



# **The Dirty, Little, Secret Lives Of Phone Bills™**

*A novel based on research from:*

“Phone Bill Independence Report”

Published by Teletruth,  
New Networks Institute, and LTC Consulting.

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Dirty, Little, Secret Charges

**verizon**  
Make progress every day

Billing Date: 09/28/03 Page 3 of 4  
Telephone Number: 718  
Account: 718  
How to Reach Us: See page 2

**New Charges**  
*\*Detail provided in the Itemized Calls section of the bill.*

**Verizon Basic Local Services**

1 Monthly Charge for Dial Tone	Up 409% since 1980
2 Verizon Local Calls*	Up 43% since 2002 Services not yet rendered
3 Late Payment Charge - Basic Charges 8/28 bill	

**Quadruple taxes**  
Doesn't go to the FCC  
Still can't take phone number  
Spanish American War Tax

**4 Surcharges and Taxes**

FCC Line Charge	\$6.44	911 Surcharge	\$1.00
Local Number Portability	\$.23	Federal USF Surcharge	\$.64
Federal Tax	\$1.02	Surcharge(s)	\$1.90
NY State/Local Sales Tax	\$2.94		

**Total**      **Truth-in-billing violations**      **\$39.36**

**Taxes 112% more than dial tone**  
\$8.61  
16.29  
.29  
14.17

**Verizon Calls**

5 Directory Assistance Calls In State Requests:				\$ .80
6 Surcharges and Taxes				
Federal Tax	\$.03	1 at	\$.80	Only costs 30 cents
NY State/Local Sales Tax	\$.07			

**Total**      **Paying Verizon taxes**      **\$ .95**

**Additional bogus taxes**

**7 Verizon Optional Services**

7 Custom Calling Package Call Waiting	Costs 2 cents to offer			\$7.75
Call Forwarding				
8 Inside Wire Maintenance				Up 243% since 1998 3.45
9 Late Payment Charge - Non Basic Services 8/28 bill				.08

**Wire breaks every 16 years**

**10 Surcharges and Taxes**

Federal Tax	\$.25	Surcharge(s)		
NY State/Local Sales Tax	\$1.02			\$ .68

**Total**      **Hidden taxes**      **\$13.23**

**Additional bogus taxes**

**ITEMIZED CALLS**

With message rate service you pay a set price for each local call you make no matter how long you talk.

**Verizon Local Calls**  
Refer to your phone book for rates and discount information.

no.	place called	charge per call	number of calls	period	amount
11	N.Y. City	9.0¢	62	day	
12			17	eve	
13			102	ngt	
Total					<b>\$16.29</b>

**9 cent scam**  
**Always rounded up**

**Missing discounts**

**Increased 16% in 2003**

## **Table of Contents**

### Topics Covered

#### A Letter from Bruce Kushnick, Chairman, Teletruth

- Chapter 1 Phone Bills and Slush Funds?
- Chapter 2 Who Cares About Phone Bills?
- Chapter 3 The Legend of Aunt Ethel.
- Chapter 4 Val Goes on a Blind Date.
- Chapter 5 What the Masses Know About Their Phone Bills — Well, Nothing.  
"The FCC Line Charge Is on My Bill?"
- Chapter 6 How to Read Your Phone Bill — The Dirty, Little Secret Tricks of Experts. Part One.
- Chapter 7 An Interview with Verizon About Teletruth: Interview with a Vampire?
- Chapter 8 Weird Dreams of Phones.
- Chapter 9 Dear Old Dad, The Former IRS Auditor.
- Chapter 10 An Angry Customer Gets Revenge — Verizon Pathetic.
- Chapter 11 How to Read Your Phone Bill — Dirty, Little Secret Tricks of Experts. Part Two.
- Chapter 12 The Former IRS Auditor Speaks.
- Chapter 13 How Are Phone Rates Set?
- Chapter 14 How Rats Are Set. It Isn't a Typo.
- Chapter 15 Telecom Skunk Works 101.
- Chapter 16 Opportunity New Jersey and Pennsylvania — Broadband Scams.
- Chapter 17 The Dirty, Little Secrets of Packages.
- Chapter 18 How Rats Are Set, Part Two.
- Chapter 19 How to File A Complaint. Don't Get Mad: Get It Resolved
- Chapter 20 Packages and Passion.
- Chapter 21 These Are a Few of the Dark Little Things.
- Chapter 22 You Can't Always Get What You Want.
- Chapter 23 Disconnected? Bell Out of Order?
- Chapter 24 Sometimes You Get What You Need.

### Endnotes

## **Topics Covered**

- Local Vs Long Distance Call
- AT&T was Broken Up 20 Years Ago.
- The Creation of the Baby Bells
- Baby Bell Incest
- Local Phone Service in 1980
- Local Phone Service Deregulation
- Telephone Rental Scam
- Phone Bill Account Summary
- Basic Local Services
- Unlisted Numbers
- Truth-in-Billing
- Surcharges and Taxes
- FCC Line Charge
- New Jersey Phone Bill – FCC Charge as Part of Basic Service.
- Double, Triple, Quadruple Taxation
- New York City “Surcharges”
- USF Applied to FCC Line Charge and Portability
- Spanish American War Tax
- Local Number Portability
- More About the Universal Service Fund
- E911
- Optional Services
- Inside Wire Maintenance
- A Non-Basic Charge From NJ Bills
- Voicemail
- Idiot Items
- New York Phone Bill with Touchtone Charge and Other Idiot Items
- Optional “Denial” and “Blocking” Services with \$0.00 Charge.
- Local, Toll and Directory Calls
- 411 Directory Assistance Calls
- “411” Directory Assistance with Tax
- All Other Charges, Slamming and Cramming
- Pay Per Use
- New York City Phone Bill Increases
- How Rates Are Set
- Public Utility Commissions

- The FCC
- Congress and Telecommunications
- The Courts and Telecommunications
- Rate-of-Return
- Plead Poverty Regulation
- Alternate Regulations: Price Caps and Incentive Regulation
- Promise Them Anything Technological Future
- Phase Two: Calling Features and ISDN
- Astroturf Groups
- Phase Three: The Information Superhighway Broadband Scams
- Yellow Pages Are Extremely Profitable.
- Phase Four: Competition Calamity
- The Telecom Act of 1996
- Open the Networks: Bells Allowed Into Long Distance
- The Triennial Review: Harm to Internet Providers and Competitors
- Which Regulators Controls Which Phone Charges
- VOIP Fight
- How to File a Complaint
- How to Select a Package
- Additional Taxes on the Verizon Freedom Package
- The Story of Vaporware

### **Phone Bill Exhibits:**

**NOTE:** Because of the size of the e-book, we decided to create a separate file for the phone bill exhibits. They can be downloaded at:

<http://www.teletruth.org/docs/DirtysecretsPhoneBillExhibits1.pdf>

Phone Bill Exhibit 1	Phone Bill Account Summary
Phone Bill Exhibit 2	NJ Phone Bill – FCC Charge as Part of Basic Service.
Phone Bill Exhibit 3	Taxes and Surcharges
Phone Bill Exhibit 4	Optional Services
Phone Bill Exhibit 5	A Non-Basic Charge From NJ Bills
Phone Bill Exhibit 6	NY Phone Bill with Touchtone Charge and Other Idiot Items
Phone Bill Exhibit 7	Optional “Denial” and “Blocking” with \$0.00 Charge
Phone Bill Exhibit 8	Local Calls: The 9-Cent Scam
Phone Bill Exhibit 9	Toll Calls from New Jersey.
Phone Bill Exhibit 10	“411” Directory Assistance with Tax
Phone Bill Exhibit 11	976 Calling
Phone Bill Exhibit 12	Verizon Freedom Package, New York,
Phone Bill Exhibit 13	Additional Taxes on the Verizon Freedom Package

**A Letter from Bruce Kushnick, Chairman, Teletruth, Author.**

**The Truth Is Stranger Than Fiction.**

You can't read your phone bill, can you? This is nothing to be ashamed about since virtually no one can read or understand all those dirty little secret charges. Were they put on your bill to nickel and dime you to death as you may suspect?

This is a fictional story of Valerie Simpson, a consumer reporter who is about to investigate why all those little charges exist, how they got on the local phone bill and the deep dark secrets the phone company and even the regulators and politicians don't want you to know about.

Our position: Every tax and surcharge on the phone bill should be reduced or removed immediately and no new charges should be added to any new service until there is a full investigation of the total amount customers pay each month.

By the end of this book you will understand:

- How to read your local phone bill and all of the charges.
- What to look for when you purchase a "package".
- How to determine if you've been slammed, crammed or double-billed.
- Why every tax and surcharge is suspect and should be investigated.
- How to file a complaint when you get annoyed.
- The role of the regulators in this mess.
- The "Dirty, Little Secrets" including the skunk-work consumer groups that are paid to harm you, the failed audits and the broadband scams that cost you hundreds of dollars and harmed America's "Digital Future".

This book is also based on actual data, articles, company financial statements and is directly related to the Teletruth "Phone Bill Independence Report", the non-fiction version of this book. That report is based on a survey conducted over the last two years of Verizon phone bills for New York and New Jersey. Most of the phone bills in America have the same issues. While this is a novel, we have footnoted many passages that were taken directly from the actual sources in order to avoid legal repercussions.

We write this with the hope of not only making this information accessible to the average phone customer who pays a phone bill, but also to get every customer to understand what has happened to the local phone bill. We believe that the charges are a national disgrace that needs to be exposed and confronted. Note:

this book is about local phone bills. Other books in the “Dirty, Little Secret Lives of” series cover wireless, long distance, and broadband.

We also need to point out that this book (and its companion report) comes at a time when new services, such as Voice-Over-the-Internet (VOIP), which allows a caller to bypass the local phone companies networks and only use the Internet for a phone call, and even the Internet itself are under siege with cries of adding new taxes and surcharges. Meanwhile, almost every state phone monopoly is proposing increases to local phone service charges or increases to the costs to competitors to access a customer’s phoneline.

Since no regulator has ever examined the total phone charges on your phone bill — not the FCC, Congress or even the state commissions, and since you, the customer will be paying for any new increases, corporate greed has already cost you hundreds of dollars. Enough is enough. Read the book and let’s fix the current problems and block any new charges added to your bill by the whims of the phone companies, supported by their various politicians and regulators.

Also, though we have made every effort to keep the data in our analysis current, we recognize that even as you read this report, phone bills will have changed. For example, there have been increases in the FCC Line Charge, the fluctuating Universal Service Fund price as well as and price increases on numerous items, which also impacts the taxes and surcharges on those items. However, this does not affect our primary concerns or the accuracy of the story being told.

Teletruth was set up specifically to fix the problems with phone bills and telephone charges and we appreciate you buying this book. I wish to thank the various persons who helped to develop this project: Tom, Marcus, Larry, the Simpson family, Valerie, Jane, Eric, Joe, Dan, Jean, Bob, Jim, Kate, Jane, Kaarli, Chris, Sue, Arnold, & the gang at Teletruth. Cover design by Vicki Blake.

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### **Chapter 1 Phone Bills and Slush Funds?**

Valerie walks into the room with a sense of dread. Sitting down at the dining room table she sorts through the pile of letters and envelopes — mostly bills. She can feel a knot forming in her stomach. Her long blonde hair ever so slightly swooshes as she moves it to her left shoulder.

Trying to remain calm, she can hear herself say "*merde*". She picks up a white envelope with the word "Verizon" on the outside, and tears open the bill, almost ripping the pages. Her head shakes in disbelief as she looks at all the little charges on the bill — 23 cents here, 57 cents there.

Val reaches for the sleek pair of glasses, her eyes needing more focus for reading all the details. Her anger grows. *This can't be right. What the hell is this charge for? 'Surcharges' with nothing else?*

Shaking her head and with the thought, *This goes no further*, she decides she will take the assignment. Valerie Simpson is a reporter for a major newspaper in a large metropolis, *The New York Daily Gazette*. Her editor had asked her a simple question:

"Why is there an FCC Line Charge on this bill?"

She had no idea. She never usually read anything more than the amount due. Valerie knew all those little charges couldn't be right. She knew that regardless of that old conception, blondes can't think, she was smart. She never looked at the phone bill details, remembering how when she tried once it only led to a headache. Numbers danced in her mind, meaningless items, all designed to nickel and dime the customer to death.

"I have no idea boss. Doesn't it go to fund the FCC?"

"That's what I thought" the gruff, yet very bright bulldog of a man responded.

"How about this thing called 'Surcharges'? You ever notice that before?"

She took the phone bill from his hand, put on her glasses and stared at the items. She had no idea what they meant and it showed on Valerie's confused face.

He continued, taking the half-chewed, unlit cigar out of his mouth and rubbing his bald, shiny head. "I just got this report from a group called 'Teletruth', based in New York. They wrote that the FCC Line Charge and all of these other charges

shouldn't be on the phone bill. That a lot of them are just revenues back to the local monopolies, like Verizon."

"Doesn't surprise me. Who can read their phone bills? I remember seeing a story on some news show..." she thought but couldn't remember the name, "...where they had some rocket scientists on the air who couldn't figure the charges out."

"Exactly. But these guys from Teletruth, phone bill experts, seem to believe it is not only unreadable, but also covering up quite a few scandals. Because the bill is so complex, they just get covered over."

He handed her a big printed report. "I want you to read this. Then call Teletruth and interview this Tom Allibone and Bruce Kushnick."

The report was titled "The Dirty, Little, Secret Lives of Phone Bills".

"Great title." She laughed.

"And then if this checks out, I want you to go on this hard. This story has never been told. We're talking about slush funds, fraud, deceit, double, triple, and quadruple taxation, misrepresentation — not to mention that these guys show that even the numbers on the bills don't add up. If this is true, this story is big." He pauses and glances at the "Executive Summary" and summarizes.

"It looks like customers are being overcharged hundreds of dollars done through unreadable phone bills. It says that the profits from the FCC Line Charge were never checked — even though the charge keeps increasing — and that the Universal Service Fund is a slush fund that is constantly growing. Apparently there's even a charge on the phone bill to fund the 'Spanish American War'...that was in 1898 for Pete's sake!" He is waving his big arms for emphasis. "There are no regulators examining the entire bill for these profits!"

"You've got to be kidding me?" She shakes her head in disbelief. "Harold, I haven't seen you this animated since you had to leave the office because of the blackout and we couldn't get the paper out."

"If this stuff is true, I'm really pissed, and so should every other American consumer who thinks these companies can be trusted to 'do the right thing'. I want you to do it as a mystery writer looking to uncovering more and more fraud and deceit. Go through each charge and uncover the truth about this. Let's Tell-The-Truth, whatever it may be."

"Do you think we'll have trouble convincing the other heads at this paper about going on it so strong? Don't all the phone companies pay us large sums of money to advertise and..."

"Check out this story and get back to me. We'll worry about that other stuff later. This report just came out and so far no one has had the balls to do anything about it. Every one of our readers pays phone bills, right?"

"Is this about AT&T, Verizon or MCI or...? Isn't MCI already being investigated?"

"According to Teletruth, this is about the local 'Bell' phone companies — Ma Bell's kids." He takes out the Executive Summary. "BellSouth, Verizon, (who owns GTE, NYNEX and Bell Atlantic), SBC, (which owns Pac Bell, Ameritech and Southwestern Bell) and Qwest, which was US West. Damn. This is already looking like these guys merged together so they wouldn't have to compete with each other. Check that out as well. And it's about the quiet local phone monopolies, not the wireless or long distance companies."

"They're all merging." Valerie at least knew that much.

"And find out what the FCC, Congress, and the state commissions have done about any of this. The current FCC Chairman's last decision was voted down, and the entire FCC got its butt kicked about allowing media companies to get larger. Is this the same thing?"

"The FCC stands for...?" Harold rocks his seat back and plays with his bright red suspenders. A blank stare comes back from Valerie. Her normal beat was consumer issues, nothing about phone charges and regulation.

He starts again, with his own doubts. "I think it's the Federal... Tele... No, Communications Commission. They regulate the phone companies I guess. I'll have Karl Harrison the business editor, fill us in. See that? If we don't know any of this stuff then the average consumer is walking in the blackout without a flashlight."

Valerie puts the report under her arm and leaves thinking that maybe this won't be as boring as she thought it could be. "Maybe", she thinks to herself, "*I can put in something about sex phone lines or something to spice it up*", though she thought more of the excitement of reading the white pages starting with the letter "A" than examining phone charges.

*But what about this fraud, slush fund, deceit and overcharging? If this is true and I could break this story nationally, every phone customer in America would like that. I'd be a national hero if there are refunds. And who knows, with Worldcom and Enron, maybe this would be a big scandal itself. Why hasn't anyone covered this before if it was real? What is really going on?*

### **Chapter 2 Who Cares About Phone Bills?**

*The Sphinx is more decipherable than this thing*, Valerie muses, staring at the phone bill one more time. In her mind's eye she remembers the famous Candice Bergen Sprint campaigns where Candice compared the phone bill to the plans for a B2 Bomber.

Valerie gets up from the table and walks over to her computer at the other end of the room. The room is done in an upscale, old school, Ethan Allen feel with subdued colors, dark woods and clean lines — no nick-knacks or other visual clutter. On the walls hang a few pastels which she has always treasured. They were splendid scenes of beach views at sunset, done by her college roommate Vicki. Light hues of yellows and oranges and rich blues were dancing elegantly. On another wall are plaques of different sorts: her college degree from Weslyan, her Masters Degree from Ohio State, clippings of reviews of short stories that won some prestigious, but very insider awards, other awards for specific stories and even a place for her 'Pulitzer' when she got it.

With the drive of writing the great female American novel now out of her system, she had fallen into being a consumer reporter at *Dayton Today*. The stories ranged from the "not-really-serious" investigations to a few that got a good deal of attention, but most of the reporting was general interest stories on mundane issues. They ranged from a string of restaurants with egregious health department violations, to other tales that centered on the "everything-you-needed-to-know-about" category. But it was her story on corrupt healthcare companies that had gotten her to New York. Val had found a deep throat who testified to millions of dollars in padded bills and service cuts to seniors on Medicare and Medicaid. The story won an award and it led to jail time for a number of corporate execs who set up the scam.

At the Gazette she still hadn't had the kind of exploration and investigation she had thought she'd be doing by now, but underneath it all she felt that this story could be different. She couldn't put her finger on it. Maybe it was because Harold, that crotchety old fart who she adored, was so passionate about it.

Being passionate about phone bill issues was like being passionate about toilet paper. Did it really matter in any scope of anything? Utility bills were something you just grinned-and-bared and wrote checks for. These amounts were questioned with an immediate passion, followed by changing the subject faster than an A.D.D. patient. It was a non-topic on the surface.

