

## SUMMARY REPORT:

# Verizon Massachusetts & Boston: Investigate the Wireless-Wireline Bait-n-Switch

Part of

## The “Fixing Telecom” Series

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January 17<sup>th</sup>, 2017

# New Networks Institute

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## Verizon Massachusetts & Boston: Investigate the Wireless-Wireline Bait-n-Switch

### Introduction

We have uncovered billions of dollars in questionable cross-subsidies between and among Verizon Wireless, (and Verizon's other subsidiaries) and Verizon Massachusetts, the state-based, wireline utility, that can be used to upgrade the Bay State's cities with fiber optics. Unfortunately, these financial manipulations of the accounting have gone unchallenged. In fact, this same shell game has been used throughout the Verizon territories.

As we previously noted<sup>1</sup> and will discuss, while Verizon has claimed it will be upgrading the city of Boston with fiber optics, the real plan is to do a bait-n-switch and offer wireless... but have the wireline utility budgets pay for it.

And, instead of investigations, we have this: On January 9<sup>th</sup> 2017, a letter was filed with the FCC by the MA Department of Telecommunications and Cable and the MA Broadband Institute and it begs the FCC for federal government funding from the Connect America Fund.<sup>2</sup>

The Massachusetts Department of Telecommunications and Cable ("MDTC")<sup>1</sup> and the Massachusetts Broadband Institute ("MBI")<sup>2</sup> (jointly "Massachusetts"), respectfully submit this letter to reiterate the compelling need for qualifying states to receive dedicated Connect America Fund ("CAF") funding.<sup>3</sup> In particular, many rural residents in net-payer states like Massachusetts continue to lack universal broadband service despite repeated attempts by the Federal Communications Commission ("Commission") to allocate CAF money to eligible price cap areas in those states.<sup>4</sup> These residents and their communities should not continue to be disadvantaged by a provider's business decision to reject support when the Commission has deemed specific funding necessary and appropriate to support delivery of baseline broadband service.<sup>5</sup> As a result, the Commission should dedicate to each state funding that matches or exceeds the state-level amounts of CAF model-based support rejected by the price cap carriers in those states.<sup>6</sup>

According to *Telecompetitor*, Massachusetts joined other states that requested that the CAF funding that Verizon turned down be available to the states.<sup>3</sup> But it is embarrassing; the speed required, in 2017, is a minimum of 10 Mbps down-1 Mbps upstream<sup>4</sup>; it has data caps, and it is estimated that the funding would be chump change –somewhere around \$5-\$10 million, at best.

This article is from NNI's new report "Verizon Massachusetts & Boston: Investigate the Wireless-Wireline Bait-n-Switch" (and Part 2: Data Report) and is part of a series called "Fixing Telecom"<sup>5</sup>. What we are about to expose in Massachusetts is identical to what has occurred in other Verizon states we documented, including Verizon New York.

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<sup>1</sup> [http://www.huffingtonpost.com/bruce-kushnick/verizons-boston-fios-fibe\\_b\\_13924832.html](http://www.huffingtonpost.com/bruce-kushnick/verizons-boston-fios-fibe_b_13924832.html)

<sup>2</sup> <https://www.fcc.gov/ecfs/filing/101091533221284/document/1010915332212843130>

<sup>3</sup> <http://www.telecompetitor.com/massachusetts-joins-effort-urging-the-fcc-to-release-connect-america-funding-to-states/>

<sup>4</sup> <https://www.fcc.gov/consumers/guides/connect-america-fund-phase-ii-faqs>

<sup>5</sup> <http://newnetworks.com/fixingtelecomdocs/>

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Using Verizon New England and Verizon Massachusetts state-based financial reports, press releases and state and federal filings:

**1) Verizon Claims It Is Now a ‘Wireless-First’ Company.**

Verizon Communications, the holding company, has decided it is a wireless-first, entertainment and advertising company. Unfortunately, Verizon also controls the state-based wired utilities and business networks along the East Coast, from Massachusetts to Virginia, with only a few exceptions. Verizon has no serious plans to upgrade or even maintain the existing retail copper wires. Even Verizon’s FiOS fiber to the home deployments stopped in 2010-2012, except for areas with existing license agreements.

