers me most is how the Bells have used the Information Superhighway to win concessions on how much money they can extract from their monopolies. Kushnick recounts extravagant Iway promises, shows them to be just a Bell ploy, and documents how they've not been kept. He tracks billions intended for Iway deployment to Bell executives, to their shareholders, and, of course, to almost all of your elected representatives in government.

Kushnick sees his book as a manifesto for a coordinated effort against the Bells in the jurisdictions of all 51 PUCs. He's looking for a bold and fast publisher. Interested parties, but not Bell assassins, should contact Kushnick not by phone but by e-mail at internet@interport.net or soon on the Web at www.newnetworks.com.

Kushnick worries the Bells will sue him into oblivion once they catch wind of his manuscript. I've tried to reassure him. First, InfoWorld readers can keep a secret. Second, there's The First Amendment. Third, Kushnick is already in oblivion. And fourth, nothing would advance his cause more than the publicity of defending against the legions of Bell stormlawyers. Many of you, I'm sure, would join in the Kushnick Legal Defense and Publicity Offense Fund.

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Preface

Almost everyone in America knows how to use a telephone and almost everyone picks up a phone every day to make or answer a call. Unfortunately, almost no one understands their telephone bill. Worse: almost no one knows that they have been paying, for years, for services that they never ordered and that will probably never be delivered anytime soon.

And we believe **you're owed money** — hundreds of dollars per-line.

The Information Superhighway was supposed to be America's shining, high-technology future. With millions of miles of super-special glass wires, known as fiber-optics, attached to ultra-modern, all digital telephone network switches, every home in America would be connected to a dazzling array of new products and services — 500 channels of movies, shopping, and games, all coming soon to the TV.

And, of course, there was supposed to be Tele-Learning, Tele-Medicine, Tele-Anything; things so wonderful that even science fiction couldn't predict them.

The primary finding of this tale is that instead of building this wonderful highway, the Baby Bells, the progeny of AT&T in the form of seven, very large holding companies that were created in 1984, most likely pocketed the money. We estimate that it comes to about \$30 billion dollars to date (1991-1997) and another \$7.5 billion in 1998. And they left America with POTS: Plain Old Telephone Service.

And that \$30 billion dollars is really billions of extra pennies, nickels, dimes, and quarters that you, your company, your family, friends, cousins, relatives, neighbors, and acquaintances are paying through overcharges on their telephone bills. You paid for and did not receive the new fiber-optic future.

This largesse is based on a fact: in exchange for the removal of state regulations that controlled profits, known as "deregulation", the Bells promised to build the fiber-optic Info Highway. By 1998 there was supposed to be almost 27 million Info Highway fiber-optic homes. Almost half of America, 45 million, would be wired by the year 2000. Today virtually none exist. Also, large consulting firms, including Deloitte & Touche, charged millions of dollars for studies to corroborate the Bells' story.

In a complaint filed with the New Jersey Public Service Commission by the New Jersey Public Advocate, March, 1997, the fiber-optic future is definitely being paid for, but not delivered. In April 97, the Advocate told The New York Times. (1)

"...low-income and residential customers have paid for the fiber-optic wire lines every month but had not yet benefited. "

What's worse, **Info-Scandal** overcharging for the I-Way is only part of a long tale of abuse, which started right at their birth in 1984. It adds an additional \$85-\$100 billion of questionable overcharges by the Bells, bringing the total to about \$14.5 billion annually. In fact, we believe you're owed a lot of money, about \$500-\$1,500 per line, but without proper audits it's hard to be exact.

What's \$14 billion a year between friends, right? And we need to stress one point: most of the money in question is not from the long distance companies, such as AT&T, MCI and Sprint, but from the local phone companies affectionately called the Baby Bells. They are arguably the fattest babies in history.

How I came to write this Book - See "CODA", at the end of the book.

What's In the Book: The Info-Scandal Roadmap

The book in front of you is the culmination of the last seven years of research. Though it focuses on the Info Bahn's no-show, it was written with the hope of effecting change, by explaining what's broken in telecom and poising some long term solutions. Right now what's broken costs you money in the form of higher and unjustified prices. Fixing it, however, is another story.

And what's broken? Well almost everything. There's no Info Bahn, prices have risen over 275% since 1984, the Bells are still monopolies, there is no immediate local competition to drive down prices, and the laws do not work to adequately protect subscribers.

And there are scandals galore, which we will present, from "Digital Spew", "The Measured Service Scam — The Pelican Brief of Telecom", the "\$20 Billion Dollar Write-Off Scandal" or simple things, such as charging for services, such as Touchtone or Call Waiting, which cost virtually nothing to deliver.