Seated in front of her computer screen, deciding that going on the web might loosen her mind, she dials-up her ISP and gets annoyed. *Why does this always take so much longer than the high-speed line at work?* She rubs her eyes, goes to the Yahoo search engine and types in "phone bills" in the advanced search. Up pops over 220,000 listings: AT&T, BellSouth, and the other phone companies are in display. She checks and Teletruth is the 26th listed.

Good stories, bad stories, companies selling low-cost long distance, wireless stuff — a cornucopia of phone related items that makes her head spin. It is too much. It's like searching through infinity for an ending that will never come.

Valerie, totally overloaded, gives up on this idea and decides to do it the old fashioned way by reading the hardcopy her boss gave her. She notices that it had colored, highlighted stuff on every page, and the pages had been almost worn. *Harold had a color-field-day on this.*

The colors and highlighting are just too detracting, so Val tosses it back on her table and walks to the kitchen. She opens the well-stocked fridge, pulls out an Amstel Light, and decides to take off the rest of the night.

*Why can't I just do my job and get on with it?* Rumbles through her psyche. *Maybe I just hate all bills with tiny print. Could it be causing my lack of focus?*

Deciding to forgo the usual stemmed glass, Val just gulps it. After the second cool sparkling gulp of liquid eases down her throat, her body sighs with some relief.

*Ah. So maybe that's what's wrong.* In her mind's eye Valerie pictures Carl Jonster and Julie Stone, two close friends who both worked for some phone company. *Maybe I don't want to know about their companies' wrongdoing?* Maybe she could sleep better knowing that large corporations wouldn't do bad things. As a consumer reporter, she did have some compassion even for those who were doing the wrongdoing. Only in the health-care story did it really hit her that there were companies which cared more about their bottom-line than their customers' lives.

It always amazed her that people who worked at companies where there was serious wrongdoing almost always either put it out of their mind by thinking "I could lose my job" or "I like having a nice fat pay check" or they just didn't want to face up to the fact that they had some responsibility for not making the problems known. In some cases, they would say that it was "corporate policy" or "corporate culture" that caused the problems or they would even say that "We're here to

optimize profits as our first and only goal", thus avoiding wrongdoing because that was capitalism.

But no, her friends were not the issue. Bursting into laughter at the last thought, *After covering numerous stories of companies treating people badly, I just want to put off reading the fine print because it will piss me off so much. Damn it. It's time to wake up from a continuous gloss-over of the small slights imposed by large corporations on the unsuspecting public.*

With more determination than before, Val strips to her bra and panties, gets the highlighted copy of "The Dirty, Little Secrets" and settles into her comfy, overstuffed, magenta couch, the light just right for reading. In her favorite place in the house, she starts on the opening:

"In 1993, New Networks Institute surveyed 1000 consumers and found that literally 0%, 3 out of 1000, correctly answered basic questions about the charges on their phone bills."

Valerie notices something odd. "This report is dedicated to Aunt Ethel who died in May, 2003". *Who dedicates a research report to an Aunt Ethel?*

As the pages slid by, each page is an eye-opener. Like a master dusting off a relic to reveal its underlying parts, it suddenly opens up a great deal of detail she never knew existed. It wasn't just that the phone bill was hard to read, the report went on:

"The problem is that the phone bill has become a compilation of misnamed taxes, surcharges and bogus fees, not to mention that some of the charges themselves are outrageous by any stretch of the imagination. In fact, phone charges don't add up; there is missbilling, overbilling, cramming, slamming, missing discounts, customers on the wrong packages, packages costing more than the advertised price, and the list goes on and on."

The introduction concludes:

"If two telecom experts, trained professionals, can't figure out some of the charges on the phone bill, even after months of research and analysis, then these phone bills deserve to be deemed "unreadable" and the phone companies receive an "F" for a failure of the FCC's "Truth-in-Billing" rules.

The report claims that the solution is to investigate the actual revenues and costs of all services, because this will reveal excessive profits under any definition of

'fair and reasonable'. The report continued with "Most extra charges should be removed from the phone bill or require a full audit. This includes the 'Spanish American War Tax', the 'FCC Line Charge', 'Local Number Portability', 'Universal Service', 'Surcharges', 'E911', and the application of all state and local taxes."

*Huh. Harold wasn't kidding, there was something called the 'Spanish American War Tax', and the FCC Line Charge and...*

There are still lots of jargon and terms she doesn't understand and would need to read further. *What are the 'Truth-in-Billing' rules? What are all these charges for and how did they get on the bill in the first place?*

Val starts to laugh almost uncontrollably at the absurdity of this situation. *Everyone pays bills that are 'unfair', yet no one could answer basic questions. There are a whole bunch of charges that don't seem to be accounted for by anyone? And who the hell was allowing this to happen? Who was protecting the consumers from this onslaught of death by 1000 cuts? Talk about being nickeled and dimed — this was quartered and half-dollared.*

*This could be a big story when you add it all up. If every customer pays a few bogus charges and it adds up being a few dollars a month — damn, about half of us have two or more phones — wireless, wireline, and what about long distance? What were the differences anyway? If you figure there are over 100+ million households and 40 million businesses with multiple lines and.... That's billions of dollars a year if you just add a dollar or two.*

*According to Teletruth, this report was based on actual phone bills. As they wrote 'Phone bills don't lie'.*

Going back to the kitchen to finish the remaining beer, this time Val pours the remaining bubbly into a fancy long stem glass, sips-off the foam, and returns to her comfy zone. In minutes she is shaking her head in disbelief at what she is reading in "The Dirty, Little Secrets". These certainly were things she had no idea about but now it was her intention to uncover the details of.

Harold's color-guide now made some sense and this was a real page-turner. Hours pass. It is almost dawn. Val rubs her eyes and notices that her back and shoulders are stiff, so she slowly starts to rotate them. She gets into the lotus position to start some breathing and some more stretching.

*This is going to be some story. No, this is going to be a full series. Pulitzer, here we come. This has Scandal 101 written all over it.*

Over the next week she would try to meet with the analysts from Teletruth to stare them in the eye, ask them some hard questions and see if their analyses held up to scrutiny. She wanted to see these phone bills with mistakes, know what every charge was and learn how every charge got on the bill.

Suddenly, exhaustion overtakes her. Dragging her body into bed, Valerie is asleep before you can say, "Phone bills don't lie. Phone bills don't lie. Phone bills don't lie."

### **Chapter 3   The Legend of Aunt Ethel**

"So who's Aunt Ethel and why did you dedicate your research report to her?" Valerie looks directly at Bruce Kushnick as she sips her Diet Coke. Elephant & Castle is a quaint downtown hangout, with nice dark-wood paneling, saw-dust on the old wood floors and Mozart on the jukebox playing quietly in the background. She had met here with many others for background interviews because of its casual nature and they don't hurry you along after your food is served.

Val had decided to start with Bruce Kushnick, who according to various articles was everything from a "bitter Bell critic" and a "phone bill fanatic" to a "leading industry visionary" and a "respected telecom analyst". As the chairman of Teletruth and the primary author of this report, he would be the most likely to give a good interview, and of course, a good soundbyte.

Bruce laughs at the Aunt Ethel comment. "Ah, so you actually read the opening of the report. Many reporters only read the press release." He smirks and stares back at her. He looks a bit laid-back for being interviewed, but he is thoroughly prepared. Bruce has done this 'let's talk over lunch' thing for over two decades and though he occasionally gets flustered, he is secure in the fact that he has heard almost every question before—even about Aunt Ethel.

Bruce reminds Valerie of the other "Bruce", Bruce Springsteen, but maybe that is because his photo on his website places him in front of a grand piano. Kushnick does look like he could use some sleep, but there is still a gleam in his eye.

"Ah, the apocryphal Aunt Ethel. I don't know what you already read so I'll start at the beginning."

"Please remember, I'm a consumer reporter not a business type, so please make this simple. I have to say that after trying to read my phone bill, nothing looks simple in local phone service. I'm going to tape this, okay?" Valerie had told Bruce the interview would be taped.

"Sounds fine to me. Aunt Ethel got screwed by Verizon and the other phone companies, and I unfortunately discovered this when I went to her house way back in 1992."

Valerie likes Bruce immediately after bluntly iterating his protection of his aunt. *I can tell he isn't going to be another boring consumer advocate without a sense of humor.*

"But let me make it clear up front. My problem is not with the people who work at the company. I have current and former friends from Verizon. In fact, Teletruth has filed numerous times in support of the Communications Workers of America (CWA), the people who climb the poles and answer the phones. Job cuts and construction cuts have hurt Verizon customers, but it also harms those still working for the company.

"Before 1992 I was a Senior Telecom Analyst. I used to work for all the phone companies, consulting, selling research, and I was making a lot of money at it. I had a knack for seeing the future and so I wrote a research report in the 1980's that predicted the roll out for voicemail, Caller ID, the explosion of 800 and 900 services — not to mention the problems. I was one of the first to predict the industry trend that, 'Press one for this, press two for that', would be added to most business services."

"So you're the one." She almost gets angry remembering some of her long experiences in an endless line of buttons to push.

"Trust me" Bruce breaks in quickly, "I always said there should be a '0' for 'Operator' or 'H' for 'Human' to connect to a live person. No one listens to consultants." They both laugh. Bruce takes a sip of his Jack Daniels and continues. "You might not remember this, but before that, companies would just let it ring or the line would be busy for hours. Choose your poison.

"Anyway, one day I go to my Aunt Ethel's house. She was real and a 'great old broad', as she would say. In 1992 she was 87 years old, legally blind, and had to walk with a walker. She was living on a very small pension and social security like a lot of other Aunt Ethels."

"I have an Aunt Gladys. Does that count?"

"You bet." *Damn she's pretty*, Bruce thinks as he stares into Valerie's deep blue eyes and watches her move her long blonde hair.

"So, me being this fancy-schmancy Telecom expert, I pick up the phone bill and I couldn't understand how they were getting away with charging her all of these different charges and..."

"Tell me about it. I'm still ill from trying to read my own bill."

"They do it on purpose. They don't want people to know what's going on. That's only a theory of course. Now, no phone company exec ever came out and said

that, but it's clear that even the new 'easier-to-read' phone bills still have violations. We found 59 violations in just New York and New Jersey to be exact.

Valerie shakes her head with surprise.

Bruce continues, "So, I get real angry. Here's my poor Aunt on Social Security, like the millions of other Aunt Ethels. I know something is really wrong. The total of her bill should be half of what she was paying. She was being nickeled, dimed, and quartered. So, I collect her old phone bills — she had a shoebox — and I decided to investigate. Unfortunately, my clients at the time said 'do not bite the hand that feeds you'. Maybe I should have listened. The rest is telecom history." Bruce is now laughing at the irony of that. "Just kidding."

"Armed with all of her bills, I put them into a spread-sheet. My Aunt was paying for the rental of two rotary telephones, which cost her by 1998 — the last time I updated the stuff — over \$1019 per phone. She was paying for two inside wiring charges which cost her over \$383 per phone line, not counting taxes and surcharges. She swears she didn't order it. Then there were all these taxes and surcharges and other fees.

"In fact, in the report I show the break out of Aunt Ethel's NYC phone bills from 1980 through 2003. What really annoyed me was that before the Bell companies were created in 1984, Aunt Ethel was paying \$9.51 a month. By 2003, the price of service had increased 409% with all of the additions. Even if you remove the controversial phone rental, it's still up 409%."

"The phone rental is controversial?"

"Ah. I'll get to that. Anyway, there are millions of seniors and low income families, all being nickeled, dimed and quartered. These are people who can least afford even small improper charges on their phone bills. A few bucks a month is a serious quality-of-life issue for millions of households! Uh...sorry if I get carried away a bit. I get a little 'passionate' about this topic."

Bruce takes another sip of Jack.

"Now, there are those who would say that customers saved money with the drop in long distance service prices while local service increased, but guess what? Most customers don't make enough phonecalls to justify the extensive rate hikes in local service. Local phone service is incredibly profitable by itself and because of inflated business rates and..."

Valerie realizes Bruce is still annoyed about these issues years later. She is not sure what Bruce meant by increases in local service versus long distance, but she will ask about that at a later time. She decides to change the subject as she catches a pleasant odor from the kitchen, "That's outrageous. Hey...why don't we order our lunch? They make a good Tuna melt here."

"Ya know, I've been coming here for years. I used to live nearby and I would usually get the burger, but a little variety is good, right? So how did you end up becoming a consumer reporter for the *Daily Gazette*? Some burning desire to defend the public trust or for a good paycheck?" Bruce really wants to know what makes people tick. Does she have some burning interest in something? Is she living some part of her 'calling'? With Bruce, telecom had become his calling and justice for Aunt Ethel had been a driving force for the last decade. As he came to learn, he had to become very Zen about the entire process. Just because you are right doesn't mean you will get any form of justice over the large corporate monopolies that control the networks and telecom. It is incremental movement and working with others that becomes the current reward. If you do not follow that mantra, the result can be enormously frustrating.

"Well, when I moved from Ohio..."

"Oh, you're one of those? The class of people from the Midwest who are drawn like salmon to swim upstream. If I can make it here I can make it..."

She doesn't know quite how to take the remark, but decides to not take offense.

"Actually, I won the Prentice Award for a story on healthcare companies that were padding bills and cutting services. We even got some people thrown in jail."

Bruce didn't think his other comment had any slight. He was making an observation. Those who adopt New York City become the quintessential New Yorkers, even if they move to the boroughs or Hoboken. He is impressed that Valerie has actually done some small bit for humanity and is now even more attracted to her mind, not just her beautiful features. "Cool. I don't know the award."

"I like to think that what I report on is helping the public in some way, putting bad deeds and other issues on the front burner instead of leaving it to stories that get buried. A small difference in a larger context but still important to the whole. When the *Gazette* called me and said there was a position to do similar things, I just couldn't refuse. And let's face it, though I live in Hoboken it's New York City we're talking about." *Why did I tell him where I live? That's personal.*

"And are you married or..." Bruce tries to prod, but she is having none of it.

"So getting back to your story..." All business like, though she thinks Kushnick is cute and smart, "...how did Aunt Ethel's phone bill go from \$9.51 a month to \$48 and change?"

"To explain what happened we need a drop of history. There was once a very large monopoly called AT&T."

"AT&T? The same company that still exists, right?"

"Kind of. Back in the 1970's AT&T was much larger. It owned almost all of the long distance services. There was no MCI or Sprint. AT&T also owned almost all of local phone service, and..."

### **A Local Vs Long Distance Call**

"What exactly is the difference between local and long distance these days? Things have changed so much that I should probably make sure that our definitions are the same." Valerie's look tells she's inquisitive but perplexed.

"Ah yes. Good question."

- A **long distance** call is a call out of the state, such as one from New York City to Columbus Ohio. These are also called 'Inter-state'.
- A **local call** is anything defined by the phone company as your 'local calling region'. In New York City, it's New York City, even though there are a number of different area codes. From Brooklyn to the Manhattan is a local call, even though Brooklyn has a '718' area code and Manhattan is '212' or some other newer ones like '646'.
- A **toll call** or 'in-state' call that is usually anything in the state that's not in the local calling area.

"Gabeech? I know it's complicated. You are right that there shouldn't be any difference about a call and the distance it travels in 2004. I mean, it's all just electrons over wires. But that would be too easy for the average customer to understand. In telecom, it has to be too complicated for the average customer. They might catch on that something isn't right."

Nodding with amused affirmation. "Continue. I think I got it but I have the right to ask more questions later."

**AT&T was Broken Up 20 Years Ago.**

"So, AT&T was actually the largest company in the US, if not the world. It was 'Ma Bell', remember? It had long distance and local service. It also manufactured the phones under 'Western Electric'. AT&T had the premier research firm, 'Bell Labs', which had most of the US telecom patents. It even had nearly 1 million employees."

"And there was no competition?" Valerie asks, surprised at this. She is only 32 — too young to have paid phone bills back in the 1970's.

"Competition was outlawed, however AT&T had its hand slapped numerous times for acting badly even without competition. For example, one of the reasons there is a government agency called the Federal Communications Commission, the F.C.C., is because way back in the 1930's AT&T was overcharging customers for the use of their telephone. The amount was about \$500 million in today's dollars, so Congress created the FCC to oversee certain aspects of telecommunications."

"Really?"

"I kid you not," Bruce smirks. He is enjoying telling the story to someone who is actually listening.

"Sounds like some things never change."

"So, in the 1980's an upstart named MCI wanted to use the networks."

"To offer long distance services. Ah, I see." Parts of the story are familiar to her, but only as half-remembered items.

"Right. After years of legal wranglings in a civil law suit under Judge Harold Greene, the largest company in the world was broken up in 1984.

**The Creation of the Baby Bells<sup>1</sup>**

"The local phone companies were separated from AT&T, commonly known as 'Divestiture'. At the time AT&T owned 22 separate local phone companies like New York Telephone, or Pacific Bell or Southwestern Bell. In the court's wisdom, Ma Bell was divided up into seven very large 'holding companies'. Known as the 'Baby Bells', or in the industry the 'Regional Bell Operating Companies', the 'R-BOCS', (pronounced R-BOK), the 22 local companies were divvied up so that all of the RBOCs were approximately the same size."

"Can you name the original seven companies?" Valerie raises her eyebrows as if this is a challenge.

"In alphabetical order", smirk, "they were Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Telesis, Southwestern Bell, and US West. I can even tell you the states they controlled, their revenues, their..."

"That won't be necessary. And what about GTE?"

"Good question. GTE was a separate company, sometimes called the 8th Bell. However, with all of the incest and inbreeding..."

"Uh...excuse me?"

### **Baby Bell Incest**

"Well, the Baby Bells all started to merge with each other over the last decade so BellSouth is the only one left as a separate company, though it jointly owns the wireless company, Cingular, with SBC.

- SBC is the holding company that owns Ameritech, (the mid-west states), Pacific Telesis, (California and Nevada), and Southwestern Bell, (which includes Texas, Oklahoma, etc.)
- Verizon is the holding company that owns NYNEX, which owned New York Telephone, Bell Atlantic, and GTE. Verizon controls the entire east coast from Maine through Virginia.

"Finally, Qwest purchased US West. I think this proves the scientific fact that it is bad when siblings marry. I'll get back to the merger issues later."

Bruce fumbles for his black bag and takes out a collection of papers. "Here's a map with the states and the phone companies.<sup>2</sup> There'll be a quiz at the end."

Val looks up, "I better study then" and laughs, placing the page into a folder that is sitting on the table. "Few interviewees would ever make a joke or have a sense of humor," she adds.