**2) Verizon Wireless has Diverted Billions Per State to Build Out Its Wireless Networks by having the Wireline State Utility Pay Most of the Capital Expenditures (“Capex”) Budgets.**

Starting in 2010, when Lowell McAdam, (former president of Verizon Wireless), was appointed the CEO of Verizon, the company decided that it would build out the wired network to be used for their cell sites. In just Massachusetts, from 2010 to 2012:

- a) Verizon, the state wireline utility, built an estimated 2,265 major cell sites for the wireless company.
- b) Verizon Wireless was able to have Verizon MA spend an estimated \$976 million in construction expenses—and didn’t reimburse the utility for this construction.
- c) Verizon, the state utility, had 71% of the capx diverted to fund wireless from 2010-2012.

a) Cell Sites/Towers built	2,265
b) Charged to Verizon MA	\$ 976,215,000
c) % of Verizon MA Wired Capx	71%

Let us be very clear. We believe Verizon, in Massachusetts, has systematically diverted over a billion dollars since 2010 from this state utility budget to build out the fiber optic wires that are used for Verizon Wireless to offer wireless service. I.e.; Verizon was able to have the Bay State utility customers pay over a billion, even though the investors should have been funding Verizon’s wireless deployments.

NOTE: Verizon Wireless is a D/B/A and is owned by “Cellco Partners”, which is the name of a former joint venture with Vodafone, a foreign communications concern.

This meant that the entire state of Massachusetts’s copper-based utility network was left to mostly deteriorate and the majority of the state, which Verizon New England controls, was never properly upgraded.

NOTE: Verizon New England is the incumbent, utility telephone company that controls the bulk of the wires in Massachusetts and Rhode Island.

### 3) **“Title II” Is the Investment Mechanism to Fund these Massive Cross-Subsidies.**

Moreover, the fiber to the cell sites, as well any of the “FTTP”, fiber to the premises, FiOS services that have been deployed, were also funded by local phone customers, and this fiber optic wire is all part of the state utility. This occurred because Verizon claims that the fiber optic networks are “Title II”, common carrier networks, as told by the Communications Act of 1934.

#### **LEGAL AUTHORITY FOR FTTP BUILD OUT**

Verizon, as a common carrier under Title II of the Communications Act of 1934 (the “Act”), is constructing its FTTP network as an upgrade to its existing telecommunications network. Verizon has the requisite authority to upgrade its network for enhanced voice and broadband services for the reasons discussed, in part below.

Verizon has the necessary Federal, state and local authorizations to upgrade its Title II telecommunications network, subject to customary time, place and manner permitting requirements. Specifically, Chapter 166, Section 21 of the General Laws of Massachusetts (“M.G.L.”) grants Verizon the right to place its lines upon, along, under and across the public ways in the Commonwealth of Massachusetts.

### 4) **Verizon and its Minions Claim that Title II Harms Investment: Baloney. Title II is the Investment Mechanism.**

Verizon and its paid ‘experts’, analysts, and lawyers want to erase ‘Title II’ on Net Neutrality as well as everywhere else, claiming that it harms investment. Unfortunately, the truth is – it is the investment method. Verizon has been able to cross-subsidize its other lines of business and Verizon and these experts have deceived the public-- or they did not bother to examine Verizon’s filings in every territory claiming that the FiOS fiber to the home networks are simply an enhancement of the state utility. This con has allowed Verizon’s other lines of business to get the use of the rights of way and to use the state utilities as a funding source.

### 5) **Verizon Management Admitted that Wireless Networks are Paid for Via the Wireline Budgets.**

Fran Shammo, Verizon’s former CFO, told investors in 2012 that the wireless company’s construction expenses have been charged to the wireline business.<sup>6</sup>

“The fact of the matter is Wireline capital—and I won’t get the number but it’s pretty substantial—is being spent on the Wireline side of the house to support the Wireless growth. So the IP backbone, the data transmission, fiber to the cell,

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<sup>6</sup> [http://www22.verizon.com/investor/DocServlet?doc=goldman\\_vz\\_transcript\\_092012.pdf](http://www22.verizon.com/investor/DocServlet?doc=goldman_vz_transcript_092012.pdf)

that is all on the Wireline books but it's all being built for the Wireless Company.”

## 6) **Verizon’s Own Press Releases Detailed that the Wireline Construction Budgets Paid for the Fiber Optic Wires to the Cell Sites.**

The data we use for both the wireline construction budgets used for the wireless networks as well as the number of cell sites, comes directly from Verizon’s published information, including press releases. This was published in 2012, detailing the wireline capx in MA for 2011. And it details that Verizon wireline paid for construction of 815 cell site connections.