To detail the problems and scandals, we've divided the book into seven sections, representing the seven original Bells, covering 48 chapters, representing the 48 states the Bells control. (Alaska and Hawaii were non-Bell)

We've also dedicated portions of the book to explain basic terms and concepts for the telecom-uninitiated. The sections include:

Book I — Info-Scandal: Highway to Nowhere, lays out the hype and the failure of the Bells to live up to their Info Bahn promises. The conclusion: the Bells either conspired with research firms to pull off a scam to remove protective state and federal regulations, or else they are the worst marketers in history, totally overestimating the market and underestimating the costs. Either way, the money for this rollout, estimated at \$30 billion to date, should be refunded.

We also show that there never was any consumer interest, that the technology cost thousands more than stated, and that earlier technologies, specifically ISDN, which was promised in the mid-1980's, was also never adequately delivered.

Book II — Bell History and Strategies: Shareholders First, Customers Last demonstrates how the Bells' have shifted priorities, placing the shareholder and profits before local customer needs. From the excessive lobbying and a concentration on removal of all regulation, the massive staff cuts and lack of new construction, or the moving of funds for international and non-Bell investments, the Holding company has put the customer in the back seat.

In a special chapter titled "Liar, Liar: Baby Bell's Pants on Fire", we focus on the Bell statements and actions that were "deceitful", or "misleading". For example, while Bell Atlantic and NYNEX stated publicly that they were a "merger of equals", the fine print shows that it was not at all equal. Bell Atlantic purchased NYNEX for 75¢ on the dollar, thus avoiding Congressional scrutiny. SBC also used this tactic to purchase Pacific Telesis.

Book III — Show Me The Money focuses on these \$14 billion dollar babies, collectively about \$100 billion annually. We show how the Bells have flourished with the removal of regulation. Profits are more than double most of the best companies in America, outperforming the S&P 500 and other business indicators. And this money was

not from the new businesses and investments, but the increases in the pennies, nickels, dimes and quarters of phone subscribers.

In fact, prices should have dropped continually over the last 10 years because two major expenses, employees and construction, are continually dropping. For example, over 235,000 people have been laid-off from the local Bells (a 57% reduction in employees per-line). These massive staff cuts have lead to missed appointments and clogged customer services, causing an increase in customer dissatisfaction, not to mention state legal actions and fines.

Book IV — Regulation and Regulators shows that the telecommunications laws of the land have been built more through campaign financing than the Public Interest. For example, the Telecommunications Act of 1996 was supposed to lower telephone prices and pave the way for development of new network services, by bringing in competitors. But, according to Senator Pressler, it was "The most lobbied bill in history". It was a band-aid act which did not fix the basic problems.

How perverse is the situation? Well, we show how competition is now being used as a new means to raise local service prices. What's more, the Bells and State commissions have successfully sued the FCC, effectively stopping mass competition at lower prices.

There are also numerous questions about the ability of the FCC or the states to properly monitor and control telecommunications. In some states there has been a blatant disregard for the Public Interest, and collusion with the monopoly seems apparent. Other states are out-classed, out-flanked and out-funded and with 50 of everything, Swiss cheese coverage comes to mind. Meanwhile, the FCC's statistics for some areas are so far off track that they can not possibly make good laws, regardless of their intentions.

The Bells have also filed state and federal briefs asking for surcharges on Internet local use or Internet Telephony. And in many states, they have hindered school wiring by either not delivering on promises or by putting caveats on available funds, making them only usable with the local companies' internet services, at unreasonable prices, or not at all.

Book V — Overcharging by the Numbers. According to Probe Research, customers have paid over \$60 billion dollars in excess Access fees, while Consumer Federation of America believes that over \$50 billion has been overcharged. By comparing the Bells

dividends and a host of other business indicators to other companies, we find that about \$80-120 billion is in question. We detail the shell game, examining terms like "subsidies" and "Price Caps" that have allowed the Bells to plead poverty while beating almost all of America's leading corporations in profits. The largest subsidies are the ones paid by subscribers to run the holding companies.

Book VI — Overcharging on Your Phonebill and How to Save Money. Believe it or not, no regulator looks at the profits of the entire telephone bill. How else can Ameritech state "State and Federal Regulators no longer limit Ameritech's Profits." In fact, in the book "the Rape of Ma Bell", the authors, two former Bell lifers, state that Touchtone Service, as well as Call Waiting and Call Forwarding, cost pennies to offer.

From my Aunt Ethel's \$1,100 rotary phone charges, to taxes and surcharges that are nothing more Bell company revenue and profits, we expose the phonebill for what it is: an unreadable profit machine.

And we'll explain how you can save money on your phonebill through simple things the phone company doesn't want you to know. We also present an internal Bell-AT&T Memo, which we dubbed "the Pelican Brief of Telecom". It discusses why paying per-minute for local service was instituted. It wasn't done to save you money.