"I always take up an offer for a free lunch." Bruce takes another sip of Jack Daniels as the Tuna melts arrive.

"Okay, so back to Aunt Ethel's phone bills." Val tries to keep the interview on track.

"I needed to give you the backdrop of all of this to get to the phone bill. You'll see how it all fits.

### **Local Phone Service in 1980**

"At the time before the breakup, local phone service was a bundled service. For one low price, in most states, local phone service came with the

- Telephone.
- Unlimited local phone calling.
- Unlimited directory assistance.
- The wiring in the home.

All for about \$8-10 bucks a month, including state and local taxes — Aunt Ethel's phone bill."

"You're kidding me. Everything was included for one low price?"

"Well, each state was different. For example, besides the phone and the wire, NJ had unlimited local calling, and unlimited directory assistance calls, and so did most of the US. New York had a separate charge per call called 'measured' service, but it came with \$4.00 of free local calls, and local service came with 6 free Directory Assistance calls, then 10 cents each."

### **Local Phone Service Deregulation**

"I think of it as going to dinner. If this interview lasts a few hours longer, we may need another meal, or at least more drinks."

She likes this guy but is giving him no slack. "Dinner? Well then let's see if we can hurry it up a little bit," a subtle smile forming across her lips.

Bruce grins at the semi-serious joke. As she pushes her beautiful flaxen hair back, he cannot help but notice that she is not wearing a wedding ring.

"Like I was saying, it's like going out for dinner. Okay, it's 1980. We go out for dinner and the entire meal is included in a fixed price of \$10.00. It includes soup, appetizer, entree, coffee and dessert for one price. We go back to the same restaurant in 2003 and the price is now \$20 just for the entree and everything else

is now ala carte. Nothing is included in the cost of the 'Dinner' which ultimately comes to \$40. This doesn't even include numerous additional taxes and surcharges.

"So starting right before the breakup, everything was turned from a bundle to ala carte. This was called 'Deregulation' — the removal of regulation on how much profit the companies could make under these new schemes. Customers could now buy their phone, but let the renter beware. The inside wiring could be done by a contractor, so let the prices climb. We get rid of free directory calls in most states, and unlimited calling in many states was dropped and changed to a charge per call or per minute, and on and on.

"Even more pathetic was the constant moaning of the seven newly created monopolies." Bruce imitates someone moaning and destitute. "Oh, woe is me, we're just small multi-billion dollar companies and we can't possibly fend for ourselves.' So the first thing that regulators do is to create new charges and fees to stick on the phone bill."

"Stop. Let me get this straight. Local phone service was a group of all these things: the phone, the wire, free local calls, free directory, and everything for under ten bucks, and today if you wanted the exact same service, you're paying..."

"\$48.50 for Aunt Ethel. Without the phone rental it is," he's calculating, "about \$42 dollars."

"Wow. And today, we don't have unlimited anything unless we pay more and..."

In fact, on phone bills today, there is now a "Dial Tone" or "Basic Charge" which represents virtually nothing more than you have phone service, and an additional 18-20 other items, taxes, etc.. Everything is extra. It's kind of like buying a car, but they charge you for the tires, the windshield, even using the car would be extra."

Bruce nods his head. "Um, Ms. Simpson, are you still paying for lunch? I would love another Jack Daniels. Want a cocktail?" Bruce normally keeps to one drink. *This is pushing it, but what the hell. The odds of getting a real exposé are low so I might as well enjoy myself.*

"There's no such thing as a free lunch Mr. Kushnick, but I could use a beer." It was already one hour down and the interview had a long way to go, so they both toast each other and continue on.

"Getting back to Aunt Ethel..."

### **Telephone Rental Scam**

"So let's take the rotary telephone for our first scam. This one can be blamed on deregulation, the FCC, Verizon and AT&T — a group hug." Valerie doesn't even smile at that.

"Aunt Ethel had two rotary phones installed in 1966 on her walls. Each cost \$22 to manufacture. At a fee of \$1.18 a month from 1966 through 1980, Aunt Ethel had paid about \$200 over 14 years. AT&T would come and repair the phone or fix it, so there were other costs, but it was about \$14+ a year as part of local phone service. It's a bit higher, but there's no reason to complicate it more."

"They were great heavy-duty phones", Valerie recollects with a quizzical look.  
"They don't sell rotary telephones anymore do they?"

"You can't buy one except at an antique shop, however Verizon in New Jersey still charges customers for touchtone service. It's more expensive for the network to use a rotary phone, but as I mentioned, everything is ala carte."

"You're shitting me." Val is incredulous.  
"Lady, I'm shitting you not. Phone bills don't lie."

"Anyway, my Aunt had two phones wired to the walls. When the decision to 'deregulate' the telephone happened, the phones were transferred from the local phone companies to a separate division of AT&T, now called 'Lucent'."

"Lucent? They used to be something else and...."

"Now who's digressing?" He gave her a gotcha smile. "The phone had been written off years ago, meaning that on the books it had little, if any, value. Nonetheless, Ma Bell was able to sell the phones that were in place for a retail price of \$45-55 per rotary phone. Everyone who bought them paid retail for a used item."

"Unbeknownst to virtually everyone, New York Telephone was also allowed to charge a hidden fee for the phone known as 'Investment Recovery Charge'. The description of this charge only appeared on the phone bill every 6 months. The price of phone rental counting the AT&T/Lucent fee and the local phone company hidden fee, for say 1989, was almost \$7 a month. Counting taxes and surcharges, a 475% increase."

"It went from about \$1.18 to almost \$7 in just a few years? Didn't anyone keep track of this at the FCC?"

"I'll get to that. The local phone company by 1998 had made \$216 from Aunt Ethel per phone while AT&T/Lucent made over \$915. I have the exact numbers documented in my book, 'The Unauthorized Bio of the Baby Bells'.<sup>3</sup>

"Yeah. I saw you have a book on the web.<sup>4</sup> So, the FCC?"

"I'm getting to it...trust me." Bruce smiles a big smile, but continues where he left off. "When the equipment had transferred ownership and was deregulated, the majority of customers were still renting their phones. Most renters never realized there was this scam. How could they know? Even if the charges were itemized every six months, customers thought these charges were just part of local phone service. Who reads the bills anyway?"

"Now, don't get me wrong, the idea of allowing customers to own their own phones was a good idea. I never had a problem with that. It's just when the bulk of the nation, especially seniors, get hit with high fees for not being savvy customers that I get annoyed."

"The FCC?" Valerie fakes impatience, since she's enjoying the company.

Bruce is going to tell the story his way. He smiles. "So in 1993 we filed a complaint with the FCC outlining these outrageous increases and the harm to seniors. We had just done a study that showed that 25% of the elderly were still renting phones, not to mention 15% of all households — over 35 million people! In the case of seniors, they just got the bills and religiously paid it. They didn't know what everything was and how to buy their own phone much less read a phone bill and all the charges."

"The FCC ignored everything, but in a strange twist of fate, we got one call. It was from Vice President Gore's Office. He had read the complaint and requested we meet with the FCC. Being the good citizen, I go down there and outline what happened to Aunt Ethel's phone bills and they roll their collective eyes — 'dumb consumer' was the unspoken message. We also pointed out that the costs of the inside wiring and directory assistance went up. In our last nationwide analysis in 1997, inside wiring was up 375% and directory was up 1830% nationwide. The cuts in the value of what the customer got before the breakup through 1997 was price increases of over 275%.

"If you remind me I can get you the Ohio numbers, as I was working with the Ohio Consumer Counsel in the 1990's and got their data on these charges."

"The outcome from the FCC?" Valerie was now really curious about how the government agencies dealt with this information.

"Nada. Nothing. 'We don't regulate'. 'Consumers should know better'. Etc."

"Wow. They just brushed you off? Why didn't you go to the press and..."

"Miss Simpson. That was over a decade ago. You would think that if you found a serious breach of the public trust that someone would write about it, much less fix the problems.

"Anyway, to finish this tale, back in 1992 I started New Networks Institute. One of the goals was to do the research on phone bill issues and get it into the hands of the press. Here it is, 2003, and while I've gotten more I-told-you-so's than anyone in telecom, I'm still telling an updated version of the same, old story." Bruce takes another quick sip before recollecting more past events, "There have definitely been some funny moments in all of this. In the case of the rotary phone, I pitched it to lawyers in 1995 and was blown off, but in 2002, in a form of justice for Aunt Ethel, there was a \$292 million dollar settlement for people still renting phones. I can go into detail about that if you want."

Valerie has a strange look on her face. Something seems wrong with this story. How could this story not have been told back in the 1990s when the research was first done? It was already 3:30PM and she needs to think about what she had just heard. *Did local phone service really come with free local calling, free directory, the wire, and the phone and cost under \$10 bucks and now it's \$48 for the same thing?* Her face tells it all.

"You don't believe me, do you?" Bruce was far more intuitive than she gave him credit for. "I don't blame you. We were all told that the break up of AT&T was a good thing and, blah, blah, blah. Remember that I worked for these companies. I was one of the true believers. Until I had that epiphany about Aunt Ethel's phone, I would have thought I was nuts or that I hadn't done my homework. Well, phone bills don't lie. I can..."

"Listen. It is getting late and I really should get back to work. I need to read more, like your book, and check this out for myself. This story is too incredible. I'll be in touch." And with that, she takes the check and leaves a few bills on the table.

Bruce smiles, "See, there is a free lunch! I just want to leave you with one more thing before you go. I haven't told you the really scandalous stuff yet about the phone bill. It gets worse. The rotary telephone is old news. There are still 20 other charges on the phone bill, each with its own tale of woe, corporate greed and regulatory ridiculousness, like the FCC Line Charge, the Spanish American War Tax, the Universal Service Fund excesses, mistakes on the phone bills, and the profits from calling features." Bruce smiles, knowingly, trying to intrigue her for another interview or even something not work related. Unfortunately, he has seen this same expression at hundreds of lunches with reporters over the last decade. At least Valerie is attractive and admits she is a consumer reporter. Bruce ponders the typical business reporters who rarely do intensive investigations for fear that they might prove themselves wrong. They don't want to know that there was another version of life. They have to get quotes from the local phone companies like Verizon daily and they don't want to believe that the companies could do really bad things to customers.

As they are walking out, Valerie turns to Bruce. He's a bit taller than she thought. "What you told me is sort of fantastic. Don't you think that a multi-billion dollar scandal that affects millions of customers would have been discovered and made front-page news?"

Bruce stares into her blue eyes. They are a brighter blue in the sunlight. Outside on the street, the quiet of the restaurant is now interrupted by the New York City rush of pedestrians in every shape, style and color.

"I'm sorry the truth is weirder than fiction. I'm actually surprised the Gazette gives a damn and has allowed someone to actually investigate. Most papers have stopped investigating a decade ago and rarely do we see in-depth analysis of anything more interesting than a press release and some phone company flack."

She looks at him with a questioning stare. "You certainly tell an interesting tale. I'm sorry about your Aunt Ethel's death in May. She sounded like a nice lady."

"I still remember what she said after I told her about the secrets of her phone bills. Shaking her cane she bellows 'Go get the bastards'. Aunt Ethel was cool."

**Chapter 4 Val Goes on a Blind Date.**

As she stands in front of the mirror applying her lipstick, all she can think is, *Why did I ever agree to go out with him? Worse, why are the questions about phone bill charges dancing in my head like a mad hatter babbling?*

Val hated blind dates, and so tonight's meeting with Greg Benson was not her first choice of a good time. Because of the brooding of Clara Kelso, the food critic and freelance movie reviewer at the paper who felt that Valerie was not doing anything fun in New York City, Clara's cousin Greg, a dashing, handsome, very successful cardiologist seemed like a perfect match. They both worked too hard, were around the same age and good-looking. What could go wrong with just trying it out?

*At least it will help me to forget about this afternoon's lunch and my story, she finally resolved.*

They meet at the very expensive Sign of the Hawk, the Upper East Side hot spot. By the salad, she knows this is another date from hell. Clara didn't know that Greg couldn't stop talking about how important his work was. "Well, I went down to deal with Vice President Dick Cheney's heart problems. Boy, talk about security guards... and when I'm in my Hampton's house, I really just like to chill on my boat. Is a 45 foot boat that sleeps ten a yacht? And I want children soon; I'm getting too old to be playing the field if you know what I mean..."

After a 20 minute discourse on the good life stocked with caviar wishes and Krystal, Greg pushes his thick hair back. "I already had two transplants, doesn't it look great?"

The conversation comes back to Valerie. Greg asks, "So, what are you working on right now?"

"I'm working on phone bills."

"Phone bills? How boring can it get? Who cares about phone bills? My bill's a few hundred a month. So what?"

She smiles her best smile. "Have you ever read your phone bill to see if you're being overcharged?"

"I wouldn't know it if I was...I never read the thing. It's more complicated than brain surgery. I'm just a cardiologist."

*Well, that is funny.* But, like a movie on fast forward, she can see the likely consequences of being with Greg. She had no interest in being the wife of someone who was bound to cheat after a few years and cared more about his lifestyle than anyone else in humanity.

After a delicious meal "I have to get up early. I'm meeting with a specialist on phone bills." Just to see if he would care she asks "What if I told you that you were owed hundreds of dollars? Would that make you mad, or that the companies had been able to rip-off seniors?"

"All large corporation's have an obligation to first and foremost optimize profits for shareholders, even the phone companies. It's capitalism at its finest. It's only when they get caught that we ever hear anything about how they optimized their profits. Then I care. It affects my stock portfolio and considering how much I'm down from this recession, I just want to make my money back.

I had both MCI and Enron, two very hot companies that got caught."

"You understand, right?" Greg is trying to be sincere. He, too, had suffered at the hands of corrupt corporations.

After a few perfunctory "This was great", "Let's do it again", "I'll call you soon" pleasantries, Valerie walks into the clear, dark blue night which is obscured by New York City's own luminescence. Though sometimes she would miss going 15 minutes out of Dayton and being in countrified suburbs, she decides to talk a stroll through Manhattan, passing elegant skyscraper apartment buildings and lots of flashy, high-end clothing and shoe stores.

As Valerie walks, she can't get out of her mind the stark contrast of Greg and Bruce in one day of encounters. Considering Greg's response on phone bills and seniors, it was easy to see that society had different versions of what makes us tick, not to mention the point of view about phone bills and companies. Greg cared only about how the company maximized profits — don't get caught is the message — while Bruce had cared about the consumer-side of these companies trying to squeeze more money out of customers. If Kushnick is correct, it is clear who is winning. It is not us. It is them.

**Chapter 5    What the Masses Know About Their Phone Bills — Well, Nothing. "The FCC Line Charge Is on My Bill?"**

"I hope this isn't another jerk-around Bruce. I don't like dragging my butt to yet another bullshit meeting with another press person who doesn't give a damn about investigating this story. I'm pissed."

If Kushnick is the comic, Tom is more of a hothead — an attribute that comes after many years of dealing with the phone companies. Verizon would try almost anything to not pay any refunds, even when you had the data. Who wouldn't get mad?

When meeting with customers and the press, Tom was calm and collected. He just used logic, the company's own mistaken phone bills and bad data to prove his point. Tom Allibone had worked directly for the telephone companies, first at AT&T and then as part of New Jersey Bell, and he knew where all the skeletons were buried in the state. After years of finding things that were 'just plain wrong' within the company, he used his expertise to get money back for customers. Tom knew that 50% of all phone bills have mistakes, and the larger the company, the more mistakes. The more mistakes, the more money customers were owed. Tom had been called "The Ralph Nader of Telecom" by some, and by the phone companies, the words couldn't be spoken in public.

His last big client, a government agency, had hundreds of offices and 70+% were entitled to refunds that were anywhere from a few hundred to a few thousand dollars per office — millions of dollars in refunds. Now as part of the Teletruth collective, Tom and Bruce were the phone gurus. Their research was now turning into actual class action suits. Tom was a country boy and owned a small farm with his wife and kids on the outskirts of the suburbs in Southern Jersey. He didn't like coming to New York City. It was too big, noisy and dirty.

"Tom, chill out. My lunch with Valerie yesterday went fine. She's a smart babe and we just need to convince her to write about this stuff."

"That's okay for you...but me...I'm a happily married man! Anyway, I forgot to tell her that you were coming. She's also bringing in some other people at the paper."

"Great. I'm wearing my suit." Kushnick had on an expensive, Italian, Nino Cerruti double-breasted, charcoal-gray pinstripe suit which hadn't been worn often in the last decade, but it still looked rich and expensive. Combined with tasseled Gucci shoes, an Armani cream shirt and a gold/bronze tie, Kushnick looked like a

lobbyist for the rich and famous. Tom was more laid back with a "Teletruth" labeled golf shirt, khakis, and penny loafers. Both carried attaché cases.

Standing in the lobby of the Gazette building, Tom blurts out, "Oh and I forgot to tell you, I convinced her to meet us downstairs for some 'man in the street' interviews with the public to find out what they know about phone bills.

"Now that's funny" Kushnick adds as he sees Valerie and a 20-something, clean-cut kid dressed in black approaching.

Valerie walks over to Tom and introduces herself. She remembered him from seeing his web picture. She looks at Kushnick, not really sure it's him. *Boy, he cleans up well*, she muses.

"Hello Ms. Simpson. So, Tom convinced you to see the public reaction to phone bills. This..." he smirks, "should be amusing".

"This is Jonathan Lane, one of our new general news reporters. He's brought a microphone and tape recorder. No video. This is for a newspaper after all."

They push into the noisy street, the bright sun making them squint when they open the opaque doors.

The Gazette is on 38<sup>th</sup> street and Seventh Ave. and the streets are teeming with afternoon strollers, shoppers, got-to-get-to-the-next-meeting business clad adults, and anything else one could imagine on a New York City midtown street. They all look at each other as if this was a big mistake. *How did I get sucked into this stupid stunt* is running wild through Val's mind. Jon, however, is having a grand old time, wrenching his neck at every pretty girl with a *Look-at-me-I'm-a-reporter-with-a-microphone* grin.

Bruce looks over to Valerie and likes what he sees. She is wearing a crimson dress and her hair hangs loosely over her shoulders.

"Okay, let's start. So Tom, this was your idea. Do you want to do the interviews or..." Tom looks at Bruce for some assistance. He's not used to accosting people on the streets.

"I'll do it. I have no shame," Bruce retorts. "I used to work trade shows. Piece of cake." And with that he's off, taking the mic out of Jon's hand.

"Excuse me Miss. We're doing a survey of what people know about their phone bills. Can we ask you a few questions?"

And the questions come fast and furious.

