IRREGULATORS

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of:

Accelerating Wireline Broadband Deployment by Removing Barriers to Infrastructure Investment	)))	WC Docket No. 17-84
Technology Transitions	)	GN Docket No. 13-5
AT&T Petition to Launch a Proceeding Concerning the TDM-to-IP Transition	))	GN Docket No. 12-353
Jurisdictional Separations and Referral to the Federal-State Joint Board	)	CC Docket No. 80-286
In the Matter of Comprehensive Review of the Part 32 Uniform System of Accounts.	)	WC Docket No. 14-130

REPLY COMMENTS OF IRREGULATORS
ON NOTICE OF PROPOSED RULEMAKING,
NOTICE OF INQUIRY, AND REQUEST FOR COMMENT

Dear Ms Dortch,

The IRREGULATORS hereby submits, for inclusion in each of the above-captioned dockets, as well as the following:

Re: Accelerating Broadband Deployment, GN Docket No. 17-83; Accelerating Wireless Broadband Deployment by Removing Barriers to Infrastructure Investment , WT Docket No. 17-79; Revising the Historic Preservation Review Process for Wireless Facility Deployments, WT Docket No. 15-180; Lifeline and Link Up Reform and Modernization, WC Docket No. 11-42; Telecommunications Carriers Eligible for Universal Service Support, WC Docket No. 09-197; Connect America Fund, WC Docket No. 10-90; Comprehensive Review of Universal Service Fund Management, Administration, and Oversight, WC Docket No. 05-195; Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6; Rural Health Care Support Mechanism, WC Docket No. 02-60; Lifeline and Link-Up, WC Docket No. 03-109; Changes to the Board Of Directors for the National Exchange Carrier Association, CC Docket No. 97-21.

Bruce Kushnick, founding member
Executive Director, New Networks Institute

July 17th, 2017

IRREGULATOR Team

In April 2017, a new group called the "IRREGULATORS" was formed.[1] The core of the IRREGULATORS is an independent consortium of retired and semi-retired telecom experts, analysts, policy wonks, forensic auditors, and lawyers who are former senior staffers from the FCC, state advocate and Attorneys General Office experts and lawyers, as well as former telco staff and consultants. Members of the group have been working together, in different configurations, since 1999. Some of the following documents and comments were submitted by New Networks Institute. Established in 1992, NNI has been a consortium of independent communications focused experts, analysts, auditors and lawyers over the last 5 years.[2]

[1] http://irregulators.org/ For more information and a brief bio of the signatories
[2] See: http://newnetworks.com/

IRREGULATORS

Summary

Every state, every city and every citizen should demand that the FCC stop the current series of proceedings to 'shut off the copper' and preempt state laws listed and request that the FCC start audits and investigations into the Agency's own cost accounting rules and the massive financial cross-subsidies its own rules have created.

At the same time, every state, every city and every citizen should request that the State Commissions, AG and Advocate offices start state-based audits and investigations, as have been going on at the NY Public Service Commission of Verizon New York's quality of service and financial cross-subsidies of the affiliate companies and the state utility.[3]

We have summarized our findings pertaining to Verizon New York using the 2016 Annual Report, which is filed as part of these comments.[4] "**Verizon New York 2016 Annual Report: Follow the Money: Financial Analysis and Implications".**

NOTE: New York is the only state that requires a full state-based, telecommunications utility financial report that mimics the data collected by the FCC prior to 2007, known as ARMIS.

History shows that "**Accelerating Wireline Broadband Deployment by Removing Barriers to Infrastructure Investment",** the focus of this proceeding— has virtually never worked and neither the FCC, the state commissions, the ILEC phone companies or their funded-groups has ever discussed this fact.

And, in the end, the IRREGULATORS believe that the FCC needs to be taken to court over the decision they will make in this proceeding and we hope that commenters, organizations, cities and state organizations will join us in these next steps.