Book VII Customers and Conclusions. After 13 years, all that customers have to show for the Bells control has been a 275% increase in local service charges and a rollout of Caller ID and Voicemail, which were all designed before the break-up. Meanwhile, customers are totally in the dark about what has transpired — so they can't complain.

Our conviction, stated in this book, is that there should be immediate investigations and audits, and that prices should be lowered immediately. The basic questions:

- Where is that 500 Channel Highway?
- Why have the States and other regulators not monitored the Bells' failure to deliver on its promises of products and services?
- Why haven't there been refunds?
- Why are there charges for Touchtone and other no-expense services?
- How did the Bells become some of the most profitable companies and still be regulated monopolies?

- Were the Bell Mergers misrepresented to the General Public and are they in the public Interest? Should siblings marry?

And these questions should be asked, not just of the Bells, but all local phone companies, including GTE.

Also, it is time to pursue other alternatives. Numerous companies and individuals have proposed that the local phone companies be separated from the Holding companies. They have consistently blocked competition, not deployed advanced technologies, have drained the local bells of assets and staff, and have taken large dividends with little benefit to the subscribers. Also, the Bells should not be allowed into other businesses including long distance, until there is real, not imagined competition, and they have paid back their Info Bahn promises.

Can it Be Fixed?

The Bells have been in control of local phone service for over 100 years, and they have, in many cases, hard-wired politicians, state public utility commissions and even the press. Why has there never been a full audit of a Bell, or a major investigation by the FCC or Congress? Why has there never been a major investigative story by a television network or newspaper? And why has there never been a book on the Bells?

It can't just be that most people look at the Babies as poor defenseless companies. Or is it that they have avoided public scrutiny by a slow conscious shaping of ideas, many times using millions of dollars of advertising, paid by subscribers, to fund customer and political complacency?

Another fundamental problem is that large, legal and regulatory walls have been put up which protect the Bells, blocking individuals from receiving adequate compensation or groups trying to accomplish change. For example, the Bells' prices are protected by something called a "Rate Doctrine", which states that "a rate is a rate", and even if there was fraud in creating that rate, it stands. And the rate is the published price that was set, most times by the PUC. Also, most Bells have to be challenged in front of Public Utility Commissions, which in and of itself is a stumbling block. And most commissions historically do not allow lawyers to recover fees, which can be millions of dollars, so taking Class Action suits facing the commission cannot be done on

contingency. To create change in America it is going to require a rethinking of these fundamental stumbling blocks.

The irony, of course, is that the advertisements used to make the customer feel "warm and fuzzy", and the lawyers and lobbyists paid to keep the status quo to block customer initiatives benefiting subscribers, are almost all paid for by the very subscribers they are overcharging.

Finally, there is another fundamental problem — having a conscience. While this tale might seem to be a discussion of money, power and deceit, it is really about corporate conscience, or in this case the lack thereof. The Bells were given a 'natural' monopoly, who's primary responsibility was the Public Interest, a loosely defined term — until you see it corrupted. In almost every part of this tale there is a lack of regard for the customer, meaning telephone subscriber. This permeates almost all corporate Bell actions. The large shareholders, meaning those who run these companies, have put their interests over and above those they were supposed to take care of, and this has got to change.

And it was NOT the actions of the local telephone staff — who answer the phones or who keep the network alive, that is the problem. With only 50% of the original staff left who now have to do almost double the work, downsizing should never have been so severe. Staff should be added to let the workers, who are conscientious, deliver better service.

I am for open markets that is full of competitive choices. The Bells are monopolists, and like the Communists, want to maintain control. May this book help to shift the balance of power — to disconnect the Bells.

Want your money back? Keep reading and join us. To receive updates of the information of this book or to get involved, please visit the New Networks Institute web site at: [HTTP://www.newnetworks.com](http://www.newnetworks.com).

Who are the Baby Bells?

For over 100 years, **Ma Bell**, sometimes called the "Bell System", sometimes called "AT&T", controlled almost all telecommunications in the US. Once the largest company in the world with over one million employees, the company consisted of 22 local Bell companies, (including New York Telephone and Ohio Bell), AT&T Long Lines, (the long distance division) as well as Western Electric, (the subsidiary that manufactured telephone equipment) and Bell Labs, one of the premier research organizations.

Then in 1984, because of the monopoly control the company had over phone service, the company was broken-up and the local Bell phone companies were divided up among seven, artificially created, very large companies called "Regional Bell Operating Companies" (RBOCs, pronounced "R-BOKS") or sometimes the "Regional Bell Holding Companies" (RHC) and sometimes "**The Baby Bells**".