"Do you know why there are different charges on your phone bill?" Bruce asks the middle-aged, heavyset woman carrying a few bags from Kmart.

"It's a scam. Everybody knows it."

"Do you get any Directory Assistance calls for free with local phone service in New York?" Bruce asks a well dressed, slender man with a snotty British accent.

"I believe I get two or three." (Wrong answer.)

"What is the FCC Line Charge?" Tom decides to try this one, and questions a punk-rocker with an old style Mohawk and more piercings than fingers.

"Is that on my cell bill dog? That stuff is wacko. I gots rid of the home-phone-thing. Ma Bell that bee-ach. What a rip-off."

"Finish this sentence. The phone bill is so complicated that..." The Korean Grocer, who is on his lunch-break stroll, answers in a thick accent. "It like learning Chinese." He laughs while adjusting his glasses and pushing back the remaining hairs on his head.

"Finish this sentence. The phone bill is so complicated that..."

"... it is more of a disaster than being stuck in the New York City Subway when the power failed. It was terrible," answers the well-put-together, gay sleek fashion designer getting a smoke. "I was..."

"And the 'Local Number Portability' charge?" Bruce asks Beverly Parsons, an elderly black woman who is going to buy her nephew some new clothes at Macys.

"I'm so glad I ran into you. I moved into a new home on August 13<sup>th</sup>, 2003. I disconnected my previous residence number on August 15<sup>th</sup>, and a Verizon serviceman came to my new home on August 15<sup>th</sup>. He checked all the inside lines and said they were fine, however, when he went outside, he noticed a problem. Since the house had been empty for 30 days they gave the outside line away to someone else. They couldn't connect my service without a trunk line. He said it would take a few days. Every ten days I have called Verizon to check on

the status and have been told this is a big job and will take another 7- 10 days. This includes supervisors at their main office. I'm frantic because..."<sup>5</sup>

"What do you think off all the little charges on your phone bill?"

"I thought these companies were regulated and we were protected," decries the post-graduate-student couple, both with long hair, backpacks and clothes drenched in earthy tones.

On and on, interviewee after interviewee, it was clear that the phone bill was a sore point, especially all the charges on the bill. As Joe Kendal, a dirt encrusted construction worker on his way back to a new highrise right outside Times Square says, "Who cares? They're all a bunch of crooks. We little guys don't have a say in any of this. The phone company can eat me."

**Chapter 6   How to Read Your Phone Bill: The Dirty Little Secrets, Part One.**

They all ascend in the elevator of the Gazette Building, a renovated Art Deco styled wonder, laughing and talking amongst themselves as to who was funnier or more tragic. Of the 21 people who had passed in the hour and 15 minutes, only one person knew about any charge, much less got the answers right, and the consensus was that with all of these dirty little charges, something was really wrong.

They end up in a well worn glass enclosed conference room filled with multiple awards all over the walls. Valerie takes some Chinese food lunch orders followed by a few minutes of getting settled.

"Well that was funny. We might be able to use some of those interviews for anecdotal stories, but what I really want to accomplish is..." Valerie bends down, reaches in her bag and gets out a phone bill. "Here's the bill. Tom, why don't you explain it slowly. I'm going to tape this so I don't have to take notes."

Tom has already taken out a pile of other phone bills, Xeroxed, stapled and arranged with his own numbering system. "Alright with me. I brought these as well."

The lunch comes and so, after a few sips of Egg Drop soup out of the container, Tom continues. "OK. First, when you look at the bill, there are a few sections.

"On the New York City bill, there's a..."

Bruce wonders, *I thought she lived in New Jersey?*

"This isn't your bill Ms. Simpson."

"Good catch Tom. Right. This is Jonathan's bill."

Jonathan looks over and says, "Boy, these people really can read the phone bill details." Jon laughs, thinking it's hysterical, but not realizing all of the identifying marks that make this easy to do — once you know the secret signs.

**(NOTE:** This section relies on a series of different phone bills for the examples quoted.)

**Phone Bill Account Summary (Phone Bill Exhibit 1)**

"OK, to start again. On the first page there's an 'Account Summary', which just tells you the total for last month and whether it's been paid. And below that are the new charges. However, even in New York City there are different formats and some are divided into 'Basic Local Service' and 'Optional Service'."

Jonathan adds, "That's as far as I usually get. The rest makes me dizzy."

Bruce chimes in. "That's the most common problem with reading the phone bill details. It's a form of 'Air Sickness' I believe."

Valerie, shaking her head. "You can dress him up but..."

Tom decides to even break his usual business-like tone, "You have no idea how many barf bags we go through a year when we're doing a phone bill audit." And please note something. On the bottom of this example, you'll see the phrase "These monthly charges are for your service from December 10 to January 09." If you check the date above marked December 12<sup>th</sup>, 2003, then the 'new charges' are for service the customer has yet to receive. I bring this up because, as we will see, when a customer is charged "late fees", they are being charged for services billed a month in advance of being used."

Valerie gives a quizzical look, but doesn't want to dwell on the details.

Tom scrutinizes the bill for a second and continues "Next page we have 'Verizon Basic Local Services' and there's a charge for something called 'Dial Tone' and there's a line item for 'Local Calls'.

**Basic Local Services****Verizon Basic Local Services**

- 1 Monthly Charge for Dial Tone
- 2 Non-Published Service
- 3 Verizon Local Calls\*

Valerie remembers what Bruce had said about the Ala-carte-ness of the phone bill and the significance of 'Dial Tone'. "If I remember correctly, 'dial tone' is the basic service, which used to include the wire, phone, directory calls, free local calling or a 'call... allowance'. That's the right term? And now it's just one of the numerous charges on the bill."

Bruce is pleasantly surprised. "Give that lady an 'A', though technically there's more to the story. The phone company used to have a separate charge for the wire, phone and dial tone, but the customer only saw it once or twice a year and service came with all these items."

Tom continues "... and you have a 'Non-Published Service' here as well. It's also known as an 'Unlisted Number'.".

Tom smiles at Bruce. "Our first 'Truth-in-Billing' violation."

### **Unlisted Numbers**

"Truth-in-Billing?" Jon quizzically asks. "What is wrong with an Unlisted Number?"

"First, an important aside, we contend that there should be no charge for an Unlisted Number. Why are you paying for NOT being listed? It doesn't cost them a cent. With all this fuss about "Do-Not-Call" lists in the press and people not wanting to be bothered by telemarketing calls, you would think that NOT being listed in the Directory Assistance or the White pages shouldn't cost you a cent. When you sign up for service and you tell them you want this item, there should be no extra cost — there is nothing special they have to do. It's just a computer database, nothing special."

Jon and Valerie both never thought about the charge, but this certainly sounded right. They nod in complete agreement. It doesn't make any sense when you think about it.

Bruce, sounding authoritative, "In our survey, about 25% of the population is paying this charge of..." thinking, "In New York it's \$2.50."

Tom adds "Huh. In New Jersey it's \$1.45."

Tom continues, "But what else is wrong is that it is NOT a "Basic Service". It's an "optional service" and so the 'Truth-in-Billing' violation is that this charge is in the wrong category. The category matters because let's say you don't want to pay this charge. If it's under 'Basic service' they can disconnect you."

### **Truth-in-Billing**

Bruce adds, "'Truth-in-Billing' is a set of mandated guidelines from the FCC to make phone bills readable, but also to make sure phone bills give accurate information. I quote." Bruce has the report out and reads the FCC information:<sup>6</sup>

"The Commission has adopted Truth-in-Billing rules to improve consumers' understanding of their telephone bills. Among other things, section 64.2401 of the rules requires that a telephone company's bill must:

- (1) be accompanied by a brief, clear, non-misleading, plain language description of the service or services rendered;
- (2) identify the service provider associated with each charge;
- (3) clearly and conspicuously identify any change in service provider;
- (4) contain full and non-misleading descriptions of charges;"

Putting the charge in the wrong section is a small violation, but considering that there are at least 30-40 other violations on this bill, it's at least worth noting how the principle works. Trust me. It gets a lot worse."

Bruce takes a bite of his rolled up Moo Shu pancake, making sure that most of the insides do not fall out or spill onto his suit or tie.

"Onward and upward," says Tom. He's still happy he got to interview people on the street with a reporter, though he was thinking, *Why isn't this 20/20 or Sixty Minutes doing the questioning?*

### **Surcharges and Taxes**

<b>4 Surcharges and Taxes</b>			
FCC Line Charge	\$6.50	911 Surcharge	\$1.00
Local Number Portability	\$ .23	Federal USF Surcharge	\$ .62
Federal Tax	\$ .22	Surcharge(s)	\$ .48
NY State/Local Sales Tax	\$ .63		
<b>Total</b>			<b>\$9.68</b>

"The next section on the phone bill is 'Surcharges and Taxes'."

"What did you call them in your report 'Surcharges and Slushfunds'?" Valerie remembers, *It has a nice ring to it.*

"Remember, while this is a Verizon New York phone bill, every state has different taxes and charges applied. Most of the charges we discuss now will appear in some form with different names, different amounts. There's very little rhyme or reason to the names of the charges or even the amount, from the same company."

"The New York 'Surcharges and Taxes' section has..." Tom is counting,

"...seven different line items. This is of course different in every state, though most of the charges are similar. The separate charges are:

- FCC Line Charge
- Local Number Portability
- Federal Tax
- NY State/Local Sales Tax
- 911 Surcharge
- Federal USF (Universal Service Fund) Surcharge
- Surcharge(s)

Bruce is now into the story as well, "And each one is a tale of woe."

Suddenly, the door opens and Harold Gallagher is standing there. "So these are the gentlemen who are throwing stones at the once great Ma Bell." He's wearing a white shirt that bulges at the stomach and bright red suspenders, making sure that his pants have some extra moral support.

Valerie stands up "This is my boss and editor, Harold Gallagher. This is Tom Allibone and Bruce Kushnick."

"I didn't want to disturb you. Val, can I talk to you for a second." They both go into the corridor. Jonathan, without a care, is devouring yet another portion of the white rice, now mixed with the leftover sauce from the Bean Curd in Chili Sauce.

After a few seconds Valerie and Harold return. Harold seems to almost be about to burst into laughter. "In about half an hour, we're scheduled to get some reactions to your report and research from Verizon. Would you like to listen in and give us some other questions to ask? You just can't say a word and let them know you're here."

The Teletrutherers both start chuckling, then it's a laugh, a loud guffaw and then out and out boisterous clatter. Tom, almost with tears in his eyes, "So you want us to listen in on a conversation and write down some comments while you let us hear what they're saying about us? How cool. You know they hate our guts. They think we're scum. They..."

Bruce butts in, "Sounds great. We can't wait." He gives Val a wide-eyed smile, but she ignores him.

Valerie wonders if this is a good idea, but decides to not bother losing the thread

of this interview. "You're not off the hook on explaining the phone bill. Please continue where you left off about taxes and surcharges."

"I'd like to hear this too." Harold, who's almost always gruff and serious, is now smiling broadly. He knew they'd love to be a fly on the wall.

### **FCC Line Charge**

#### **4 Surcharges and Taxes**

**FCC Line Charge \$6.50**

Tom, without flinching, "First, there's the FCC Line Charge, sometimes called the FCC Subscriber Line Charge. The charge varies on phone bills. It is capped at \$6.50 for residential services per line. However, we've seen it at \$6.31, \$6.44, \$6.45 and other variances as well on New York and New Jersey bills.

*Finally I'll get to hear about this damn charge.* Valerie feels almost relieved.

Tom continues, "In our report we counted over 11 different 'Truth-in-Billing' violations for this one charge alone, in both New York and New Jersey. The charge was created originally because under the old Ma Bell system, long distance service was supposedly subsidizing local phone service, and so the FCC, in its wisdom, created a charge to take the subsidy out and stick it on the customers' local bills."

"And the violations?" Valerie asks, seeming almost impatient.

"First, the name. As we saw with that guy Larry..."

Jonathan chimes in, "Was he the punk rocker or... No, you mean that drunk. I could smell his breath."

"Everyone who pays a phone bill is a legitimate interviewee" Bruce adds snidely. "Larry said that the FCC Line Charge goes to the FCC, right?"

"I couldn't believe he knew that the charge was even on the phone bill." Jonathan is smacking his lips, looking around the table for more food. He snags a Fortune Cookie.

Tom wants to keep this conversation on topic. "It doesn't go to the FCC. It goes to the local phone companies as more revenue, so it is mislabeled twice. First the

name should have been changed because of the common perception that the money is to fund the FCC, and secondly it should identify itself as money back to the phone company. Remember, every residential customer is paying \$6.50 per month per line for this — that's billions of dollars for a mislabeled charge.”

Bruce inserts, “But the real kicker is that this charge has increased without any cost support by the FCC. It was \$3.50 for a long time, then in 1999 it kept increasing for no reason — an 86% increase on every customers' phone bill.”

“What? How can that be?” Even Harold is now getting annoyed. “Isn't someone responsible to make sure that the customers are protected from monopolistic price increases?”

“I'm just repeating what FCC Commissioner Copps said, that these increases had no separate cost support.” Bruce has already taken out a copy of the report and thumbs through it. “Here's the quote. 'The Commission failed to conduct its own independent analysis of the cost data. By failing to undertake the thorough analysis of cost data that was promised in the access reform order, we are neglecting our obligation to consumers.'”<sup>7</sup>

“There were also some backroom trade-offs for increasing the FCC Line Charge and other fees according to former FCC Commissioner Harold Furchtgott-Roth called the 'Calls Proposal'. Don't ask. It's way too complicated. Maybe you saw that article in Forbes about this?”<sup>8</sup>

“To add insult to injury, there is a plan afoot at the FCC to increase this charge to \$9.00 a month per line. Oh, and I forgot to mention that a study done in 1998 found that access fees — the FCC Line Charge is an access fee — was inflated some 550% in the first place.

Everyone in the room has a 'that's outrageous' look on their faces.

Bruce continues. “While the argument presented is that long distance services will be decreased — if you remember, we mentioned that the FCC Line Charge was supposed to be part of the long distance hidden subsidies being transferred to local phone bills — the bottom line is that this is business as usual. In telecom, the 'Public Interest' has taken a back seat to very large greedy and politically powerful corporations.”

Tom, ever the one to try to stay on topic, “Another Truth-in-Billing problem is that this charge is screwball. In New Jersey it is put in the 'Basic Local Service' section of the phone bill, therefore making it a local charge. In New York, the charge is in

the 'Surcharges and Taxes' section of the bill, even though it is not a tax or a surcharge. Meanwhile the FCC claims that it is not associated with long distance even though it is under their jurisdiction and therefore must be considered 'Inter-state', and thus, long distance.

"But it gets screwier. Verizon New Jersey states it a 'mandated' service. — That's not true. It's not mandated. And they declare it is controlled by the state commission on their phone bills, which is also wrong." Tom is now in his milieu and is having fun. He whips out a New Jersey phone bill marked NJ951, circles the specific wrong references and shows it to Val and Harold.

**New Jersey Phone Bill – FCC Charge as Part of Basic Service. (Phone Bill Exhibit 2)**

"And if you notice, they use words like "Basic". "Local". "Charges". "Service", almost interchangeably." Tom points out the various names, while Valerie and Harold shake their heads in disbelief.

"But wait there's more." In his mind's eye, Bruce sees an advertisement for something called a Vego-matic that was advertised on late night TV. *They always say that same line*, he muses.

Tom completes the thought. "The implications are all anti-customer and here's why; Charges and fees can be hidden and never really accounted for, and played with in numerous ways. A simple example: Verizon stated in 2002 that, 'The price of basic service in New York has not increased and, in fact has gone down, over the last 11 years'. And yet, as I just mentioned, over the last three years the FCC Line Charge on this bill increased 86% throughout the U.S.<sup>9</sup> It's on everyone's local phone bill, and I believe that New York is part of the U.S. It's just a game they can play with the definitions to hide the truth and confuse the public."

"They really said that? We should make that one of the questions we ask them." Harold looks at Valerie.

Bruce adds, "Because of the shell game, it's not included in the calculation of local rates even though it is on the local phone bill, and according to the FCC not related to long distance calling. There are other tax implications from this as well."

"Whoa. So, let me get this straight." Valerie tries to get her mind around this one charge and all the bad variables. So, 1) it's not part of 'Basic' service, even though the NJ-Verizon phone bill says it is. 2) It's not a tax, even though it's in the 'Surcharges and Taxes' section of the NY Verizon bill. 3) It is unmarked revenue

of billions of dollars that is 4) not mandated by the FCC. 5) It is not controlled by the state commission even though Verizon New Jersey said it is. 6) There's no cost analysis of why it should be on the bill, even though 7) it has continually increased over the last three years — 86% even though 8) Verizon stated publicly that local phone service hasn't increased in 11 years. And 9) to top it off, there was some study done in 1998 that it was already inflated 550% and yet the FCC now plans to raise it to \$9.00 a month."

Tom is impressed. "That was great. She's got it, though I still remember there's some more..."

Even Harold is impressed she is able to get the details. "Sounds like a slush fund to me."

### **Double, Triple, Quadruple Taxation**

"But this is only the tip of a very large iceberg. It gets worse because of the double, triple, and quadruple taxes applied to this charge from the other taxes in the 'Surcharges and Taxes' section of the bill," Bruce adds without flinching. He is pushing his fingers together, stretching them as if getting ready to play the piano.

### **Taxes and Surcharges (Phone Bill Exhibit 3)**

"In this example, EVERY tax and surcharge is being applied to the FCC Line Charge or the Local Number Portability charge. These charges do NOT relate to anything else.

"So, the FCC Line Charge is not only taxed 'Surcharges', that's plural, but it is also taxed a 'Universal Service Fund' as well as 'Federal tax', as well as 'NY State/Local Sales Tax', even though the FCC Line Charge is not even a service. You can not call up and say, 'I want to order the FCC Line Charge'. There's no there, there."

"Go through this slowly," Jonathan is now satiated and ready to tackle these numbers. He opens his Fortune Cookie and says, "Whoa. This fortune says 'Some days are more confusing than others'. How appropriate."

"OK, on the phone bill under the 'Surcharges and Taxes' section of the New York bill..." He is now waiting for everyone to look on their copies, while Harold sits at the table and is examining the bill with Valerie.

**New York City “Surcharge(s)”**

<b>4 Surcharges and Taxes</b>		
FCC Line Charge	\$6.50	
Local Number Portability	\$ .23	
		<b>Surcharge(s) \$ .48</b>

“In many states there are surcharges of one sort of another. It’s about 7% in New York City. Believe it or not, in New York, Verizon is allowed to pass through its own Utility taxes to the customer — adding something like 6.5% on all charges. In this case, the tax is applied to the FCC Line Charge and to the Portability Charge, as far as we can tell. There is nothing on the web site or any other place we could find that supplied the detail of what these surcharges are applied to, what percentage or even what the specific surcharge.