In fact, based on history, we file this knowing that this FCC will not take any action based on our filings, will ignore basic facts and documentation that refute their plans and has been doing this long before this proceeding.

And, we challenge the FCC to a public debate in DC on this and the related proceedings. The FCC refuses to take seriously any of the data and facts we've presented in our previous filings, including the recent report submitted that used Verizon New York 2016 Annual Report as the foundation of our analysis.

In short, the FCC has been working for the industry, not the public interest. The FCC's goal is to remove basic consumer protections, free AT&T, Verizon et al. from any

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[3] http://documents.dps.ny.gov/public/MatterManagement/CaseMaster.aspx?MatterCaseNo=16-C-0122&submit=Search
[4] http://irregulators.org/wp-content/uploads/2017/06/NYrteportjune22FINAL.pdf

obligations of offering service, and erase the basic cost accounting rules instead of auditing the impacts that their rules have had.

Worse, it lacks the basic data and analysis to prove that the phone companies, once freed, will be incentivized to build out their wireline networks. Instead, the goal is to ‘shut off the copper’ wires that are in use, and not replace them with upgrades to fiber but to have them be used for the wireless company’s 4G networks (and 1G of Hype), so that the companies can make more profits by charging per gig and at slower speeds.

And it is the FCC’s failure to audit its own cost allocation rules for 16 years, as well as a dysfunctional jurisdictional federal-state joint board, that is one of the primary reasons America is not a fiber optic nation, that there is no serious competition in the US and that rural areas have been left stranded, while every major city in the US has not been properly upgraded.

However, another major factor is that the FCC has never examined any of the state-based plans for fiber optic deployments. It has never examined the state-based local service rate increases that were used to fund imaginary fiber networks or the commitments, in writing to do upgrades of almost a whole state, like New Jersey.

And, at the core of all of this – the FCC only examines services that have been deemed ‘interstate’, while the state commissions only examine ‘intrastate’ services. The FCC accounting rules have become so deformed that the “interstate’ services, like special access or FiOS, do not pay the expenses that they are ‘causing’. Instead, the majority of expenses are now dumped into the ‘intrastate’ local service classification, even though it is NOT generating the expenses. – i.e., local service is unprofitable because of a manipulation of the accounting via the FCC’s rules. It is not based on actual costs generated by this line of business.

And every part of the FCC’s analysis is flawed because the phone companies have been able to play the FCC, as well as the state Commissions, and are able to arbitrage the ‘best regulatory deal’; this is called “Title Shopping”.

Even the accounting of access lines has been severely manipulated to make it look like there has been a massive drop in the wireline business, but as we will show, while some areas, like the ‘intrastate’ basic voice phone service has been in decline, the ‘interstate’ access lines and services have been in steady growth, from special access lines to U-verse, or the wires to the cell sites.

The FCC has called this proceeding **“Accelerating Wireline Broadband Deployment by Removing Barriers to Infrastructure Investment”.**

It should be called **“Shutting off the retail wired services so that the companies can get rid of any obligations, and the unions, and only provide inferior wireless services**

– because it makes the company more money. And then the companies can get government subsidies and help from the government."

As we will show, this whole proceeding is a farce based on AT&T et al. doing what they do best – misleading the public, and the regulators. And, in this case, the FCC has been captured and it is clear that Chairman Pai and the nominated Commissioner Brendan Carr, have a biased viewpoint to the point of harm as they both worked for the telcos.

Moreover, no one—except the company-funded pundits or their lobbyists (or the naïve)--believe that AT&T and Verizon will start to put in fiber optic wires in areas that were not wired before, and the idea that rural areas will have new wires for antennas that only have a the range of a few blocks—is ludicrous.

The rest of this submission will highlight on a few areas that the FCC has been negligent.

The FCC Wants to Preempt State Laws to Allow the ILECS to Shut Off the Copper, Yet the Agency Has No Data to Make this Important Decision.

If the FCC can not supply basic information, how can the Agency's decision be valid?