### **“Verizon Invested More than \$500 Million in Massachusetts’ Wireline Communications, IT Networks in 2011**

“Accelerated deployment of fiber-optic links to wireless carriers' cell sites throughout Massachusetts as these carriers expand their infrastructure to meet ever-growing demand for wireless broadband and advanced 4G services. In 2011, **Verizon deployed fiber optics to connect 815 of these sites in the state.**”<sup>7</sup> (Emphasis added.)

## 7) **Massive Financial Cross-Subsidies Go Unchallenged by the State Commission.**

Diverting the state utility budgets is only one of the sleight-of-hands employed by Verizon. Using Verizon Massachusetts financial reports obtained via FIOA requests for the years 2012-2014, what we found is a multi-headed scheme to a) make the local utility networks look unprofitable, while b) at the same time funding other lines of business. And this is happening in every Verizon state.

NOTE: To see exactly how Verizon’s state financial accounting works, and how these cross-subsidies are being accomplished, see the [“Fixing Telecom”](#) report series.

### **Overcharging of the ‘Local Service’ line of business and the cross-subsidizing of Verizon’s other lines of business cost the local networks over \$600 million in just 2014.**

Verizon Massachusetts:

- In 2014, Verizon Massachusetts Local Service (which are the revenues for the basic copper-based phone service) was 23% of the revenues coming into the state utility, at \$476 million.

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<sup>7</sup> <http://help.verizon.com/about/news/press-releases/verizon-invested-more-500-million-massachusetts-wireline-communications-it>

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However, Verizon Local Service:

- **Paid 60% of all “Corporate Operations” expense.** At \$558 million, this is \$81 million--119%-- more than the revenues. Corporate Operations includes lawyers, lobbying, executive pay, and even the corporate jet – all aimed at pushing Verizon’s agenda nationwide.
- **Paid 53% of all “Marketing”--** When is the last time you saw a Verizon advertisement for basic phone service?
- **Paid 43% of all “Network (Plant)” Costs**—even though the company stopped upgrading most of the copper-based Local Service networks.
- **Verizon Local Service Expenses Were Over \$1 Billion in just 2014**—yet it all a manipulated financial accounting scheme. Local Service shows a loss (of just these specific major expenses) of \$604 million on \$1.1 billion in expenses (See Part 2 for total the Verizon MA revenues, expenses, profits and losses.)
- **Verizon Massachusetts Showed Overall Losses of \$814 Million for 2014**— Because of all of the manipulation of accounting, Verizon MA, overall, has been showing losses in most years. In fact, Verizon MA paid no income taxes and had multiple tax benefits from these losses.

2014	Local Service Expenses	% of Total	Overcharged
<b>Network Costs (Plant)</b>	\$296,502,378	43%	(\$134,802,513)
<b>Customer Service</b>	\$165,106,720	68%	(\$108,159,547)
<b>Corporate Operations</b>	\$557,934,103	60%	(\$341,196,688)
<b>Marketing</b>	\$61,149,078	53%	(\$33,883,136)
<b>Total Overcharge (specific items)</b>			(\$618,041,884)
<b>Expenses</b>	\$1,080,692,279		
<b>Local Service Revenues</b>	\$476,909,000	23%	
<b>Local Service Losses</b>	\$603,783,279		
<b>Total Verizon MA Losses</b>	<b>\$(814,449,000)</b>		

**If the expenses were based on revenues:**

- **Verizon Local Service was overcharged \$618 million in just 2014.**

But, there should be no marketing costs and little or no network costs, as most of the copper wires are not being upgraded or maintained. And charging Local Service for corporate operations, which are targeted toward maximizing corporate profits vs the public interest – would not have been allowed if there was oversight by the state regulators.

Thus, these calculations can't possibly be related to the actual expense of offering Local Service in Verizon Massachusetts—and they aren't. These costs/expenses are cross-subsidizing all of Verizon's other lines of business.

The arguments: Local Service is 'price cap'-ed, or deregulated or other statements indicating a lack of regulatory requirement or oversight must be put into perspective – These deregulatory actions were based on commitments never fulfilled, as we will discuss.

## **8) Verizon's Boston FiOS Fiber to the Home Deployment Is a Bait-n-Switch.**

There is new wrinkle: Verizon is now claiming it has started again to roll out FiOS, fiber to the home services in Boston and will have the city completed in 6 years.