“It is a serious Truth-in-Billing violation as well, because it does not contain ‘full and non-misleading descriptions of charges’.”

“That’s unbelievable” Jonathan chimes in staring at the numbers. Harold has put on his glasses that were sitting on the top of his bald head.

“It’s sicker than you think because within that Surcharges and Taxes category are also other taxes, including a tax for the MTA.”

“The MTA?” Valerie is now incredulous.

“The Metropolitan Transit Authority, the subway and mass transit system, — the same subway system where the last audit found an additional \$1/2 billion in extra unaccounted for money.”

Tom points out “On a local New York City bill, ‘Surcharges’ only \$.48 cents here, but this is applied to other charges — to every call you make and on ‘Basic Dial Tone’, inside wiring, unlisted numbers, calling features, and directory assistance, so it can add up.

Bruce adds, “On my last Verizon bill, ‘Surcharges’ came to about \$2.50 a month. Multiply that by tens of millions of residential and business customers and you have hundreds of millions of dollars to pay Verizon’s own taxes. I wish someone would pay my taxes.”

“And the real stinker is that there are a whole bunch of other surcharges and taxes listed at the Verizon site that may or may not be hidden in the costs of service. These include ‘Municipal Franchise Fee’, ‘Municipal Infrastructure

Maintenance Fee', 'State Infrastructure Maintenance Fee', 'State Transaction Privilege Tax', 'State Utility Gross Receipts Tax', and 'Telecom Service Excise Tax', among others. Where are they? Verizon states that..." Bruce thumbs through his copy of the report, "...If the tax is the liability of the company, regulatory authorities usually allow us to recover it from customers, either as a separate line on the bill or just buried in our cost of service."<sup>10</sup>

Tom wants to emphasize "We admit freely that not all of these taxes and surcharges are Verizon's fault or that they even have control over what's added to the phone bill. However, when you consider the revenue the company makes from most of these taxes, including paying the phone company's Utility taxes..."

Kushnick, his voice incredulous, adds "Also, all of these 'Surcharges' are applied to the FCC Line Charge — a double or triple tax, depending on how you count them. We're first paying Verizon's taxes, which are applied to another ridiculous charge which is also unmarked revenue to the company that is also under the 'Surcharges and Taxes' section."

Tom decides Kushnick is having too much fun and he just lets him continue with a nod.

#### **USF Applied to FCC Line Charge and Portability**

<b>4 Surcharges and Taxes</b>	
FCC Line Charge	\$6.50
Local Number Portability	\$ .23
Federal USF Surcharge	\$ .62

"Then, there's another charge called the Federal Universal Service Fund Surcharge (FUSF), another large slush fund of billions of dollars. While it's usually discussed as a fund for schools and libraries, the largest portion of this charge is called the 'High-Cost' fund, which also gives the phone companies more money. I'll go into that in a moment.

"But what's really wrong is that if the FCC Line Charge is on the local phone bill, then it is a local charge, Right? If the FCC no longer thinks it is for the long distance subsidy, then is it local? Why care? Because, today, the Universal Service fund is only supposed to be applied to long distance service — inter-state, so, this charge shouldn't even be on this bill, and certainly not applied on the FCC Line Charge. In this example, it is being applied to the FCC Line charge and the Local Number Portability charge.' However, the Universal Service Fund charge is a moving target. During the writing and collection of our survey, the USF went

from 9.5%, 9.1% and 8.7%. It changes every quarter. However, in this example, it is another \$.62 cents for no reason."

There is silence as some of this sinks in, but Bruce is on a roll. This is a story that no one else has told and Tom and Bruce have found these improper, if not downright anti-customer acts.

"But we're not done ladies and gentlemen. Like a car wreck, we must continue and look even if we don't want to. Tom and I spent months trying to figure all of this out, because none of this makes sense.

### **Spanish American War Tax**

#### **4 Surcharges and Taxes**

Federal Tax	\$ .22
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Bruce looks around the room and notices everyone is staring hard at the phone bill charges. *Boy, are we a bunch of nerds or what?*

"There's another tax besides the common state and local taxes that is also applied to the FCC Line Charge — 'The Spanish American War Tax'. or 'Federal Excise Tax'."

"Spanish American War Tax? Wasn't that in..." Jonathan pauses. He had not read the report but Valerie and Harold just start laughing.

Tom fields this one. "1898. One hundred and six years ago, the US fought the Spanish American War and Congress added this luxury tax on the rich who were the only ones who could afford phone service, to pay for the war. Unfortunately, while this tax has come and gone a few times, since World War II, the tax has been applied to phone bills and to the FCC Line Charge as well. However, once again, this tax is only supposed to be for 'inter-state' services."

Bruce makes it known, "I should point out that there's been a number of tax reform groups trying to get rid of this charge, and there have even been bills proposed in Congress."<sup>11</sup>

The room is silent. Everyone can't decide whether to laugh or cry.

Harold decides to break the silence. "Jonathon, let's see if you can't sum up." Jonathan doesn't look up to the task, so Valerie covers. "Harold, this takes some time to sink in. Let me see if I got this so far.

"So far, the FCC Line Charge is in the 'Surcharges and Taxes' section of the bill in New York. The Universal Service Fund, which is also in the tax section but is only supposed to be applied to long distance, not local charges, has also been applied to this FCC Line Charge." She starts to giggle. "Two or more different 'Surcharges' are also being charged to the FCC Line Charge, which are really paying Verizon's Utility Tax and a tax for money for the MTA. Meanwhile, the Spanish American War Tax, which is the Federal Excise tax and was first put on phone bills in 1898 to pay for the war, as well as state and local taxes are also being applied." She can't believe she made it through. "That's like double, triple or quadruple taxes on one item that's already a tax. It looks and walks like a tax but it is revenues to the local phone company disguised as going to the FCC."

"I'm very impressed." chimes Bruce. "Now we just need to explain this to the public to make them get angry and tell the regulators and Verizon to stop all this crap. Taxation with bad representation is tyranny," Kushnick adds for effect.

"We're still missing some charges aren't we? We have a few more minutes before the phonecall." Valerie wants to just get through this part.

## **Local Number Portability**

### **4 Surcharges and Taxes**

Local Number Portability      \$ .23

"Ok. Let's see. There's the 'Local Number Portability' charge, sometimes called 'Phone Number Portability', sometimes just 'LNP'. No one had a clue about this charge except..."

"There was that Internet girl, remember? She moved and asked Verizon why she was paying this 'local number portability' charge if she couldn't keep her number when she moved from the Upper East Side to the East Side, about a mile away in Manhattan.

Valerie looks at Jon. "Ah, Sandra. Right. I thought you'd keep her phone number the way you were staring at her."

“Sandra got that one right, but remember what she told us?” Jon recounts. “She said she had asked to keep her phone number since all of her friends knew it. And she was told that it cost \$558 to start plus \$96 a month.<sup>12</sup> She blew her stack at the service representative who told her that portability was only used if you wanted to keep your phone number in the same location when you switched to a competitor.”

“How much to keep her phone number when she moved?” Harold had not heard this one before.

“\$558 to start plus \$96 a month. I told her to send us her story to put on our web site as one of those ‘phone bill nightmares’.”<sup>13</sup> Tom exclaims.

“And besides that fact, believe it or not, the Universal Service fund is applied to the Portability charge, even though its called ‘LOCAL Number Portability’ — all located in the ‘Surcharges and Taxes’ section.”

Kushnick can’t help himself. “But the kicker here — what is this, kicker 57 or something — is that the Telecom Act that established the charge states that the phone companies, not the customers, should be paying this charge. Since most of the work for this is done by Verizon they get to keep a lot of the money — more revenue.”

Jonathan now empathizes with Sandra. He also thought she was real cute and did get her number. “You would think that with all the noise about Wireless Portability, which allows customers to keep their phone number when you change wireless providers, Congress would realize what a pain in the butt it is to lose a phone number for a wireline business or residential customer. You have to notify your friends, relatives and business associates. When I moved last year, it was a real pain.”

Val is moving forward. “So, to recap, we have the Local Number Portability, FCC Line Charge, Universal Service Fund, Surcharges, Spanish America War Tax, and state and local taxes. That leaves E911.”

### **More About the Universal Service Fund**

Valerie just wants everything covered before the phonecall to Verizon, but is still unsure of some other items. “Before we get to E911, tell me about more about the Universal Service Fund. Why is it a slush fund?”

Tom and Bruce exchange glances. “Bruce, why don’t you take this one?”

“Ok, well, as I mentioned, the Universal Service Fund is supposed to pay for schools and libraries to go on the Internet and use broadband, and it pays for something called the ‘high-cost fund’. There’s also ‘Low Income Support’, which assists low-income customers by helping to pay for monthly telephone charges as well as connection charges to initiate service, and the ‘Rural Health Care Support’ which allows rural health care providers pay for telecommunications services. However, these last two components accounted for only 12%.

“This Fund was over \$4.7 billion in 2001, and the percentage of the total charges varies like the seasonal weather— 9.5% in August 2003, and now it’s about 8.7%, but it varies every quarter. However, it keeps growing like the blob. It went up from 4% only a few years ago. How’s a customer supposed to know if the percentage being applied is correct? They can’t.

“Now, don’t get me wrong. We’re all for the wiring of schools and libraries and the precept of ‘A chicken in every pot, a phone in every house’. But the detail of how the money is charged to customers — including Aunt Ethel, is my concern as well. The concept of Universal service should also apply to those who can barely afford to pay for phone service, and really can’t afford the excess padding to the bills. It could go to better use.”

Val and Harold are waiting for the punchline. Their expression says it all.

“So, slush fund. In 2002, the FCC’s own Inspector General released a report that showed there was little, if any, oversight over some of the areas and they found that it was rife with fraud. I remember one article’s headline ‘Phone Fund for Schools, Libraries Riddled with Fraud: The FCC’s Office of Inspector General said the E-Rate program is out of control.’ And they said ‘We have found something wrong everywhere we have looked’.”<sup>14</sup> Bruce is pleased he remembers the quotes.

“And that’s just the start. The High-cost fund is supposedly to pay for ‘high-cost’ areas, but many of these monopolies are no longer examined for profits. How would anyone know if something is high cost if no one knows what the profits are? And in the ‘Schools and Libraries Fund’ there is still no free ride. While the schools or libraries get the discounts, the USF fund reimburses the phone companies at ‘Business Retail’ prices, the most expensive rates. Also, Verizon and the other Bells are the largest recipient of this money as vendors for telecom services. In 2001, they received over \$1/2 billion dollars. Much of the stuff was NOT put up for bid to obtain the lowest prices. Should I go on?”

Tom is beaming at his companion’s fluidity with the data in the report.

“Why aren’t there audits and investigations and...” Harold knows the answer but wants to hear from Teletruth.

Tom, being the auditor, takes this one. “The Schools and Libraries Fund, sometimes called the “Gore Tax”, is the Holy Grail of telecom. You cannot publicly trash the USF charge if you don’t want to be lynched by every angry school board, librarian, and politician and...”

“What?” Bruce says mockingly “Are you against giving small Indian children the right to the Internet and...” Bruce can’t resist.

Tom ignores the comment. “There are some audits now, after several scandals and investigations, but it just shouldn’t be on the local phone bill. Period,” adds Allibone. “ But we even question whether it should be on long distance bills, even though it applies to ‘inter-state’ services. At nine-point-something percent, if you have a \$50 bill, this charge would add almost \$5 more a month. That’s a lot of money to add on a customer’s phonebill, especially seniors and low-income families.

“And this fund is also supposed to be taking care of Lifeline, which is the financial universal service designed to help low-income families. I can go on and on about the problems. It turns out that while one or two of the line items under Lifeline are not included or cost only a dollar or two, these customers still get charged retail for most services, increasing the phone bills to \$30-50 bucks a month.

“And let’s not mention the fact of double-dipping, in which state funds from Alternate Regulations were also designated to pay for the same projects.”

Bruce adds “That’s another long story for another time.”

## **E911**

### **4 Surcharges and Taxes**

911 Surcharge	\$1.00
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Valerie is getting tired of all of this. Her mind doesn’t want to process everything she’s just heard. And trying to make sense of this is going to be a bear of a challenge for the average customer who just pays the bill and doesn’t want to know the truth. “The E911 charge? Quickly?”

Bruce can sense he’s giving too much data in one sitting. He’s seen the symptoms before in interviews. He’ll make this one short — for him. “The E911 is

the Emergency 911 service and 'E' also stands for 'Enhanced'. It's been on the bill for over a decade at \$.35 a month per line in New York City, but in the last few months, the charge increased to \$1.00 a month."

Tom wants to add some New Jersey info. "Once again, Verizon is making the money in that they have, we believe, the exclusive to this service. In 1991, New Jersey Bell showed \$17 million in revenues, and in 2003, we estimate Verizon, NY will make over \$150 million for this service, since we think it's not up for bid and Verizon will make money in the construction and maintenance.. We're checking on it. And we're trying to determine where all the money goes once it is collected, who audits it, etc.."

Bruce remembers something sad but amusing. "But the really sad thing... I was in a cab last month and the cabbie mentions the charges on his cell phone bill. He says 'Why are we paying this extra tax for the "Nine-Eleven" bombing? Isn't there some other money being collected for that?' I look at the bill and it's the E911 charge, not the 9-11 tragedy."

Jon asks with a kind of *Gee whiz. Did we get screwed or what*", look on his face. "No wonder no body every complained about this stuff or got it off the bill. It's too complicated to figure out. How did you guys do this work?"

Tom reveals "We put the phone bills into a database and started cross-referencing everything. For example, we found that while Verizon offers their package deals for \$59.95 in New York, NONE of the taxes and surcharges are counted in that advertised price and those charges add an additional 36% for a total of about \$81.70."

"Whoa. That's a lot to not include in the total price," which strikes Harold as being a separate consumer story on package deals that aren't deals.

But Tom changes the subject. "Oh, by the way, nothing adds up and we found that 50% of the bills have mistakes."

"Mistakes? Really? How can that be? Digital Pixies?" Jon is now getting really annoyed.

"Based on our survey we've helped to establish two current class action suits in New Jersey. In the first case, it seems that an estimated 40% of small businesses never got their required discounts."

“You’re shitting me?” Jon is now pissed. “Why didn’t that make a big story? Did we cover it?” Jon looks over at Harold and Valerie.

“It was in the report, but it’s not a New York story.” Harold defends his own decision to pass on it. “And we want to know the outcome, not that a class action suit was filed. I think it was given to Karl in the Business section. You might want to check it out with him.”

“So gentlemen, what’s the bottom line on all this?”

Staring at Harold, Tom is a bit weary, realizing that if stories such as the court cases are still not enough to get most reporters to investigate on their own, what’s the chance of this story ever getting fully vetted. However, he decides to hide his disappointment and make sure that they know we have a lot more to go through. “I guess we can wait to finish the rest of the phone bill. We didn’t cover the local calling and the ‘9 cent scam’, the optional services, like Call Waiting, that cost a penny to offer but cost \$5.30 in New York, or the inside wiring, wrong packages, directory assistance increases or...”

With some nodding from Valerie and Jon that there will be next steps, Tom starts again. “We want an investigation into every charge and have them either removed or lowered immediately. If you start adding up all of these misnamed charges as revenues to the local phone companies, not counting all of the other charges, like inside wiring, or calling features, or local phone calls, the total is way out of line with anything ‘fair and reasonable’.”

“On the package deal this would come to a savings of \$20 a month. On an average local phone bill, it comes to \$10-15 dollars a month!”

Thinking of a smart-ass line, Kushnick adds, “Revenge for Aunt Ethel was all I ever wanted. With Tom’s audit ability and my ability to analyze the data, together, it’s a lot worse than either of us ever imagined. We’ve only told you the surface information. There are a slew of scandals about all of the other charges, especially how these companies got to charge all these fees, but also, their profits from all these fees. Local service is one of the most profitable businesses in America, and we’ve only shown you the charges, not how it got that way.”

Harold, looking amused. “Make your list of questions and let’s see what Verizon has to say about Teletruth and your report. We’ll stick to what you said today, and the reporters will get back to you to finish the phone bill topics.”

With that, a wave of anticipation comes over the room.

**Chapter 7 An Interview with Verizon about Teletruth: Interview with a Vampire?**

(Note: This section was written using quotes directly from the company or from their supplied information. — The truth is stranger than fiction.)

After some adjustments of a table speakerphone and the computer in the back of the room is Interneted to the Teletruth site, Valerie makes the call with Tom, Bruce, Harold and Jon voyeuristically listening in.

As it rings, Harold exclaims, "This should be very informative, if not amusing."

"This is Valerie Simpson for Eric Wilson."

"Just one minute." The usual sounds of being connected are playing in the background.

"Hello Valerie. I don't believe we met. You're the Consumer reporter if I'm not mistaken. I've worked with your business writer Karl Harrison." The deep, resonant male voice is calm and business like.

"I'll send Karl your regards. As you saw from my email, I'm working on a story about this new report Teletruth put out dealing with the charges on phone bills. Have you had a chance to read it?"

"Why are you even bothering to waste your time.<sup>15</sup> Teletruth's allegations are untrue. This is nothing more than an attempt to smear Verizon and generate publicity for this bogus consumer organization.<sup>16</sup> While it might seem like real information, Kushnick is a classic Bell-basher. He'll bash whatever Bell he's into."<sup>17</sup>

"Which part of the material are you referring to?" Valerie asks nonchalantly, while the Teletruthers sit restlessly trying not to laugh.

"Well, first, Teletruth itself. These are two individuals, Kushnick and the other one, Tom Allibone, not a group. Their web site should be called Telebaloney, not Teletruth."<sup>18</sup>

Walking over to the computer, Kushnick clicks on the links to the Teletruth Board of Advisors page, which shows over 25 people listed. Valerie comes over, putting her hand on Bruce's back. A wave of pleasant tingling goes through Kushnick's

body. He looks at her, smiling. Valerie smiles back "Excuse me, but I'm on their site and they show 25 advisors, so I think there are more than two people."

After a long pause, Eric Wilson responds, still sounding quite corporate but arrogant. "They've got literally nobody of interest on their BOARD OF DIRECTORS. A guy that operates a website called "verizonpathetic.com"? An independent contractor? They pay this guy money to say that he hates the Bells! The director of marketing for a non-investing DSL ISP?" <sup>19</sup>

After some searching through papers, Tom slips Valerie a stapled printed sheet.