- Part I: The Accounting of Access Lines has been Manipulated to Create Line Losses Used for Public Policies.
- Part 2: The FCC Can't Shut off the Copper because Its Own Cost Accounting Rules have Manipulated the financials
- Part 3: How Many Times Will America give AT&T et al Financial Incentives – Read, Extra Charges on Bills, Killing Off Competition, Relaxation of Any Obligations, and No Accountability?

Part I: The Accounting of Access Lines has been Manipulated to Create Line Losses Used for Public Policies.

The FCC quotes AT&T and others, claiming that the copper networks have been dramatically losing lines, and that this is a primary reason they should be 'shut off'.

AT&T's filing claims:[5]

> "Retail POTS subscriptions have declined to the point that less than 17% of households purchase switched-access voice service from an ILEC, and these services will only continue to decline."

Unfortunately, this is simply a made up statistic and while it sounds dramatic, AT&T and the FCC have decided to leave out the majority of copper based access lines, which have not 'declined'.

As we will show, the FCC has failed to supply basic data to explain how many customers will be impacted and, in fact, has manipulated the accounting of the number of copper lines in service and thus how many may be 'shut off'.

- The FCC has failed to provide basic data on how many customers are impacted by the FCC's decision to 'shut off the copper'.
- The FCC and the phone companies have manipulated the accounting, leaving out most of the access lines in service, copper and fiber.
- The access line accounting presented is relying on one sub-category of copper wires, "POTS", Plain Old Telephone Service, that are used to provide local voice service, which is classified as 'intrastate'.
- The FCC supplies no information on the number of 'interstate', IP-based, data services, (sometimes "information services"), also called "non-switched', or 'nonregulated', which are the majority of lines.

We ask:

- How many lines are in use that are based on the copper wires?
- How many are based on the fiber optic wires?
- How many copper based access lines are not included in the accounting of lines?
- How many Business Data Service lines (special access lines) are copper and can also be 'shut off' and are not in the access line accounting?
- How many 'interstate', 'non-switched', 'information service', 'nonregulated', 'IP' or 'data lines' are there in use today, that are using the wires—that are part of the state utility—and are not part of the accounting of access lines.
- How many wires are in use that go to the wireless cell sites or hot spots or antennas today?

[5] https://ecfsapi.fcc.gov/file/1061582659451/FCC%20Comments%20-%20FINAL.pdf

1) Examining the Copper Wired World of AT&T

Access Line Accounting depends not the wire but what goes over the wire **and** the access lines that are quoted supply only 'intrastate' services – i.e., local POTS, mostly copper based phone calling.

However, there are many other services that are in use over the exact same wires and they are classified as 'interstate' and under the jurisdiction of the FCC. This can include Business Data Services, ('special access' services), or U-Verse, the cable service, or DSL, or the wires to the cell sites or even the voice service that comes with U-Verse.

In this case, quoting just the local service voice lines is a shell game that distorts the accounting of the lines by not counting most lines that are 'interstate' and under the jurisdiction of the FCC.

2) AT&T's U-Verse, IP, DSL Access Lines Are Missing.

AT&T's U-Verse was a bait and switch. AT&T told everyone that U-Verse was a 'fiber-based' service, where there is a fiber optic wire somewhere within ½ mile of the location. U-Verse, in fact, is a copper-to-the-home service that uses the original, state-utility based copper networks, that could be 20-80+ years old.

However, the U-Verse lines in service are classified as 'IP' or 'interstate' and are NOT counted in the access line calculations, even though they are the identical wires used for voice calling – it is simply that the 'traffic' over the wire has been changed, so the line gets reclassified.

AT&T's 2017 first quarter report shows 14.3 million "IP" and DSL lines and 5.5 million 'U-verse' voice lines. Thus, there are about 15-20 million 'lines' that are mostly, if not all, copper wires that the FCC has neglected to include (or AT&T) in any calculation. (There are overlaps between these numbers, but no details from AT&T.)