Verizon is not telling the citizens of Boston the truth. It has no intention of wiring the entire city with fiber optics to the home but has created a bait-and-switch, where it now plans to roll out 4G (and even lies about it being the 'newer 5G'). And, the plan -- it will be based on the same pricing as wireless--- pay by the gigabit. Worse, it will not have the speed or capabilities of fiber to the home and, at this point, the wireless service requires the fiber being put in, which is being paid for by local phone customers as Title II.

At the Oppenheimer 19th Annual Technology Internet Communications Conference, August 9th, 2016, Timothy Horan, Oppenheimer & Co. Analyst asked Verizon.<sup>8</sup>

“So are you deploying fiber differently now in Boston than you've done for FiOS in the past? Does each small cell need like their own fiber home run to that small cell? Are you going to be deploying a lot more fiber than you have historically?”

David Small, Verizon Communications, Inc. EVP responded:<sup>9</sup>

“Yes, we will. And so, as it relates to FiOS, we've announced a few of the suburb areas, for lack of a better word, for cities, sub cities that we are going to be building into. But beyond that, if you think about the use case for small cells and the coordination elements of the radio access network that need to occur between its corresponding home macro and the small cell, that suggests that, as a general rule, you need home runs from that small cell directly back to that coordinating macro-level cell site. And that's exactly what we are doing.”

It is a shame that this explanation directly contradicts what Verizon has told the city of Boston.

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<sup>8</sup> <http://www.verizon.com/about/investors/oppenheimer-19th-annual-technology-internet-communications-conference>

<sup>9</sup> Ibid.



## 9) **Verizon Management Admits Wireless Replacement Is Done to ‘Save Money’, Not Building Utility Infrastructure.**

Lowell McAdam, Verizon’s CEO, claims that they will make more money with wireless.

“So if you think about it if I can get we than say a 1000 meters of a business and I give them a router, a basic router that has a 5G service inside it and I’m up and operating immediately, I mean, think about the difference for the carrier in the cost structure; half of our cost to establish high speed data whether it’s consumer business is inside the four walls of the business.

“Once you go wireless, you don’t have to run co-ax, you don’t have to do any of those high labor intensive activities and so you light up service overnight. So then you get into how much capacity do you want and you can - the pricing models can change dramatically.”

Thus, Verizon is building fiber to the antenna, charging the wireline construction budgets and literally doing a bait and switch.

## 10) **Verizon Is Not Telling the Truth about 5G or this Deployment.**

[Charla Rath](#), Verizon Vice President, Wireless Policy Development, speaking at a New America event, in December 2016 (slightly paraphrased)

“Full 5G connectivity? What is interesting here is—what is the definition of 5G? You will here there’s a lot of life left in 4G. I think what we’re going to find is — as 5G develops, 5G is less the kind of network advancements we’ve all become used to who have been in the cellular industry a long time, and more about an entire eco-system that will include parts, a lot of what we’re already doing but a lot more of it.”

What this says is—we’re doing 4G with some tweaks; we’ll rename it 5G. We just fibbed about this being an actual 5G deployment as the rest of the world would define it.

## 11) **Built into Local Rates are Previous Overcharging for Fiber Optic Deployments, Circa 1995.**

But here’s another problem – History. Since 1995, customer overcharging has been built into rates for upgrades that never happened. State laws were modified to give Verizon more profits and tax perks to pay for a fiber optic service that was supposed to be deployed by the year 2000, with 330,000 lines completed.

This is an excerpt from the actual filing, from 1994.

- 6) Deploy fiber facilities to meet customer demand the main campuses of all colleges and universities by year end 1998;
  - 7) Deploy fiber facilities to meet customer demand to all psychiatric, chronic and critical care hospitals by year end 1998; and
  - 8) Deploy fiber facilities to meet customer demand to all industrial office parks by year end 1998; and
  - 9) Complete interoffice fiber network by year end 1998
- B. In addition to the specific infrastructure improvements in A above, NYNEX will immediately begin deploying a broadband network within the Commonwealth by introducing fiber-based broadband technologies to 330,000 residence and business access lines in the Commonwealth.