Valerie smirks and decides to zing the Verizon mouthpiece. *He could have at least gotten his facts correct.* "I was sent the resumes of the Board. Tom Allibone is on the FCC Consumer Advisory Committee, Bruce Kushnick is the Alternate, Robert Garnet is a Fellow at Johns Hopkins University in Economics, and Bob Frankston helped to start "VisiCalc", which as everyone knows was the first commercial spread-sheet for the PC." She smiles at the phone guys.

"But, let's get back to the topic at hand. What exactly is your view of their research on phone bills?"

"They've been talking about some law suits they have against Verizon. An independent market research firm retained by Verizon has repeatedly given the company high marks for bill accuracy, including a score of 100 percent in October 2002. There's nothing wrong with our phone bills."<sup>20</sup>

"There are two Class Action suit court cases, now that you brought it up."

"I won't comment on the cases. Nor will I confirm that we have entered into any sort of discussion or negotiation with the plaintiff. I will say again that we suggest the company change its name from TeleTruth to Telebaloney."<sup>21</sup>

"Ok. Let's talk about the report itself. Have you read the report?"

"Why bother. I glanced through it. I don't have a clue what they are talking about. I believe Kushnick's motivation in making dramatic charges is to create publicity and increase sales of his \$49 book, 'The Unauthorized Bio of the Baby Bells & Info Scandal'."<sup>22</sup>

"So you haven't read the report and can't comment directly on it. Ok. Then let me just ask you some specific questions." Val pauses.

"The FCC Line Charge? Why is it on phone bills?"

With matter-of-factness, the Verizon spokesman continues. "The FCC has mandated an access charge (known as the FCC Line Charge) to partially reimburse telephone service providers for the cost of routing long distance calls made by local customers. This charge is applied to all customers who have telephone lines in their home or business, whether they make long distance calls or not."<sup>23</sup>

"So it's mandated and relates to long distance calling and customers have to pay this charge?"

"That's right. We have no control over the charge or putting it on the phone bills."

"But isn't it revenue to you though? It doesn't go to fund the FCC."

The calm voice is no longer calm. "The money is a cost of running the network."

"Ok. But since the charge went up over the last three years to \$6.50 you now make more money."

"There was a tradeoff to lower long distance subsidies and so the charge did go up."

Tom passes Valerie a note. Valerie reads it and continues.

"Let me ask you a basic question. In the report, Teletruth found that when you sell a Verizon Freedom package, you don't include this charge in the price of the package. Why not?"

"Um, the practice is standard and if Verizon added the charge into our flat rate, we could not compete. If we did it, and MCI didn't do it, we'd look more expensive."<sup>24</sup>

"But isn't that a 'Truth-in-Billing' violation, where all charges are not marked properly? If it really is revenue to you — and it is \$6.50 a month per line, which is a lot of extra money, shouldn't it be marked as such?"

"Basic service is a money loser for Verizon. Profits are made from extra features, such as directory assistance and voicemail."<sup>25</sup>

Bruce scribbles something and passes it to Valerie and passes her a copy of one of Tom's bills.

"But isn't the FCC Line Charge" part of basic service? You can't get it off your bill? In fact, in New Jersey, you include the FCC Line Charge as part of 'Basic 'service. I'm reading from a current phone bill. "Basic Service includes all charges that are regulated by the New Jersey Board of Public Utilities such as the line charge..."<sup>26</sup>

The calm voice is now wavering. "Telephone bills are still confusing to the average customer. Everything we put on those bills is legal."

"Also, in New York, one of your press releases in 2002 stated 'The price of basic service in New York has not increased and, in fact has gone down, over the last 11 years'. Yet, over the last three years the FCC Line Charge increased 86%."<sup>27</sup>

"Well the laws are different in New York and New Jersey and prices haven't gone up in New York for the basic rate. As I said, the FCC Line Charge is not set by us."

You could tell he was getting antsy. "I have to go, but let me send you some things about our new 'easier to read' phone bills, which should clarify some of these issues. Are you on deadline for a story about the phone bill stuff? And stop worrying about this Telebaloney."<sup>28</sup>

Valerie is not laughing. She had read some of the previous press clippings and heard the same line used. "One last question. Isn't the term 'Surcharges' on your current New York bills another violation of the "Truth-in-Billing" guidelines and is Verizon New York really allowed to hide the fact that they are passing through their utility taxes to the public?"

"The state mandates we pay taxes just like anyone else. And they let us get reimbursed or we would just have to raise our rates."<sup>29</sup>

And with that the line goes dead and the sound of dial tone returned.

Everyone wasn't sure just what happened.

Bruce is laughing. "We didn't even get into the good parts about how they set their rates, about the billions of dollars of missing equipment used to set rates, about the promises of broadband that allowed them to increase rates and..."

He looks around the room and can sense some confusion. Valerie isn't sure what to think. It is obvious to her that Verizon did not like Teletruth, but some of their answers, such as the FCC setting the rates are probably true and Verizon may not have any choice. They did nail Verizon on some Truth-in-Billing violations and

some of the other materials about Verizon not adding these charges into their sales price of packages. Maybe these consultants were just a bit too zealous in their statements, she wonders. Maybe they weren't. This was just too complicated and needed some more outside sources to see what the differences were.

It also was clear that phone bills are unreadable and that many of the taxes and surcharges were thrown on top of each other. And it was obvious that something is going on underneath that smelled to high hell, but what it was wasn't clear at this juncture, at least not to Valerie. Do we go after the regulators as well as Verizon in the story?

Harold is amused, though he doesn't want to influence Valerie. He'd rather have her make her own conclusions. This was pretty much what he expected — a David and Goliath story, one who expounds the corporate party line and the other one who questions those basic assumptions. In this case, these findings were right in front of everyone's face, but not mentioned. Of course Verizon is going to blame the regulators for these taxes, and maybe they were right about some of them. But it is really clear that no one, probably not the regulators or even Verizon wanted anyone to add them together and figure out just how broken the entire system was. But Harold decided to remain aloof and quiet about this.

Jon, on the other hand, is beaming. "Wow. You really got Verizon pissed. And did you see the way he was avoiding the answer to most of the questions?"

Tom, not noticing the others' moods "We nailed them on the New Jersey bills and the basic service issue and the fact that the increases in the FCC Line Charge were not included in the Verizon statement about cost of service increases. Boy, did that guy hate us or what? One day they will eat their own Telebaloney."

Tom is now ready for more. "Do we want to continue with the rest of the phone bill charges? We didn't touch on Calling features, people on the wrong packages, the bogus increases of the last few years in New York and New Jersey and..."

It becomes clear this meeting is over, so after a few perfunctory parting remarks, Tom and Bruce shake everyone's hand and go down the elevator and out into the brilliant dusk-colored sky.

"Boy, was that fun or what?" Tom is smiling a big smile. "We nailed him, huh?"

Bruce isn't so sure. *She wouldn't even look me in the eye when I left. Not a good sign* is quietly wreaking havoc in his mind. Deciding to leave on an up-note, he pats Tom on the back "Nice job Tommy boy. Now let's see what they write."

Harold, scratching his head, glasses dangling on their string, gently grabs Val's arm. "Val, call Allibone tomorrow and finish the rest of the charges on the phone bill. Maybe, if nothing else we'll run Teletruth's version, Verizon's version and some of the regulators version of the same items. But remember something... 'phone bills don't lie' and this is only the beginning.

*What did he mean by that? Is he as confused as I am about all this?* Valerie wonders as her tired body just wants to call it a day and take a nap.

10 minutes later Eric Wilson is dialing to talk to some of the other PR people. He is not a happy man. He is used to defending Verizon against any allegations. This is just something the company must do when you have numerous law suits you are taking as well as receiving, changes in state and federal laws that require comments, not to mention also trying to push the story of the day. Sitting behind a large oak desk, he is fidgeting with his keys in his pocket. His office has yet to be downsized, though many in his group have had to make out with less since the hey-days of the 1990's. But he still had that million dollar view from a high floor in the Verizon building overlooking the park. Very well groomed and wearing a dark blue Brooks Brothers suit, hair quaffed just so and his face clean-shaven. Eric is upset about this last interview. Teletruth always comes up with new things to worry about and the Telebaloney line didn't even work — the standard answer for this group's writings. "We need to do something about this Teletruth and this story. If the questions are any indication, and if these stories get traction, we're in for some rough times," he tells the woman on the line. "And find out why our New Jersey phone bills say that the New Jersey BPU controls the 'line charge'. This is totally wrong. And why did Bell Atlantic leave it under the 'Basic Service' category? This is a mess. I'm going to call Harrison and see if he can't kill this story."

After a pause the female voice on the other side sighs. "I think we should bring some of our other 'friends' into this. Phone bills are a hot consumer item and if there's something we're gong to be called on, we need the public to be on our side."

"Call me tomorrow. And have someone do me a summary of what's in this report. I don't want to be blindsided again." Eric slumps in his chair, wondering if this small nuisance is worth worrying about. *It's only the Gazette and not the New York Times so who's really going to care?*

**Chapter 8    Weird Dreams of Phones.**

Valerie didn't sleep well. Weird dreams filled her nighttime landscape. In one fragment, Val is a secretary and when she reaches for a phone that keeps ringing it disappears as she tries to grab it. When she gets up to take some dictation from someone who looks real familiar, Val is stark naked, except for a Steno pad. Suddenly, the familiar face is Bruce who doesn't even notice her bare body. Instead he starts singing something about phone bills, but all of the charges are strange ones she never heard of. The next dream she's now in her old office in Dayton, in a cubicle in a funky old building. Busy signals keep ringing as she tries over and over again to finish up this desperate interview which is now hours late. And as the harsh sounds continue, they break up into little pixies coming out of the phone and each pricking her, until it looks like she has goose bumps. Each one starts to hurt and...

*Ring, Ring, Ring, Ring.* The telephone is ringing. It's almost 9AM and she should have left for work. She lets the answering machine pick it up. Her brain is still not functioning.

"Hello honey. We didn't hear from you in a few days so I'm just checking in to see how the big city is treating you. This is your mother of course, silly." Mother always called herself "Mother", as did everyone else. "Your Dad is already at work. You know how early he leaves. I figured you wouldn't be home so late, but I just wanted to hear your voice. Good thing they invented the telephone, right Hon? Call us tonight. Byeeee".

If there was anyone who resembled June Cleaver in *Leave it to Beaver* it was Mother. Those *Nick at Night* reruns of June interacting with Wally, Dad and Beaver struck a chord by the resemblance of demeanor, warmth and mom-ness. She could handle anything, but always her own way and it all worked out. Maybe it was universal. *Where did she get that line about the telephone? She doesn't know about this assignment. Karma? Was I naked and Bruce was in the dream and some interviews and...?*"

That night Bruce didn't sleep well. In his sleep he kept seeing a debate he had back in the 1990's on a cable TV show called "Pork". He was told that he'd be the only guest and lo and behold there was someone from Bell Atlantic to debate him. It rattled him because he would have been more prepared for a rebuttal. But in this dream, he is sitting behind the fake desk, with a fake back-drop of Washington, D.C. and every question he gets is more obscure than anyone could answer — "What is the price of a directory call in Bangladesh?" "How much is a

toll call in Wyoming for the longest distance made during day rates?" *I should know that one.* Meanwhile, the Bell Atlantic person is smiling as Bruce is sweating through his own suit jacket, but when he looks down, he is naked. The interviewer turns into Valerie and she won't look at him. Instead, she is friendlying-up to the Bell Atlantic guy. The desk turns into a piano, but like the nightmares he used to have as a kid, the notes all turn to mush. As he starts playing, the keys disappear. He's now playing a piece of paper with piano keys painted on them. As he plays, each key becomes a little pixy and they start poking him with little sticks until his body is filled with goose bumps.

He wakes up his mind seeing only fragments of the night's torments. *Something about an interview on TV and Valerie and being naked and...*

During her shower, which she likes very hot and steamy, Val tries to piece together what was covered so far and what did and did not make any sense. *It's time to regroup on this story. I need to bother Harold on next steps.*

Her old boss, Raymond, would say that old investigative adage "Follow the money, stupid." *But which money? Every charge on the bill? You can't just go after the total amount. It looks like these are controlled by different regulatory agencies, different sources of money. That makes this complicated and might not make any sense even at the end. And won't that end up having each regulator and the phone companies pointing fingers for the blame?*

*Maybe I'm taking the wrong approach. Maybe I should go back to my salad days and do what I wanted to do—become a mystery writer. Maybe it is time to think of the phone bill as a corpse and figure out who killed it... Each charge adding to its death?"*

Val rushes through a bowl filled with a mixture of Coco-Puffs and Frosted Wheat Chex, with real milk, and throws on clothes taken from the hamper only after they passed the 'sniff' test. She's off, working her way through the now gentrified streets of Hoboken, jumping on the Path to 33rd street, and then a brisk walk up 7th Ave.

On the train she makes a list:

- 1) Everyone knows they can't read their phone bills.
- 2) Everyone is suspicious of the charges.
- 3) No one thinks that anyone is protecting them.

*These are old stories already told. They may be of interest. Nah, this is a 'TV during sweeps' type of thing. No real news.*

News?

1) Teletruth says that each charge is questionable, and that the total is unfair and unreasonable. Harold chart?

Response:

2) Verizon believes that these charges are from the government/regulators and they can't do anything about them — nor do they try because they directly benefit.

3) No regulator examines the total charges or total profits. *Is that news to anyone but some consumers and me?*

Sitting at her desk, she gets a cup of fresh Java and works up the courage to bother her boss. *What did Harold really think of yesterday's meeting?*

Someone is with Harold so she waits. After a few minutes, Karl Harrison walks out of the office. Tall, blonde, skinny and arrogant, Karl is well-dressed in expensive business attire. Considering that the Gazette gets 90% of its stories from the AP and Reuters and there is a national columnist as well, Karl's job is mostly to report using press releases. No investigations. The Gazette's business section has always been corporate-friendly anyway. They want to make sure that they don't harm the companies' reputations that pay good money in advertising.

"Hi Val." Karl looks a bit rattled, but recovers. "So phone bills, huh? I told Harold if you need my help, just holler." He walks away, head high.

Val walks in with her yellow pad.

Harold is chuckling, and his stomach jiggles with each laugh. "That was amusing. While Karl didn't say as much, he hinted that Verizon was not pleased with this story going forward. He was about to badmouth our phone gurus, but when I just offhandedly mentioned that authors of the report were both on the FCC Consumer Advisory Committee, he stopped in mid-air, then he just spouted the party line."

Harold mimics Karl, adding a kind of stuffiness to his bull-dog voice. "Well, you know, because of all these regulations that force these large companies to actually lose money...", "Without these regulations, the free market economy will fix all of these things.", "Who else is going to bring America broadband if not the Bell companies.", "But all of the charges on the phone bills are regulated and..."

Harold adds in this new voice "Harold, do you really think that these companies have done anything wrong? There are on-going investigations."

"I said, 'Karl, I have three words for you — MCI, Qwest, Enron'."

"So, what did you think of the phone duo?" Harold goes back to something he was editing on paper before his meeting with Karl.

"I'm not sure what to think. We have what seems like their story and the phone company story."

"And who do you believe?" He glances over his reading glasses that hang on some string.

"Well, I made a list. It's true that no one can answer questions about the phone bill and at least some of the definitions are wrong. 'Surcharges' is not allowable by any definition, and there's definitely conflict between the New York and New Jersey versions of the phone bill formats. And after going through the report again, I think that the stuff in there quoted from Commissioner Copps, that there was no proper cost support done to raise the FCC Line Charge, or that the Telecom Act specifically states that the local number portability charge should be paid for by the phone companies, can't be easily refuted."

"However, I'm not sure what to do next. And don't say 'follow the money' please? By the way...which money?"

"I know you're the consumer reporter, not the business writer, but what you need to figure out is number one...the money. What about the profits overall? Why was Verizon granted a rate increase in both New Jersey and New York? On what basis? Aren't rates regulated, even if they are ala carte?"

"Also, in the report they show that while there was supposed to be a 3% increase in rates, they show, based on phone bills, local calls went up 16%, Directory Assistance went up 60%, Inside Wiring up 231% and that means every tax went up.

"There're also some charts from an additional Teletruth report that shows that staff expenses and construction expenses, the two major expenses of offering local service, have both had serious cuts. Construction is down, what, 50%, and staff about 20% over the last three years? So how can Verizon get an increase?

"I think if we can show that no one is regulating these guys and that their overall profits from local service is excessive, then this might lead to a..." and together they say, "Follow the Money story."

"I don't get it. You pick up the phone and make a phonecall. Why is everything else soooo complicated?" They both laugh.

"I know one thing. Verizon wouldn't have called Karl to just smooze. Dig deeper. If you need to, get back with Kushnick about how rates are set and some of the other stuff in the report we didn't cover. There're a few points that bothered me. They said that the cost for Call Waiting was less than one cent but that they charge \$5.30. So how can 'local service' lose money? Another Truth-in-Billing or bad definition or something?

Val continues. "Bruce mentioned something about all these services being deregulated and no one looking at profits, but how do they then increase rates? I, I, I..." She realizes she called Kushnick, 'Bruce'." *Some kind of Freudian slip?* She remembers the dream fragment *I was naked and he saw and didn't notice me.*

"Forget about Karl. He's useless. Find someone you can trust. You could call Kushnick and let him suggest an economist or an accountant or regulator or..." Suddenly, Valerie starts laughing. "Who knows about money and profits that I can trust? My Dad, Leonard! Why didn't I think of this? He's, well...very square." In her mind's eye she can picture a scene from her past. "When we were kids he'd always wear those bottle-thick glasses with a taped-side and Mother would always make fun of him, in a nice way. Dad used to work for the IRS as an auditor and now he is in a private accounting practice. He mostly does bankruptcy nowadays, so his practice shifted, but..."

"But what?"

"Well, I can't remember ever talking to my Dad about accounting. It was so foreign to me and I didn't really care and so, I don't know if he'll know any of this." The revelation is surprising as she racks her brain for even one instance. "When I took out a car loan when I was still living at home he looked at it. Oh, and five years ago I had some problems with my taxes and..." answering herself, "...but he's an accountant and this will be a surprise. We love each other but we don't have a lot in common. He liked reading my stories, I think."

"You're the investigator so use whatever resources you want. So here's what I recommend. Before you talk to the government officials, etc., you need to get your understanding up to speed. How can they cut expenses and raise rates? And

what happens when you add everything together? How are these companies regulated? Look at those questions."