This shell game with the accounting of actual lines in service also has left out the wires to the cell sites, or the wires used by competitors.

There are also "Business Data Service", (formerly special access) mostly copper based lines, that the FCC is also allowing to be 'shut off'. Again, there is no actual accounting of the number of lines in service. These are NOT included in the 'declining' copper lines because they are Interstate.

3) AT&T Fiber Optic Deployment Covers a Paltry 5% of the AT&T's 21 State Territory[6]

What about the fiber optic deployment from AT&T, such as 'Gigapower'?

AT&T doesn't list its fiber deployments in its quarterly report because they are embarrassing. AT&T covers 77 million customer locations in 21 states – and, as of July 2017, it has about 4 million 'locations 'covered. This does not mean it has 4 million customers; it means that there is a possibility that in 51 cities someone can get a fiber optic connection from AT&T. As of July 2017, this comes to less than 80,000 locations per city that may be able to get this fiber optic wired service. Chicago, Houston, Los Angeles are just some cities were AT&T has a 'presence'.

AT&T writes:

> "Our ultra-fast internet service is currently available in over 51 metros nationwide. We plan to reach at least 67 metros with our fastest internet service.
>
> "Today, we're marketing a 1 gigabit connection[4] to nearly 4 million customer locations. More than 650,000 of those locations are apartments and condo units.
>
> "We have the largest fiber network across the 21 states where we offer home internet service."

This means that, in toto, AT&T currently has 5.1% of the states' covered. And this is the unaudited accounting and these are only places where the service 'may be offered'.

What's wrong with this picture? The FCC is planning on 'allowing' AT&T et al. carte blanche to shut off the overwhelming majority of their regions, at will, with no plans for delivering a 'wireline broadband service' that this current FCC proceeding reportedly is supposed to be driving.

4) AT&T has No Plans on High Speed Anything in Its Own Territories – And It Should be Investigated.

AT&T has pulled off a coup and has gotten the federal government to pay it $428 million a year, starting in 2015 through 2020 – at least $2.5 billion to deliver seriously flawed fixed wireless service to rural areas – areas that AT&T should have already upgraded in its previous AT&T-BellSouth merger, for example.

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[6] http://about.att.com/newsroom/att_fiber_expands_to_17_metro_areas.html

Instead of upgrading and maintaining the copper networks in its 21 states, it appears, like Verizon, AT&T has decided to let the networks deteriorate; it won't even support basic wired high-speed services, even DSL.

Stop the Cap writes:[7]

> "AT&T is using ratepayer funds to construct a sub-standard fixed wireless network that it will use to cross-sell its own products and services by offering customers a discount. The minimum speed to be considered "broadband" according to the FCC is not less than 25Mbps. But AT&T would have to spend considerably more to equip its wireless solution to work at those speeds…"
>
> "AT&T's Fixed Wireless Internet service begins...offering up to 10/1Mbps service with a monthly data cap of 160GB (additional 50GB increments cost $10 each). The monthly price is $70, or $60 with a one-year contract, or $50 if a customer has AT&T wireless phone service or DirecTV. The service works over AT&T's 4G LTE network."

5) The FCC has No Proof that the Companies Will Do Anything Once they Get Deregulation and there are No Commitments with Penalties.

So, where, exactly is the wondrous future we should expect once the FCC pushes through a plan to have no more obligations and shut off sections of the state utilities?

***"We are in the midst of a technology revolution**…"*

Do not worry, AT&T has proclaimed this, and the FCC is captured and has no serious analysis capabilities to question or discern hype from reality, and neither do the politicians in California, (many of who receive money from AT&T et al.) it appears.

In California, there is a bill to remove the obligations of zoning and environmental testing challenges and it lets the companies put in 'small cell wireless networks', wherever it wants. I note that these require a fiber optic wire with an antenna placed every block or two, but let's not let facts get in the way of the 'technology revolution'.