## 12) NNI Filed a Complaint in 1999: Over \$1 Billion in Customer Overcharging – And Counting.

In 1999, New Networks Institute filed a complaint with the Massachusetts state commission, detailing the fact that profits had soared and the company had taken a massive tax deduction, claiming it was replacing the copper with fiber... and didn't do it.<sup>10</sup>

“For the five year period, (1995-1999) up to and including the current year, we estimate that the subscribers served by New England Telephone will have been over-charged as much as \$1.3 billion. These estimates do not include the more than \$800 million in depreciation taken by NYNEX (now Verizon) in Massachusetts in 1995.”

## 13) How Many Massachusetts Homes and Businesses Can Actually Get FiOS? 30%?

Verizon's Coverage Area by Locations, Verizon FiOS Coverage Area and Percent Covered, 2015

	FiOS	Locations	Percent
Massachusetts	1,000,000	3,401,639	29.40%
New Jersey	2,100,000	4,166,112	50.41%
New York	4,000,000	8,977,869	44.55%
Pennsylvania	2,000,000	5,368,260	37.26%
Maryland	1,300,000	2,901,112	44.81%
District of Columbia	100,000	371,292	26.93%
Virginia	1,350,000	3,479,113	38.80%
Total	<b>11,850,000</b>	<b>28,680,264</b>	<b>41.32%</b>

Sources: Verizon, US Census, the FCC and New Networks Institute, 2015

<sup>10</sup> <http://newnetworks.com/Masscomplaint.html>

This is a summary of some of the Verizon East Coast states with Verizon’s deployment showing that only 30% of the Bay State’s locations have been covered.

Verizon Massachusetts 2014 press release claims it had [“more than 1 million homes and businesses”](#) covered with FiOS TV and FiOS Internet in Massachusetts.<sup>11</sup>

“Fiber-optic networks strengthen communities, and last year Verizon continued deployment of its 100 percent fiber-optic network, with its FiOS TV and FiOS Internet services. **At year’s end, FiOS services were available to more than 1 million Massachusetts homes and businesses.** Verizon has placed more than 18,000 miles of fiber optics in Massachusetts - enough to stretch to the state borders from Boston to Pittsfield 131 times (or stretch from Boston to London six times).” (Emphasis added.)

The U.S. Census Quick Facts for Massachusetts shows that there are 3.4 million ‘locations’ or ‘premises’, which is housing units and businesses. (We added ‘households’ to demonstrate the differences between the Census information for ‘housing units’ vs ‘households’<sup>12</sup>.)

Households	2,530,147
Housing Units	2,813,536
Total Number of Firms	596,790
‘Locations’-- Housing Units and Businesses	3,410,326

## 14) The Accounting of Actual Lines in Service has been Manipulated.

Verizon has continually claimed it has lost access lines, and while it would appear to be true—everyone is going wireless-- when one examines the accounting of the lines, a very disturbing thing happens – the majority of access lines are not counted.

- Verizon MA reported that their access lines went from 3.1 million in 2007 to 736,340 by the end of 2014.
- Verizon MA had approximately 25.4 million total access lines listed in the FCC’s last accounting of lines and they included “Special Access”, (though there are caveats to this accounting).
- Note: According to the FCC, the majority of special access revenues in 2013 were still based the copper-based utility wires used for broadband and wireless business services, like DSL or lines to hot spots.)
- But, in MA, there has been no serious accounting of lines post-2007. We do know that the special access revenues went from \$132 million in 2007 to \$719 million in 2014, yet Verizon reports no access lines.

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<sup>11</sup> <http://www.prnewswire.com/news-releases/verizon-helped-grow-massachusetts-economy-in-2014-with-331-million-wireline-investment-300073312.html>