"Number two, go out and get some more stuff about packages and the details of what's spent. The New York Times did a story in September, but it didn't talk to Teletruth's issues. If even some or all of those small charges are revenue, then why aren't they part of the package price? Also, are there a lot of people who buy the wrong package and it costs them more?"

"And three, as they mentioned yesterday, 'Phone bills don't lie'. Use that as your strength. You know no one can read them; you know all those charges don't feel right. So finish with Allibone and complete the phone bill charges story, then start from there on rates, profits, regulation, etc.. OK? You have one week. Go get um tiger." And with that, Harold goes back to his editing.

As an afterthought, Harold looks up. "And do me a favor and talk to Verizon Pathetic. Ask him if someone pays him to say bad things about Verizon?"

## **Chapter 9    Dear Old Dad, the Former IRS Auditor**

Going back to her own cubicle, Val feels she is back on course, but she can't stop giggling at the idea of using her Dad for background research. *Why not? Use whatever resources you can get. I trust Dad more than anyone else.*

She knew the perfect time to call. *Except for tax season, Dad's life is like clockwork. Mother and Dad always have dinner at six and then Dad watches Rukeyser while Mother goes into the den to watch anything else that is not news or business. Besides, Mother did call today so this will be a good time."*

"This is the Simpson residence." Dad's commanding voice booms over the speakerphone. Valerie picks up the phone. "Dad. So how are you? Mother called before, but I want to ask you for a favor."

Dad is sitting on a large lounge chair in the living room, feet up, just finishing Rukeyser. His wispy white hair is now mostly gone, but his glasses are brand new, expensive horn rims, no more scotch tape. "You have problems with your taxes again?" *Dad always remembers everything, like a clock marks time. Steady.*

"You remember that? It was 5 years ago."

"I remember everything about my little ballerina." She had stopped taking ballerina lessons when she was 7, but the name stuck.

"No, I'm working on a story about phone bills. This controversial report came out that said that many of the charges shouldn't be on the phone bill and that the companies' revenues are excessive."

"And you don't have anyone in that highfalutin New York City that can help you on this?" Dad didn't want her to go to New York. He thought it was dangerous, noisy and anything else that wasn't Dayton, Ohio.

"You used to get published all the time here, but now, you rarely send me clippings," Dad nudges with a kind of mocking, loving tone to it, which includes the silent *"I miss you and love you Hon."*

"I didn't know you read my stuff after I left Dayton." which was Val's way of saying that she also cared. "So, let me send you some stuff to read. Which email address

do you want me to use?" This is a joke because he was still only on AOL, and even ran his business with an AOL address. No website.

"Let me get Mother for you." And with that she emails Dad. *Dad didn't even make comments about what I said. Just like the professional. No comments without data.* Val decides not to mention the phone bills to Mother. So instead, they smooze, shooting the breeze about the various church members, neighbors and relatives. Typical Dayton gossip.

## **Chapter 10 An Angry Customer Gets Revenge — Verizonpathetic.com**

After the answering machine for Tom Allibone transfers Val to voicemail, she decides to call another person on her list — Verizon Pathetic.

“This is the Marcus Lewis Tennis Center.”

Valerie is a bit confused but continues. “This is Valerie Simpson of *the New York Daily Gazette*. I’m looking for Marcus Lewis of Verizonpathetic. I spoke to Bruce Kushnick and Tom Allibone and they suggested I call you.”

Marcus Lewis is sitting in his office, his feet up on a desk. He is in-between classes at his Tennis Center. “Verizonpathetic is my other life.”

“What is Verizon Pathetic anyway? Great name.”

“Well...in a nutshell it’s a consumer advocacy operation that I started to fight against the abuses of the phone company Verizon.”

“Tell me why you started this group?”

“Well, I was expanding my tennis business and I needed higher-end telecom services. After receiving the bills, I noticed that Verizon overcharged and double-charged me, and overall made life very difficult for my growing business.”

“And you run a Tennis Center?” Valerie is amused and surprised by this answer.

“Yes, I run an outdoor tennis center. Although I had little experience with the telecom industry and corporate injustice before, I’m learning very, very quickly.”

“What do you mean by double-billed and overbilled?”

“I would receive a bill with two of the same charges, another with the wrong inflated price. And, like Teletruth, I have the evidence...the actual phone bills.”

“Phone bills don’t lie.” Valerie throws in this new mantra.

“I first wrote Verizon a letter illustrating the problems I was having with their organization and I approached it in a very congenial manner...initially. Their response was to double bill me again. So naturally I responded with a second letter. In the second letter I told them that I obviously was not approaching this in the right way and needed to revise how I was dealing with them. Instead, I told

them that I would register the domain name Verizonpathetic.com and I would make sure that I would cost them far more than they cost me. This site would have sections for individuals to post their complaints and that it would also contain a special section for from switching services as a result of my website. They ignored me and thus the site.”

“And what’s the response been to your web site?”

“Valerie you should go to our web site if you already haven’t.

[www.verizonpathetic.com](http://www.verizonpathetic.com)

“The response has been excellent. I’ve been contacted by the Washington Post, Boston Globe, ABC News and numerous other media. I also have had thousands of people coming to the site to post their various situations and tribulations with Verizon. This is not an isolated incident with me. This seems to be a recurring trend with Verizon and the other Bell phone companies.

“For example, one other egregious situation that bears mentioning is a recent suit that alleged overcharging practices. One woman in Santa Barbara California noticed that she was being overbilled for months. When she attempted to bring it to Verizon’s attention, she was ignored.

“Ultimately she brought a class action suit against them which amounted to a \$20,000,000 settlement. What is interesting about this suit is that Verizon knew that she and others were being overcharged, yet refused to refund the difference until they were forced to. We have received many inquiries into this particular suit because so many people were affected by it, approximately 1,500,000 customers.<sup>30</sup> We have a link to the case at our web site with more information.”

“Are there really a lot of other cases out there like this?”

“Many more than people could ever imagine. Do you know about the current Class Action suits in New Jersey that Teletruth helped to initiate? In the first case, an estimated 40% of the small businesses didn’t get their required discounts, while 10% of small business customers were paying for something called “special circuits’ that were not even connected or working.”

“Tom Allibone mentioned those to me.” Valerie could see there was definitely a pattern of problems.

“Also, I should also point out that I’m not at all against the workers. I feel that they are just understaffed, undertrained, and that the corporate climate is terrible. We also get people working from Verizon contacting us about their problems as well.”

Valerie likes Marcus. It’s obvious that here was an individual who had tried to be a reasonable person, and yet the company just ignored him. “What’s your relationship with Teletruth?”

“As Verizonpathetic expanded we came into contact with other organizations that had similar agendas, one of which was Teletruth.”

“How do you see this entire landscape and Verizonpathetic in particular?”

“I think that ultimately Verizon will be brought down by an anti-trust suit. Once our information becomes a hot topic, consumers will be angered, which will, in turn, anger politicians. It’s all downhill from there for Verizon and the other Bells.”

“What do you think about phone bill problems continuing?”

“Well, I think that in my case, I’m a virtual paradigm because of the double billing that I, myself have been a victim of. Obviously Teletruth has proven that mistakes like this are endemic to Verizon’s billing system, regardless of what they tell the press. We have the phone bills to prove it. What did you say before? ‘Phone bills don’t lie’? How true.”

“One last question. Who funds your site?”

“Verizon fuels this site because they require me and the others at Teletruth to continue this work until Verizon takes customers seriously. Actually, my tennis center’s income is more than sufficient to continue this website. I don’t have an outside source funding the site if that’s what you’re asking. There was a time when I would have gladly accepted funding from others who had similar agendas, however Verizon uses that fact to attack the legitimacy of any and every group that goes against them. What you are asking is definitely a valid question especially in light of all of the other astroturf groups out there who claim independence but are actually funded by other large phone companies.”

“What’s an astroturf group?”

“You must have run into this in your reporting. Many large corporations or industries create their own, biased, consumer groups which are all designed to change laws or block a bill or do activities all in favor of the corporation,

regardless of the consequences to the Public Interest or consumers. And they are all paid for by these corporations.”

“Can you get me some more information about these groups, Marcus?”

“Teletruth has an entire listing of these concerns. I’ll send you a link to the information. Also, check out Issue Dynamics and Sam Simon if you want an eye-opener in the games that are played. I don’t know all the details. Ask Bruce. All I can say is that it is very disheartening and bordering on illicit.”

After some ending remarks, the conversation ends and Valerie decides to try Tom Allibone again. The phone rings and Tom answers.

**Chapter 11 How to Read Your Phone Bill — Dirty Little Secrets, The Secret Tricks of Experts. Part Two**

“I would rather we just do this together, Tom, if you don’t mind.”

Tom is surprised by Valerie’s call, but as he learnt in the past, most times the press doesn’t follow up at all. *Maybe there’s a reason she doesn’t want to talk to Kushnick.* “No problem.”

“I just had a nice conversation with Marcus Lewis over at Verizonpathetic. What an interesting perspective.”

“Another customer who got screwed by Verizon, but in this case, he decided to get even. I’ve never met Marcus but we’ve talked on the phone and traded messages on a list-serve.”

“You never met Marcus?”

“In this new virtual world of telecom and the Internet, the list of people working together who have never met has been steadily increasing, especially at Teletruth.”

“OK, I need to go through the rest of the phone bill where we left off.” Valerie cues Tom.

**Optional Services (Phone Bill Exhibit 4)**

“Let’s start with optional services which are a host of charges from ‘Inside Wire Maintenance’ to ‘Calling Features’, like Call Waiting, Call Forwarding, and Touchtone service.

“Yes, let’s do the Calling Features. I’d like to...”

“Can you hold a second? I’m being beeped,” and Tom goes to the familiar world of telecom ether.

Suddenly another voice answers, “Sorry I’m late. Did ya miss me?”

*Did Tom call Kushnick on the other line?* She can’t decide to be annoyed or amused. “It’s about time you got here.”

Tom didn't bother to call. Kushnick is a psychic of sorts, but more to the point, he was due to call at this time anyway.

"So I hear we're on one of my favorite topics — 'Calling Features'." He couldn't help himself with Valerie. It was her fault for starting their first interview, now days old, by bringing up Aunt Ethel. "Tom, why don't you start."

Tom slides his chair away from his computer screen, relaxed, and as if on cue, "The history of Calling Features is simple. No one really ever thinks about them, but their creation came when AT&T found that having everyone using calling features would make the entire telephone network more efficient. A rotary dial took up precious time, but the touchtone phone cut dialing time 50-80%. Remember the click, click, click of the rotary dial going around and around for each number? Each click is time. Touchtone just uses '1' plus the area code, plus the phone number — 10 clicks total. When you're dealing with billions of minutes, fractions of a minute count.

"So, AT&T devised various ideas on how to move the call and also how to 'complete' a call. Every complete call is more money. You don't pay for busy signals, at least not yet.

"So, Call Waiting. You call someone and you can still keep your current call without disconnecting the person you are talking to; you find out who else is calling and thus complete the second call."

Tom adds "And let's not forget voicemail and other services that would allow the phone company to get even more people to complete a call when someone wasn't at their desk at work."

Bruce continues, "Now, while each of these services are things that help customers, the question of course becomes why are customers paying super-retail for services they paid to develop. There was this great book called 'Rape of Ma Bell'.<sup>31</sup>

Both Tom and Val do a doubletake on that, Tom, because it was not part of his own Bell memorabilia collection, and Valerie at the starkness of the name, as if Ma Bell was a real breathing person.

"The widow of the author sent me a copy. It stated that the original AT&T plan was to NOT charge customers for any of this, since the increases in network efficiency would save billions of dollars.

“The irony is that customers paid for the research to develop these services, since the work was done through Bell Labs, which was directly paid for through phone charges. The upgrades of the phone networks for new services at the Bell companies were also funded through rates. When MCI was allowed to use the phone networks, the networks had to be upgraded to allow long distance competitors access and that was only made possible by installing touchtone calling and other network upgrades.”

Tom adds, “These upgrades were paid for through rates. However, once the upgrade was in place, then the costs to offer these features were dramatically lowered. A report by the Florida Public Service Commission outlined the various charges by BellSouth, Verizon and Sprint for their actual costs of Calling Features such as Call Waiting and Call Forwarding. Both of these services had profit margins of approximately 48,000%, since it cost less than a penny to offer these services.”

Bruce, updating the New York phone bill info, “In New York, the cost of Call Waiting is \$5.30 and it cost less than one...cent...to offer.”

Valerie begins to put the pieces together. “...And Bruce, you mentioned that in New Jersey they are still charging for touchtone service, and it cost more to offer the service than using an old rotary phone.”

Tom comes in, “It’s cheaper all right. You can’t even buy a rotary telephone anymore! Then why aren’t the regulators lowering the cost of these services and getting rid of touchtone charges in New Jersey?”

Tom sets up Bruce for this answer. “The answer is long and complicated.”

“Let’s get back to finishing the basics, OK?” Valerie interjects slightly harder but still without being annoyed. *Let’s keep these kids in place.*

Tom wants to still make a point about these optional services. “As we mentioned, all optional services yield excessive profits to the phone companies, and the Bell monopolies are the primary supplier of these services. You can’t say, ‘I want local service from Verizon but I want someone else to offer me just calling features’. In many states, they’re defining them as ‘optional’, meaning that the customer has a choice of whether they want the service or not, but not who they can get it from. In our survey, the majority of customers have some calling features.”

Bruce points out with an ironic twist, “There are packages of optional services that customers can buy, either as a group of a few features or as one of the larger

local and long distance packages. I can still remember my own 'three calling package', which included Call Waiting, Call Forwarding and Touchtone, that I signed up for in NY in the 1990's; I paid \$454 for a 'five-year plan' in order to get the discount. If I had canceled there would have been an additional penalty. Since, we all had already paid for the cost of development of these features, and since the Bell companies continually moan that the prices of services should be based on the 'costs', then this was a rip-off, right?" Bruce gets annoyed when he remembers having done the calculations only to realize he paid hundreds of dollars for a "five-year-plan" for three calling features, that cost less than \$2 to supply.

Tom adds, "To be fair, those who are option-crazed can get deals on packages with many options."

### **Inside Wire Maintenance**

#### **Verizon Optional Services**

8 Inside Wire Maintenance

3.45

"OK, another optional service is Inside Wire Maintenance."

"And Aunt Ethel swore she never ordered it." Val can't resist.

"Yeah. Cool." Bruce is laughing "Tom you want to take this?"

Tom is not quite sure what that all meant, but starts, "In our New York/New Jersey survey we found a large number of those who had the service didn't know that it was on their bill."

Bruce adds, "And in our 1993 survey, we collected 100 phone bills and found out that while 60% had it on their bill, about half of those didn't order it."

"What is Inside Wire Maintenance exactly?" Valerie could have gotten this info out of the report, but it's always good to have a few versions.

"Before 1982, Verizon still owned the wires in people's homes and offices. Under the law, customers couldn't just add their own new wiring, which was stupid. So in 1982, the wire in the home — the wire that goes throughout the home or apartment and connects at a box somewhere — was 'deregulated'. This meant that customers could add their own and were responsible if it broke, unless they

got a 'wire maintenance' plan, in which case the phone company would fix the wire if it broke."

"The phone companies used fear tactics," Tom voice grows. Imitating a telephone company rep, "If you don't get this and it breaks, you'll have to deal with it'. We have customers who said this was exactly what happened to them when they were ordering service."

"In 1982 this charge was part of local phone service. After it was 'deregulated' the prices kept increasing. Also, in the 1980's, the NY phone company had another hidden charge on the phone bill called 'Wire Investment'."

"Just like the rotary telephone, another hidden charge?" Valerie scores another one.

"Like a sister and brother act, the phone rental and the inside wiring were both deregulated and then had hidden charges and rising costs. So customers were being charged for a service that had come with basic service and had no clue what this all meant, even though they were still paying more.

"And we are talking about a great deal of money being collected." Bruce is at his machine typing in information. "Here it is, and I quote, 'On January 1, 1990, as part of the rate moratorium plan, NY Telephone eliminated inside wire related rates of approximately \$367 million and began to offer wire-maintenance services on a deregulated basis.' What this says is that before 1990, there used to be some regulation for inside wiring but after full deregulation, New York alone collected \$367 million for inside wire maintenance in 1990."

"One more second," Bruce is again searching. "In Ohio, your hometown, in 1980 inside wire was 'free'. By 1987 it was 20 cents a month, and by 1997 it went up to \$1.50. Today, it's probably \$3.50 or more, just like in most of the US."

Valerie is surprised to hear about this in her own state. She had no idea that it could increase so much.

Bruce continues, "Unfortunately at one time the companies simply started billing the customers for this charge without their consent or knowledge. They will argue that they sent some form of notification. However, what can you say about another charge with the words 'wire'or 'line'or 'dial tone'? Who would ever know? It's doubtful that they ever spent any serious money on consumer education in the general media.

“More to the point, the New Jersey bills in our survey didn’t show the charge for this or almost anything else. There’s only a line item that says ‘non-basic’.”

**A Non-Basic Charge From NJ Bills (Phone Bill Exhibit 5)**

“A serious Truth-in-Billing error I would say.” Valerie gets a glimpse of how these guys work like detectives to find the evidence. *They go to the bills and customers directly. No wonder this research keeps finding new things.* “So under non-basic, New Jersey customers would never know that this was a charge for inside wire maintenance or any other charge.”

Tom adds, “I have to throw in the caveat that the company publishes more details every quarter. But considering the ability of customers to get through their bills...”

“Sorry guys, but I think the overriding issue about phone bill charges is that customers don’t give a damn about their phone bill.”

Tom and Bruce, as if on cue, “Exactly.”

Tom proceeds, “Oh, and on the scare tactic, the last published report I found on this charge was from 1980, which said that a study from New York Telephone found that the wire in people’s homes breaks once every 16 years. Unless you’re in a flood or earthquake zone, or have a serious infestation of mice...”

“I now finally see what you guys meant by the Truth-in-Billing violation for unlisted numbers. There’s a section on the phone bill for optional services and the unlisted number is an optional service.”

“The rain in Spain stays mainly on the plain.” Kushnick decides to break into song. No one responds. “I think she’s got it,” Kushnick adds the rest of the tune *from My Fair Lady*, even though the reference sounds like a non-sequitur.

“Most of the packages Verizon offers are put under this optional category as well, which is also another Truth-in-Billing error.”

“Alright guys...let’s talk about packages and the billing issues as separate topics before my head explodes.” Valerie can’t believe just how many ridiculous details there are to using a phone for calling.