In a hearing on July 12, 2017, AT&T testified briefly and claimed:

- **July 2017:** Bill Devine, Vice President, AT&T stated:

[7] http://stopthecap.com/2017/04/25/att-uses-tax-dollars-subsidize-expensive-capped-slow-wireless-rural-broadband-solution/

> "Building small cell infrastructure is a matter of statewide importance... The wireless industry is prepared to invest billions of dollars in small cell and 5G networks. We're not seeking a government subsidy; we are not seeking tax breaks.
>
> **"We are in the midst of a revolution, a technology (communications) revolution"**

And yet, listening to AT&T, no one mentioned that this phrase is the mantra to remove regulations and get other changes in public policies that benefit a few companies, including AT&T.

In 2012, AT&T said this same phrase almost verbatim.

- **2012 AT&T Press Release, California**[8]

> "CALIFORNIA, JUNE 19, 2012 — **American consumers are in the midst of a communications revolution,** and AT&T's technology has the power to help California and the world operate more sustainably. In the 2011 AT&T Sustainability Report, launched today, the company demonstrates how it is committed to improving our world and empowering consumers to do the same."

But this has been so common that it should be tattooed on the CEO's forehead, as it was used in 2005 when SBC bought the previous version of AT&T. NOTE: This merger killed off the original AT&T as a competitor, and the company then rolled out U-Verse, the copper-to-the-home service that was supposed to be fiber to the home. Then stopped.

- **2005 SBC to Acquire AT&T, January 2005**[9]

> "Today's agreement is a huge step forward in our efforts to build a **company that will lead an American communications revolution in the 21st century,"** said Edward E. Whitacre Jr., SBC chairman and chief executive officer.

If that wasn't proof enough that the statements made by the companies are suspect, this phrase was part of AT&T testimony in 1998—almost 20 years ago, that it was going to wire all schools with internet service.

8 https://engage.att.com/Manage/Secure/Media/CampaignFiles/40/CA_Sustainability_Report_Press_Release.pdf

9 https://www.att.com/gen/press-room?pid=4800&cdvn=news&newsarticleid=21566

- **1998: AT&T Testifies**

Even the previous version of AT&T, before the SBC merger, used the same hype and rhetoric almost 20 years ago.

EDUCATION AND THE WORKFORCE
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

HEARING HELD IN ALHAMBRA, CALIFORNIA, FEBRUARY 17, 1998

As a company at the forefront of the information technology revolution, AT&T continues its legacy with the AT&T Learning Network, a five-year, $150 million program to bring AT&T technology and extensive support services to every public and private, elementary and secondary school in America. This initiative, a joint business and philanthropic offer, represents AT&T's single largest commitment to education to date.

Launched in 1995, the AT&T Learning Network is designed to provide all schools with access to some of the newest information technologies, including the Internet and the

6) Calculating the Total Number of Access Lines, Fiber and Copper

Returning to the accounting of lines, AT&T is the state-based incumbent Local Exchange Company ILEC, and state based utility for 21 states, so this information represents about ½ of the US, especially when size of state is considered.

And the company and its subsidiaries have been able to perform a magic trick with the access line accounting. The following information summarizes what we discussed and most is from AT&T's 2017 1st quarter financial report and other AT&T sources.[10]

[10] https://www.sec.gov/Archives/edgar/data/732717/000073271717000055/q1_10q.htm

The Copper Wire World of AT&T
(000)

1.	Total Number of 'Locations' in AT&T Territories	77,000
2.	Number of Fiber Locations 'Passed'	4,000
3.	Retail Consumer Switched Access Lines	5,533
4.	Percent of Customers Using "POTS"	17%
5.	Households 100%	32,547
	MISSING ACCESS LINES: COPPER	
6.	**U-Verse Consumer VoIP Connections**	**5,470**
7.	Broadband Connections	
8.	IP	13,130
9.	DSL	1,164
10.	U-Verse	4,020
11.	**Connections 15 -20 million**	
12.	**Missing**: Special Access Lines, Wires to Cell Sites	?
13.	**Access Lines not counted**	50-90%