<sup>12</sup> <http://quickfacts.census.gov/qfd/states/25000.html>

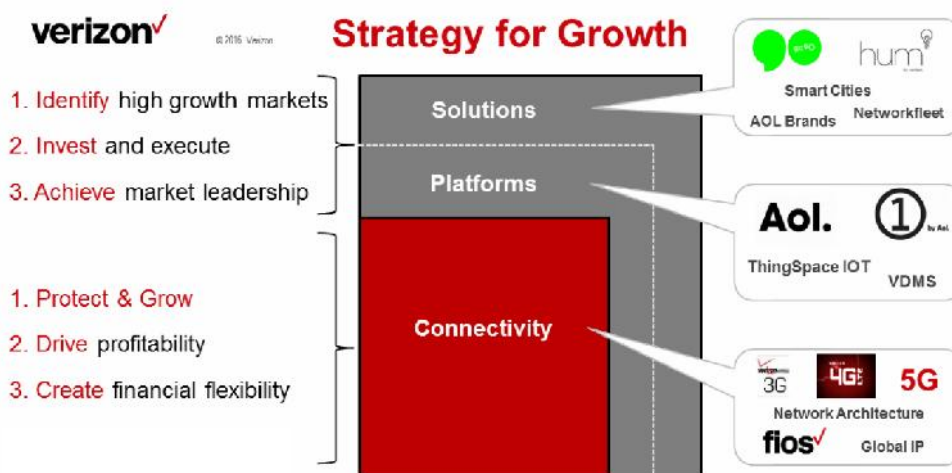
- Verizon does not include FiOS lines or DSL lines or the wires that go to the Verizon cell sites –even though the fiber optic wires are all Title II access lines. (In fact, the quote from 1994 shows that fiber technologies were ‘access’ lines.)

	2007	2012	2013	2014
Access Ines	3,061,214.6	868,080	802,031	736,340
Special Access Lines	25,426,848			
Special Access Revenue	\$ 132,310,000	\$680,004,000	\$687,724,000	\$718,866,000

There are a litany of caveats with these statistics, but, at the end of the day, the access line accounting, like the financial accounting, has been manipulated to tell a story to be used to forward Verizon’s political and business agenda.

## 15) Why Should there be Immediate Actions?

This graphic is Verizon’s current plans for the company. Notice it is AOL and entertainment, ‘smart’ things, connected cars (HUM), wireless and ‘global IP’ – and ‘high growth’, ‘profitability’ and ‘financial flexibility’.



The state utilities? Making sure that rural areas are covered? Serving the communities where Verizon controls the infrastructure?—are all missing from this list.

Verizon’s plan now is to dismantle the state utilities and privatize the publicly funded networks and transfer the profitable assets out of the utility – then force all customers onto their wireless.

The fact that the state commissions, the city of Boston and the regulators and politicians have been negligent in making sure that the state utilities were properly upgraded and that customers – all customers – that paid extra for fiber optic services – got what they paid for – is appalling.

## **16) The System Is Broken: The Government Oversight Failed the Bay State's Citizens Over and Over.**

Over the following decades there have been no audits of these commitments, no refunds or rebates for the failure to build out the networks – even though customers are ‘defacto’ investors.

There have been no audits, no investigations of these cross-subsidies that made the state utility networks look unprofitable, when, in fact, they are highly profitable if Verizon Wireless and Verizon’s other affiliates paid their fair share.

But, truth be told, there has been no state commission that has properly audited the financials and provided proper oversight. And the FCC even stopped publishing basic information in 2007 and has not done audits of basic ‘affiliate transactions’ for over 16 years.

### **Conclusion: Get Massachusetts Upgraded NOW. Time for Immediate Investigations of Verizon and the Regulatory Process.**

The second part of this report supplies more documentation on the billions in overcharging since 2010 by Verizon, first by diverting the construction budgets to the wires to the cell sites instead of building out the fiber optic wires to the cities, then detailing the massive cross-subsidies that local phone customers have paid, not only for this construction but in every expense. And finally, Part 2 goes through the bait-n-switch in Boston, which we previously documented.

What should happen next is straightforward: Stop begging the federal government for chump change when massive audits and investigations of the flows of money to the wireless company are needed. Stop all cross-subsidies and make the Verizon investors refund the billions charged to the state utility—which is then used to bring fiber optic services to every city and every home and business in Massachusetts.

And the Attorney General’s Office and the state legislature should examine how the state commission was negligent in its oversight of the state telecommunications utility, which is controlled almost exclusively by Verizon.

If someone states – There is a cable broadband service being offered in most of the state—the response should be – customers paid billions for services they didn’t receive and there would have been direct competition in most of the state to lower rates. A monopoly on broadband in most areas is not what customers paid for, and in rural areas, it is appalling that the basic infrastructure has been allowed to deteriorate.

Worse, some rural areas don’t even have a cable broadband service or an acceptable wireless choice available.

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If someone states—but everyone is going wireless—remind this person that wireless is really a wired service as every call, selfie or video goes to an antenna which is connected to a wire – a wire that has not been part of the accounting so it made the ‘wired networks’ look unprofitable. And ironically, it was the wired customers that paid for that wire.

There is plenty of money to get Massachusetts cities properly upgraded to fiber optics.