Please note: AT&T no longer has any ownership relationship with the Bell companies. However, in our 1993 consumer survey, we found that about 1/4 of the population thought that AT&T still owned the Bell companies. Meanwhile 5% still call the companies "Ma Bell", or the "Bell Company". The original seven RBOCs are:

- Ameritech
- Bell Atlantic
- Bell South
- Southwestern Bell
- NYNEX
- Pacific Telesis
- US West

Each company controls specific geographic regions of the US. For example, Ameritech controls a five-state region — Illinois, Indiana, Michigan, Ohio and Wisconsin. The exhibit on the next page gives the original Baby Bells, the phone company(s) it controlled, and the state(s).

EXHIBIT 1
Regional Bells by State

Ameritech

<i>Illinois Bell</i>	Illinois
<i>Indiana Bell</i>	Indiana
<i>Ohio Bell</i>	Ohio
<i>Michigan Bell</i>	Michigan
<i>Wisconsin Bell</i>	Wisconsin

Bell Atlantic

<i>New Jersey Bell</i>	New Jersey	
<i>Bell of Pennsylvania</i>	Pennsylvania	
<i>Chesapeake and Potomac</i>	West Virginia	Delaware
	Virginia	Maryland
	District of Columbia	

BellSouth

<i>Southern Bell</i>	North Carolina	Florida
	South Carolina	Georgia
<i>South Central Bell</i>	Kentucky	Louisiana
	Mississippi	Tennessee
	Alabama	

NYNEX

<i>New York Telephone</i>	New York	
<i>New England Telephone</i>	Massachusetts	Rhode Island
	Vermont	New Hampshire
	Maine	

Pacific Telesis

<i>Pacific Bell</i>	California
<i>Nevada Bell</i>	Nevada

Southwestern Bell Corporation (now SBC Communications)

<i>Southwestern Bell</i>	Iowa	Arkansas
	Missouri	Texas
	Kansas	Oklahoma

US West

<i>Mountain Bell</i>	Arizona	Colorado	Idaho
	Montana	New Mexico	Utah
	Wyoming		
<i>Northwestern Bell</i>	Minnesota	North Dakota	Nebraska
	Iowa	South Dakota	
<i>Pacific Northwest</i>	Idaho	Washington	Oregon

Two Bell Companies Escaped: Cincinnati Bell and Southern New England Telephone (SNET) were both spun off after the break-up.

What's in a Name? Renaming the Local Phone Companies: Over the last five years, all of the Holding companies removed the local Bell name for the name of the holding company.

- New Jersey Bell became Bell Atlantic
- Ohio Bell, Indiana Bell, Wisconsin Bell, Michigan Bell and Illinois Bell were all renamed "Ameritech"

Hundreds of Companies with RBOC Name: The holding companies own literally hundreds of other companies, each with their name-brand. For example, here are just a few of the NYNEX companies: NYNEX Entertainment & Information Services Company, NYNEX Asset Management Company, NYNEX Credit Company, NYNEX Capital Funding Company, and NYNEX Trade Finance Company. (source: NYNEX 3rd Q, 1996)

Mergers and More Renaming: In 1997, two Bells purchased two other Bells, making a new total of five companies.

- Bell Atlantic & NYNEX —All NYNEX states were renamed Bell Atlantic.
- SBC Communications, (formerly Southwestern Bell) & Pacific Telesis.

Other Local Companies: There are over 1,400 other local phone companies, including United/Sprint, SNET, Lincoln Telephone or Rochester Telephone (renamed Frontier). GTE is the largest and is larger than most Bell companies. It is also a holding company, owning numerous local telephone properties throughout the US, from California to Virginia. Also, **GTE** is not a Bell company and does not own US West or any other Bell company, a common misconception.

Thousands of Other Telephone Companies

Though this book focuses on the Baby Bells, there are literally thousands of communications companies, and their relationships and services they offer are at best, fuzzy to the general public. Here's the basics

Big Difference --- Local Vs Long Distance Companies

A "Long Distance" phone call crosses state Lines. A call from New York to New Jersey or Texas to Arkansas are long distance. Every other call is either a local call, which is usually 10 miles near your home or office or a Toll call.

AT&T and MCI today are mostly long distance companies, offering long distance calling, while the Bells are local phone companies, still prohibited from offering long distance services. We argue later that the Bells should never be allowed into long distance services, for a good deal of reasons.

Two Other Important Distinctions

- **Long Distance Resellers:** Hundreds of companies 'resell' long distance services; i.e., the company purchases services from AT&T or MCI in bulk and then "Resells" the service, usually nationally, with their own name brand on it..
- **CAPS (Competitive Access Providers):** There is another growing group of companies referred to as CAPs, who also offer local telephone. Some companies have their own installations, including MFS Communications, (recently merged with Worldcom), and Teleport, while other resell the local phone companies. Most companies only offer local business services in selected area codes in America.

All other types of companies, such as "Wireless", "Cellular", "pay phones", etc, will be highlighted when necessary.