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1) AT&T covers about 77 million 'locations' households and small businesses[11]
2) AT&T only has 4 million locations that can get its fiber optic service, or 5% of the total.
   - U-Verse is a copper to the home service, as it uses the existing copper wires to finish the connection. There is only fiber to the node, which can be ½ mile away.
3) AT&T claims it has 5.5 million retail residential access lines.
4) In the AT&T filing, AT&T claims that this is 17% of 'households'.[12]
5) This would mean that AT&T has 32.5 million wired households. This does not match what is in the company's financial reports.

Missing from the Access line accounting: Copper Based U-Verse and VOIP

6) **AT&T has 5.5 Million IP Voice Connections.** These customer lines have not been included in the access line accounting of "POTS" lines, even though these are most likely using a copper-based phone line.

Then We Have the Broadband Connections.

7-11) Of the broadband connections, we have U-Verse, at only 4 million total, DSL with 1 million and "IP" broadband, which is now 13 million. Considering all broadband is IP,

[11] According to AT&T's own VIP 2013 filing
[12] https://ecfsapi.fcc.gov/file/1061582659451/FCC%20Comments%20-%20FINAL.pdf

and some of these can be part of a triple play, where the voice, U-Verse cable and broadband are all part of a package, it would appear that there are probably 15 -20 million, mostly likely copper wires in use that are not counted in AT&T's declining copper wires.

12-13) Lines not counted – 50-90% of the lines are missing that are mostly copper and could be shut off. However, without an audit there is no way of knowing just how much of the networks are in 'shut-off' zones. This number includes special access lines which are not itemized by AT&T in their quarterly report and not reported by the FCC.

Thus, the FCC's claims of 'shutting off the copper' and preempting state laws, with the data that they have presented, should be taken to court. It invalidates every part of the FCC's argument. And since the FCC has made no attempt to identify the impacts on customers, what they will come up with is guaranteed to not answer the basic questions we presented or supply a valid calculation of harms on customers, cities and states.

5) Conclusion: This is what AT&T Wants:

COMMENTS OF AT&T SERVICES, INC. ON NOTICE OF PROPOSED RULEMAKING, NOTICE OF INQUIRY, AND REQUEST FOR COMMENT[13]

AT&T writes:

- **"The Commission Should Preempt State and Local Laws and Other Legal Requirements That Inhibit Broadband Deployment"**

Basically:

- AT&T's filings call for preempting states' rights where the state requires the incumbent phone company to continue its 'carrier of last resort' obligations.
- AT&T wants to 'streamline' the notification process so that they can 'shut off' customers and give them a bit over a month to find some other alternative, and put the burden on a customer to show 'evidence' it doesn't exist.
- AT&T wants the FCC to 'forbear' so that it can share information with other entities, meaning their own affiliate companies, before there is a formal announcement.
- AT&T doesn't believe government entities, including the FAA, Federal Aviation Administration or the government using legacy data services, should have special treatment.
- There are no commitments required, no obligations left, no financial accounting to be submitted.
- No state or even city zoning issues to worry about.

[13] https://ecfsapi.fcc.gov/file/1061582659451/FCC%20Comments%20-%20FINAL.pdf

Part II: The FCC Can't Shut off the Copper because Its Own Cost Accounting Rules have Manipulated the Financials

The phone companies have been able to convince the regulators that they are losing money from local service and that the copper should be removed due to a financial fantasy world set up by the FCC's corrupted accounting rules.

We have submitted an entire report that uses the Verizon New York 2016 Annual Report as the primary source material.

1) The FCC's Accounting Rules Have become Corrupted Making Local Service Unprofitable.

