

Q. Are AT&T and Verizon trying to kill off America's traditional telephone utilities?

Q. Are landline utilities in a 'death spiral' as AT&T claims?

Q. If AT&T has failed on its obligation to upgrade its utilities, why should we trust it at this point?

Communications wires go to almost every home, every office, every school and library in America. They are part of individual state utilities for the most part, and are run by local telephone companies. Whether in rural areas, low income areas, or elsewhere, the wiring is part of a network that is commonly known as the Public Switched Telephone Networks (PSTN). These networks have been regulated by the Federal Communications Commission on the federal level and public utility commissions on the state and local levels.

The Telecommunications Act of 1934, updated in 1996, governs these networks. The Act's stated purpose is "regulating interstate and foreign commerce in communication by wire and radio so as to make available, so far as possible, to all the people of the United States a rapid, efficient, nationwide, and worldwide wire and radio communication service with adequate facilities at reasonable charges... the national defense... promoting safety of life and property through the use of wire and radio communication..."

Now, in a recent filing at the FCC, AT&T has stated that it wants to put to an end the public switched telephone networks system, to "transition" them out of service. AT&T is asking the FCC to set a firm deadline to "sunset" the PSTN. AT&T claims the "plain old telephone service," known in the industry as "POTS," and the legacy utilities are "diverting critically needed funds that could be used for broadband deployment."

[As one author writes](#), "Ma Bell asked the FCC to eliminate regulatory requirements that it support a landline network and to provide a deadline for phasing it out.... The (almost) one in five Americans relying exclusively on a plain old telephone line should prepare to kiss that wall jack goodbye as the major wireline telephone providers back away from that dying (and expensive) business."

The writer adds: "However, AT&T in its filing doesn't offer a way to bridge the gap for that 20 percent of Americans relying only on landlines, nor does it address what an all-IP future means for the 33 percent of Americans who have access to broadband but do not subscribe."

AT&T writes [in its filing](#): "Congress's goal of universal access to broadband will not be met in a timely or efficient manner if providers are forced to continue to invest in and to maintain two networks." AT&T's entire point is that the landline utilities are from a 'by-gone era' that they are forced to support, as opposed to the new, bright and shiny broadband networks.

This is, you'll excuse me, a nationwide shell game. There is only one set of networks, the communications utilities, which were never properly upgraded, although AT&T and Verizon collected billions per state in the 1990's for that purpose. Instead, Americans got price increases, less competition, slow broadband compared to other countries, net neutrality problems, and harm to the economy.

The 'new' second network is simply regulatory sleight of hand to give AT&T and Verizon more control and money from the government and from subscribers. Telecommunications is a little complicated, so here is a simple analogy:

Suppose your state wants an upgraded highway system and only one contractor is allowed to bid. The firm is paid billions, but after a decade, it only builds some on-off ramps and fixes the shrubbery; the old road surface is still there. The contractor now goes back to the regulators and gets permission to own and also control the highway system. The contractor now wants to tear down the old highway and replace it with one that can block different brands of cars from using it, or put up tolls, or both. The kicker is that the company has continued to get paid although it hasn't done much work, and now wants more money, either through taxes or higher tolls or both.

As [we wrote earlier](#) on Nieman Watchdog, starting in the 1990's, in virtually every state laws were changed to pay for upgrades of the telecommunications utilities by raising rates and through tax incentives. The plan was to replace the existing copper wiring with fiber optics, but hardly any upgrades were ever made. By 2010, we estimate the companies will have collected about \$320 billion – and counting.

My group, Teletruth, recently presented a report of ours as comments to the FCC. In it we outlined how 26 states controlled by AT&T, Verizon and Qwest not only failed to deploy high-speed fiber optic based broadband to homes, businesses, libraries, schools and hospitals in both rural and urban areas, rich or poor, but that the money they collected was never intended for a so-called "second network." Each state law specified that the funding was to upgrade the first network, the PSTN. Invariably, the old copper wiring was to be replaced – and in every state we examined, that didn't happen. ([Click here](#) for our report.)

AT&T and Verizon now claim that because of bad deregulation by the FCC, all new networks are no longer phone and data networks (telecommunications), but 'broadband' networks, which are 'interstate information services', without the same obligations. The telecommunications giants say they themselves are in control of this "second" network. It is on these grounds that AT&T now says it wants to be rid of the original obligations. AT&T also is asking for more money and tax incentives to build out the 'second network'.

The fact is, AT&T and Verizon did not upgrade the utilities as promised in state after state. Almost all AT&T's services still go over copper wiring. Its broadband product, U-Verse, travels over old, not upgraded, copper lines.

AT&T is the major telecommunications firm in 22 states. Its broadband obligations have gone unfulfilled. It has shown little interest in upgrading the utilities or in rolling out broadband. AT&T claimed it would have broadband in 18 million homes by 2007 (not counting BellSouth). As of January 2010, AT&T has 2.1 million total U-Verse, broadband-TV capable households.

According to AT&T's filing: "While broadband usage – and the importance of broadband to Americans' lives – is growing every day, the business model for legacy phone services is in a death spiral. Revenues from POTS are plummeting as customers cut their landlines in favor of the convenience and advanced features of wireless and VoIP services."

One has only to go to AT&T's SEC filings to see that the company had healthy profits for wireline services. At year-end AT&T made \$123 billion. The wireline business made \$66 billion with \$21 billion in cash (EBITDA, Earnings Before Interest, Depreciation and Amortization). That's a very profitable 32 percent of revenues. And, wireline still made \$12 billion more than wireless services, regardless of the 'wireless is the future' hype.

AT&T has been arguing that there is plenty of competition and has been able to get state commissions to grant a continuous stream of rate increases for basic local phone service

that is supplied over the PSTN. In [Nieman Watchdog](#) in 2006 we outlined the increases in local telephone service charges. There has been no lull since then. In my state, New York, rates went up 90 percent over the five years ending in 2009. Prices don't increase so dramatically when there is serious competition. If there is more deregulation, as AT&T and Verizon are seeking, prices will certainly continue to go up. The trend is clear – harm customers, especially those who have fewer choices.

How many people would be impacted by any new deregulation? AT&T claims that only 20 percent of customers (seems like a lot of people to me) rely on plain old telephone service. It doesn't state the number of its own customers, referring instead to basic industry statistics. The fact is, since almost all AT&T's wireline products go over copper wiring, deregulation would impact almost all current and future AT&T broadband and telephone users.

To sum up, There is only one set of networks, the public switched telephone networks, and the caretakers of these networks failed to properly upgrade and maintain them, even though they collected billions. And now, AT&T claims there are two networks and that the network that wasn't upgraded is to be dismantled, replaced by a network with no regulatory obligations.