- The FCC's accounting rules caused billions of dollars to be charged in rate increases to local phone customers, per state, with the claim that local service is 'losing money'.
- The FCC's rules now dump the majority of all expenses into 'Local Service', the intrastate classification of the accounting – billions per state, including 'Corporate Operations' and Marketing. These expenses are NOT generated by Local Service, however.
- At the same time, the FCC has neglected to investigate that the 'interstate' services, using the exact same facilities, like special access, are obscenely profitable.
- In fact, the FCC's rules have also left the 75-25% rule, where 75% of most wiring and networks costs (plant) are placed into intrastate, local accounting, and 'interstate' only pays 25%, regardless of the revenues being generated.

How exactly has this played out? The telcos and their funded commenters use the corrupted financial data, claiming that the TDM networks are generating the 'very high costs', when it is the FCC's accounting rules doing this, and not the TDM networks.

An example: Deloitte writes that the existing copper networks have high costs preventing the money to be used in other areas and investments.[14]

> "The cost to maintain legacy TDM networks contributes to very high OPEX costs, relative to CAPEX, often preventing carriers from adequately investing in fiber for more efficient, less costly IP networks. The requirement to operate and maintain legacy networks and systems limits carriers' ability to take advantage of the savings and shift capital to deep fiber deployment."

[14] https://ecfsapi.fcc.gov/file/10710258933033/Deloitte%20Ex%20Parte%20FINAL%20to%20be%20filed%20.pdf

This statement doesn't actually match the cost-causers and it is only quoting the manipulated accounting caused by the FCC's cost accounting rules.

This is from the Verizon NY, 2016 Annual Report and these are the percentage of the expenses by category. (See the following exhibit for the full accounting.)

Verizon New York, 2016, Percentages of Revenues & Expenses by Category

	Nonregulated	Local Service	Access
Total Operating Revenues	30%	**23%**	47%
Operating Expenses			
Specific & Non-specific Plant	34%	**44%**	21%
Marketing	17%	54%	29%
Customer Operations	7%	67%	26%
Corporate Operations	10%	**60%**	30%
Average Major Expenses	17%	**56%**	27%
Net Operating Revenues	17%	-194%	77%

- Local Service was charged 56% of all expenses, including Corporate Operations, Marketing and Construction and Maintenance (Plant).
- Local Service was charged 60% of Corporate Operations, which can include the corporate jets, or the lawyers to defend rate increases or getting rid of Net Neutrality.
- Local Service paid 44% of Construction and Maintenance ("Plant") even though it only generated 23% of revenues.

2) The Construction Budgets Have Been Manipulated

In a current investigation of Verizon, NY by the New York State Public Service Commission, Verizon sent responses to interrogatories claiming that in New York the company had spent only $141 million a year on the copper networks. The quote continues, but includes the work done on all of the other wired services that are 'interstate' like special access.

> "Q. Are these investments limited to Verizon's fiber-optic network?
> A. Absolutely not. The company's capital investments related to the copper network have totaled more than $1.7 billion from 2004 through 2015, and expenses related to that network have totaled almost $8.5 billion over the same period.

This response by Verizon, and the Deloitte miscalculations of the wireline TDM OPEX, are just part of the massive financial accounting cross-subsidies being used and created by the FCC.

At the core, the interstate services get a financial free ride, while the expenses are put into the 'intrastate' Local Service part of the business.

And unfortunately for the FCC and telco-funded analysts, we don't need to worry about our 'facts' as we are just quoting filed financial reports from the Verizon state utility.

Verizon NY Revenues and Major Expenses by Category, 2016 (Excerpt)

	Total	Nonregulated	Local Service	Access
		Interstate/N/A	Intrastate	Interstate
Total Operating Revenues	$5,240,782,258	$1,552,967,493	$1,211,751,622	$2,476,063,143
Major Operating Expenses				
Construction & Maintain (Plant)	$3,256,244,373	$1,113,045,276	$1,445,636,286	$697,562,811
Marketing	$ 308,034,588	$ 53,273,050	$165,799,314	$88,962,224
Customer Operations	$ 402,504,360	$ 28,387,919	$268,038,623	$106,077,818
Corporate Operations	$1,199,635,597	$ 122,758,995	$722,877,073	$353,999,528
Special Access Revenues				**$2,008,589,749**
Access EBITDA				50%
Net Operating Revenues	**$(1,079,606,687)**	**$183,548,944**	**$(2,098,768,683)**	**$835,613,052**

In this case, the construction and maintenance costs were dumped into Local Service, which is paying $1.45 billion on something other than 'local copper-based' services. It is NOT being used for the 'copper' based POTS lines or the maintenance.

However, the FCC's rules also assigned $723 million in 'Corporate Operations', and how is POTS service paying the majority of Marketing services? When was the last time anyone saw an advertisement for a copper-based POTS line?

Special Access, which is 'interstate', but is using the state-based utility networks, shows a massive profit of 50% EBITDA—this is only possible because it is only paying a fraction of the expenses.

I.e., the interstate services are not paying their fair share of the expenses, which are then placed into local service, which has made the service (and TDM) look unprofitable on paper, but not as a cost causer.

3) The Wireline Budgets Have Been Moved to Fund Wireless – At the Expense Of Cities Getting Wired.

Verizon NY's press releases from 2010-2012 also establishes that the wireless cell sites are part of the wired infrastructure expenditures. The Verizon 2010 headline reads:

> "Verizon Spent More Than $1.4 Billion in New York's Landline Telecom Infrastructure in 2010."

This release clearly establishes that for the year 2010, Verizon spent $1.4 billion on wireline construction in New York State, and part of the focus was FiOS TV. But there were also 2,800 cell sites being put up as part of the wireline network.

> "Deployment of fiber-optic links to wireless providers' cell sites throughout New York as these carriers expand their infrastructure to meet ever-growing demand for wireless broadband and advanced 4G services. In 2010, Verizon deployed fiber optics to connect more than 2,800 of these sites."

AT&T is using the same accounting game. Bill Smith, President, Technology Operations, AT&T, at the Wells Fargo 2016 Convergence & Connectivity Symposium, June 21, 2016, made clear that the wireline side of the business has been funding the wireless build outs.

> "I came more from the wire line business and had always a little bit of frustration for me because for many years before I picked up operations in construction and everything for the wireless side of the business, in the wire line world, I was spending a lot of money that was directly supporting the wireless operation, but it showed up as wire line spend. So we're not that good at allocating those expenditures."

The New York State Attorney General's Office found that 75% of Verizon NY's capital expenditures for Local Service had been diverted to fund FiOS and the wireless networks.

> "Verizon New York's claim of making over a 'billion dollars' in 2011 capital investments to its landline network is misleading. In fact, roughly three quarters of the money was invested in providing transport facilities to serve wireless cell sites and its FiOS offering. Wireless carriers, including Verizon's affiliate Verizon Wireless, directly compete with landline telephone service and the company's FiOS is primarily a video and Internet broadband offering… Therefore, only a fraction of the company's capital program is dedicated to supporting and upgrading its landline telephone service."

However, in a recent report "SUMMARY REPORT: Verizon Massachusetts & Boston: Investigate the Wireless-Wireline Bait-n-Switch" we found that in Boston MA, while Verizon has told the city it is doing a FiOS, fiber to the home deployment, in reality, it is using the fiber optic wires to do a wireless deployment.

- **Part III: How many times will America give AT&T et al. financial incentives – read, extra charges on bills, killing off competition, relaxation of any obligations, and no accountability?**

The Book of Broken Promises has been included as part of these comments. It is the 3rd book in a trilogy that started in 1998 details the failed history of fiber optic deployments in America. And it gives blow by blow details, including links to primary documents, about the billions per state given to what is now AT&T, Verizon and CenturyLink as financial incentives to upgrade the aging copper networks with a fiber optic replacement—that never showed up as promised.