### **Voicemail**

Bruce begins, “Under the ‘Optional Service’ category is also voicemail. Voicemail is a large answering machine for hundreds of customers. And I know the history of voicemail because I was consulting to the phone companies at the time, as well as the companies making the voicemail equipment.” Bruce pictures himself back in 1987 in some fancy phone company corporate boardroom, talking about the benefits of voicemail and calling features.

Tom brings the conversation back to phone rates. “The problem with the Bell companies charging for voicemail is that in many states, the upgrades were paid for directly from customers once again. Additionally, the company makes more money from every completed call.”

*The competitive side also needs to be mentioned.* Bruce interjects. “For me the problem is a bit different. Back in the 1980’s there were hundreds of small entrepreneurial companies offering voicemail services because the local phone monopolies were slow and expensive in bringing the technology to the public. The growth was spurred on because recording the voice using a computer became cheap due to new faster computers with more storage capacity. Before voicemail, the phone just rang or was busy, with no options to ‘Please leave a message at the tone.’” Kushnick mimics the female voice of the network.

“The Bell companies were not letting these new small companies get the services they needed and in the majority of states there were hundreds of complaints in front of the state commissions for violating numerous anti-competitive laws. I bring all this up because the outcome is identical to what has been happening with the Internet Service Providers (ISPs), who have also had horror story after horror story dealing with getting services from the local Bell companies.”

Remorseful, Kushnick reflects, “At the time, you don’t examine your clients’ actions when someone is paying you large sums of money for your reports, consulting, etc.” On the phone you could hear a regretful chuckle, “My eyes are now wide open.”

*What an interesting issue* travels into Valerie’s consciousness. *I never thought about the various charges having consequences for competition. Look into competition for services.*

**Idiot Items**

“Before leaving optional services, we have to mention ‘Idiot Items’. It’s a phenomenon we still can’t figure out. On the majority of New York phone bills under this category and every other category, there are meaningless services with \$0.00 charge for no reason.

“Mr. Phone Bill? Do you have any phone bills with Idiot Items to send?” And before Kushnick can finish the phrase, Allibone has rummaged through the bills and then faxes Valerie some pages with all of the relevant customer identifier information blacked out.

“On the New York phone bills in our survey for the year 2003 we found that over 90% of the bills had these Idiot Items. About 35% of the bills had a line item for touchtone service, which should have been off Verizon NY phone bills since the 1990’s. They even use the old spelling Touch-tone, with a hyphen. On and on and on, these Idiot Items appear, just making the phone bills even more unreadable.”

**New York Phone Bill with Touchtone Charge and Other Idiot Items (Phone Bill Exhibit 6)**

Valerie stares at the charge for Touchtone that is in the Basic Service section of the phone bill, with a charge of \$0.00.”

Tom inserts “On this residential bill, the person also has a charge for \$0.00 for a Calling Card, which the person swears they never had a Verizon calling card. Another phone bill has a series of optional services that deny or block services, such as ‘\*69 Denial’, ‘All Call Blocking’, ‘Blocking Service’, all listed with \$0.00 charge.<sup>32</sup>

**Optional “Denial” and “Blocking” Services with \$0.00 Charge (Phone Bill Exhibit 7)**

A third phone bill has another list of charges in the Optional Service category, which also have a charge of \$0.00: “Anonymous Call Rejection”, “Network Interface”, “Blocking Service Change”, and “CMR Customer—2”.

“Wow, what is all this? ‘CMR-Customer-2’? “ Valerie is totally confused.

Bruce jokes “This is like ‘Stump the Band’. I don’t have a clue. This is like one of those nightmares where you get a bill and in your dream you only see that the charges go on and on with meaningless names.”

Tom, perplexed, "I don't have a clue either. On the phone bills with packages, sometimes they have an entire section of the bill titled 'Verizon Optional Service' that can list six different charges that are all \$0.00. Check out phone bill NY 813. There are eight charges. Or check out NY 820 which has ten charges with only the Local Unlimited package and a late fee on something called 'non-basic', with no description anywhere on the bill."

Valerie, shaking her head in annoyance, skims through the bills, all of which are marked with a Teletruth Customer number.

Tom continues, "If the goal of the Truth-in-Billing guidelines was to give customers accurate information, then sticking various items that were not ordered in the history of the account is obviously like putting dots before someone's eyes and asking them to read the chart in front of them."

"Ok, what's next Mr. Experts?" Val is now impressed at the shear volume of items these two have uncovered, though the minutia, while sometimes fascinating, was still going to be like paint drying to most readers. Val now had a perverse sense of how these items were all fitting together and everywhere you looked there was some weird, not quite-rightness to the entire piece of paper known as a phone bill.

### **Local, Toll and Directory Calls**

"The next category we should discuss is the section that outlines the calls someone has made. They are:

- Local Calls
- Toll Calls
- Directory Assistance Calls

"There are also Long Distance calls, which are calls that are 'inter-state' or cross state lines. These are currently sold by Verizon and the other long distance companies, including AT&T, MCI, and IDT. However, these usually have a separate phone bill, not to mention a separate set of taxes and surcharges. I'll address some of these when we talk about 'packages'.

"Bruce, time for the 9-Cent Scam..." Tom passes the ball to his partner.

**Local Calls: The 9-Cent Scam (Phone Bill Exhibit 8)**

“Boy, how lucky can one guy get? Ok, let’s start with local calling in general. As I previously stated, in most of the US before the creation of the local phone company, local phone calling was free and unlimited.

“That said, in New Jersey, the local calling area is still a free call, while New York’s price has continually been rising. Since the 1980’s a ‘measured service call’, meaning that you pay per call, has been the standard for New York City, though other parts of New York state had unlimited local calling. Businesses also pay a per minute charge as well, and in most states, they have adopted this ‘measured service’ mentality, where either you pay per call or per minute.

“The dirty little secret is that in the late 1970’s, AT&T had an internal document which was a plan to migrate every state to measured service because they would make a great deal more money. I was faxed this document back in 1992. I call it the ‘Pelican Brief of Telecom’ because here was a plan to make more money from the unsuspecting public by charging additional pennies.”<sup>33</sup>

Valerie is stumped. “I don’t quite understand this. How does measured service, paying per call or per minute, raise rates exactly?”

“OK, well, as we said before, every completed call makes them more money, so if they increase the number of completed calls, they make more. And it’s a little known fact that about half of all voice calls are less than one minute. It’s all just electrons over wires, so if the wire network itself and the maintenance is being paid for, it doesn’t matter if you make one or 100 calls. But if you want to make more money, you just charge per call.”

Tom, ever the Mr. Detail, “And I have to note that every call was rounded up to the full minute, no six -second increments; so if the call is for two seconds, it is the full cost. A nice little extra money maker if ever I saw one.”

Bruce, laughing at Tom’s auditor approach to the phone bill, returns to his description of local phone calling. “More to the point, it also turns out that while some people may save money from measured service, paying for what they use, the average customer will simply pay more when the calls are added up. In New York, to compensate for this, the original measured local service came with a \$4 allowance of free calls, but that was removed in the 1990’s...which brings us to the 9-Cent Scam. By the 1990’s a local phone call cost 10.6 cents, however local phone calling had large discounts of 35% off for evening and 65% off for night and weekends. Verizon eventually decided to lower the cost to 9 cents — which

sounds like a bargain since the price is lower — but Verizon got rid of the discounts!

“When we keyed in the survey results into a spread sheet and adjusted for the missing discounts, the average cost per month went up 16% — an additional \$30 a year through this slight of hand.”

Valerie isn’t sure what she heard. “Wait. So the price was lowered but because New York City customers lost these discounts and because of the way customers actually use their phones, the average customer is paying \$30 more a year?”

“When you talk about nickel and diming people, this is fractional pennyng people to death.” Bruce pictures Richard Pryor in Superman III smiling.

“Ka-Ching’ should be the sound of the phone when you pick it up. It’s like paying a one-armed bandit.” Tom is also getting into it. “And remember, the latest rate increase in New York was supposed to be 3%, not 16%”.

“Does the Public Service Commission know that their rate increase was more than was stated in their press releases?”

“We’ve presented a copy of the report to them and haven’t heard a word. Maybe if you write your story you can include...” Bruce isn’t sure that bringing up the story was a good idea.

“Well, I’m not in charge of what gets mentioned, but I will, of course, make a point of bringing this up. Unless their calculations are all weird, I don’t know how they could allow Verizon to tell the press and public it’s 3% while your statistics show an average increase in local cost of 16%. Your data is from phone bills, correct? And phone bills don’t lie, right?” Val is now laughing. For some reason, this type of slight of hand with numbers bugged her to her core. Maybe her Dad’s influence was deeper than she thought. *Dad can confirm this* comes into her thoughts, while her Dad at his desk, a sole light hanging brightly, is in her mind’s vision.

### **Toll Calls**

“OK, next we have toll calls. Toll calls are anything that’s in the state that’s not a local call, and they are sometimes called “Intra-state” or “Regional Calls” among other names. I started on this quest of mine, not only because of Aunt Ethel, but because I had an epiphany over a 37 cent call from New York City to Montauk.”

“A 37 cent call from New York to Montauk?” Valerie wasn’t sure what this means.

Bruce continues, "In 1992 I was a consultant and I had done a study on national prices for long distance which showed that the average price of a long distance call from New York to Los Angeles was 21 cents per minute. Now remember, long distance used to be very expensive and the only good thing we can say about the breakup of AT&T was that it forced long distance prices down."

### **Toll Calls from New Jersey. (Phone Bill Exhibit 9)**

"Today, the standard for long distance is about 5-10 cents a minute with a good plan," Tom adds.

Valerie, not wanting to get too sidetracked, becomes more assertive, "Let's stick to toll calls, shall we? We can come back to long distance."

"Sure. Anyway, I decided to find out what the toll call costs are around the country. New York to Montauk was 37 cents a minute while New York to Los Angeles was 21 cents a minute — a 16 cent a minute difference for a call that doesn't even cross state lines. It was my first inclination that this whole thing smelled."

"I think Bruce means stinks," Tom adds sarcastically. "And once again, we have a situation where the actual price of a toll call is less than a penny."

Bruce tries to give a more upbeat opinion on toll calls, since the prices have come down. "Prices for these services have dropped significantly, mainly because the state commissions wisely have allowed competition in most states."

Tom, who lives in a more rural area, will have none of it. "However, charging a premium for calls that costs less than a cent, especially in almost all areas of the country where the local calling area doesn't cover enough, or the local calling area misses another place you call often, are serious problems for most people. In this phonebill, the person is paying 8 cents a minute for calls 20 miles away, while I can get 5 cent a minute plan for calls to California."

After staring at the phone bill Tom adds, "Sorry, but I just had to mention that on this phone bill, at the top, there's an advertisement for 'saving money on \*69', You would think there'd be an add for how to save money on toll calls. Nothing like free add space."

## 411 Directory Assistance Calls

### **“411” Directory Assistance with Tax (Phone Bill Exhibit 10)**

Bruce starts again on the next tale of woe. "Directory Assistance, like local calling, used to be included as part of local phone service in most of the US. All calls to 411 were free in NJ, while in NY, customers got six free calls and then paid ten cents for each additional call. And let's not forget that on each call you could ask for as many phone numbers as you'd like."

Tom is now being sarcastic. "Today, New Jersey still gives 4 free calls, but it gets complicated after that because the call is either \$.20 each if it's 'within your local directory assistance area' or the call is \$1.25, if it's within the state, but outside this area. Nothing simple there. Everyone, of course, knows what their "local directory assistance area is."

Bruce retorts "Boy, how complicated. I didn't know they even had free calls left, but to have a customer know their 'directory assistance area', is like requiring someone to speak Latin."

Bruce continues "Meanwhile, in NYC, because of the latest price hike, a local directory call is \$.80 cents, \$.95 with tax.

"So for ten calls in New York, before the break-up of AT&T, you paid \$.43 cents, counting tax, now you pay \$9.50 — an increase of 2,100% about. So much for progress." Bruce goes over to his computer and types in the stats to double check his calculations.

Tom adds to his previous quote, "Going back to that supposed 3% increase in New York City rates, the price for one directory call recently went from 50 cents, to \$.80 cents, \$.95 cents including tax — an 60% increase in the rate for this service!"

Bruce makes the point "The dirty little secret is that many people still think that the Directory Assistance calls come free with local phone service, or are included in service even in states where there are no calls. But since it varies state by state it is totally confusing. Remember that British creep who got it wrong in our interviews about New York's directory? This especially affects seniors or those who move from a state that actually have a few free calls still included; they are the big losers. They make the calls thinking they are free and included with service, and since they can't read a phone bill and figure it all out, they pay a

premium for lack of consumer education. In our 1993 survey, the majority thought Directory Assistance was free or came with calls, regardless of the state's policies. It was clear that customers had no clue.

Taking the consumer side, Bruce adds "If you ask people in New York and New Jersey about free calls..."

"...And about their 'Directory Assistance Local Calling Areas'," Tom can't stop laughing about that.

"I'd place bets you'd get the same responses, regardless of what state they came from." Bruce finishes the thought.

Tom broaches the next dirty little secret about Directory. "And giving the Bell companies free use of the national 411 networks has been such a scam."

"A scam?" Valerie isn't sure what Tom is talking about. "You mean the dialing of the 4-1-1, three digit phone number and getting Directory Assistance? Why?"

"If you remember, the FCC sold wireless contracts for specific parts of the country, known as 'spectrum'. Each company bought a specific part of the wireless broadcast signal for a specific region and paid beaucoup bucks — wireless licenses sold for billions for dollars." There's a pause.

"Ok, I'm listening." Valerie is now confused but will go with the flow. She kind of remembers something about these licenses, but never really followed the story.

"The 411 networks are a 'scarce' resource, meaning that for each territory there is only one dialing pattern of '4-1-1' to directly reach a directory assistance operator.

"And each one of these 411 networks are incredibly valuable, since Directory Assistance makes billions a year."

"Your point Tom?" Valerie still doesn't get it, while Tom thought he had already connected the dots.

Tom continues realizing he knows the punchline but needs to tie the story together. "Uh, sorry. Well, Verizon and the other companies decided to offer a 'national' directory service, which would allow directory calls for other parts of the country. Somehow, without paying for it, these companies got the right to use these same 411 networks for this new business."

“So they didn’t pay for it but can now offer national 411? And...?”

Bruce cuts in, knowing what Tom is thinking, “Val, in short, these companies got assets worth hundreds of millions of dollars for free! If these networks were put up for bid as a National Directory, they’d be worth \$250 million to \$1 billion in extra revenues to the state or to communities throughout the US. Don’t you think AT&T or MCI wouldn’t want to have use of these 411 networks for their own directory service?”

Tom, getting his stride back, “Or imagine them having to put them up for the highest bidder? Or require the companies which now have them to at least pay more for the use of the national portion. It would either lower the costs of the directory or it would lower the price of local phone service through selling the advertising. It’s not a small sum of money.”

“Ah...” It sinks in. “411 is unique. It’s like 911. Everyone knows it exists and what it means. Therefore if one company gets the monopoly on it for local service information, why should they also be allowed to offer National Directory service for free without adequate compensation to the public interest? A few hundred million you say?”

“We may never get the money back, but it is just another shady deal done under the public’s nose.” Tom’s annoyance is clear.

“Welcome to Verizon Local and National Directory Assistance,” Bruce is imitating the voice of James Earl Jones, Verizon spokesperson and the voice of Darth Vader.

“Verizon, can you hear me now?” Tom comes back with.

“Gentlemen. Shall we continue?” Valerie delivers with a sense of false drama. *This would have been easier with just Tom, but not as fun*, Valerie concedes.

“Whoa.” Tom stops dead in his tracks. Something is really bothering him as he keeps staring at the Directory numbers. Tom goes back to the computer and boots up his spreadsheet and is typing in something in.

Valerie waits a bit. “Tom. You OK?”

“Well. I just found a serious mistake. I wonder how common it is. In this example, the Directory Assistance call for \$.95 cents, the numbers are wrong. It should be \$.94 cents.

“Wrong? How can they be wrong?” Valerie is now confused, but Bruce just goes with the flow.

“I just typed in the numbers and the Federal charge is supposed to be 3%, which means that the tax on \$.80 should be only \$.24 cents. Therefore, based on the rules of rounding, the tax should be 2 cents not three cents. — \$.94 cents.

“Now, it could be that Verizon is applying the Federal tax to the surcharges, thus a serious tax on top of tax violation. I can’t tell from this.”

“It’s another ‘Superman scam’ Tom.” Bruce is amused at his friend’s ability to feel the numbers and know something is wrong.

“What does Superman have to do with the cost of Directory Bruce?” Valerie doesn’t know what’s going on. She just wanted to finish the items on the phone bill.

Tom adds amused. “If Verizon is rounding up on every Directory Call and who knows what else, then they get to keep the fractions of a cent — millions of dollars could be gotten this way. I didn’t mean to interrupt, but this is something we should definitely follow up on.”

Valerie stares at the numbers. She’s wondering if the law allows them to round up and if they do this on every Directory call when there’s only one call made... *It certainly would add up!*

“Maybe we should dub this one “Superman Scam, the Sequel.”

Gentlemen, can we finish this phone bill examination already? If we keep this up, we’ll be done by 2010 because you’ll continually add things. What’s next? Val is a bit overwhelmed, certainly amused, and just want to get to the end of a phone bill.

### **All Other Charges, Slammering and Cramming**

Bruce’s voice perks up with a sort of naughty laugh to it. “The last two topics are ‘All Other Charges’ and ‘Pay-Per-Use’. This section has been notorious for ‘Slammering’, ‘Cramming’ and other perverse names and acts.”

### **976 Calling (Phone Bill Exhibit 11)**

“What is this, the WWF? Slammering, Cramming?” Valerie also gets into the terminology’s mixed meanings.

Tom continues, “Under the ‘All Other Charges’ category are services offered by other companies but can also include Verizon Long Distance. Customers need to be warned that if any of the companies listed are not ones which they already have a relationship with, they’ve been ‘crammed’, where an additional service was added to their bill, or they’ve been ‘slammed’, where a different company switched them without their permission.”

Tom adds a sharp point “And let’s not forget that any charge on the phone bill can be crammed. We’ve seen double billing, charging for services that weren’t ordered like Inside Wire Maintenance, and so many others. Try auditing some phone bills of mid-sized companies and see all the stuff.”

“In my conversations with Marcus Lewis, wasn’t double-billing one of the reasons he started Verizonpathetic?” Valerie asks, already knowing that Tom and Bruce knew this.

“Exactly,” the phone guys say on cue.

### **Pay Per Use**

Bruce can’t help himself. “Hey what else can we say about the next section, the pay-per-call services, which includes ‘\*69’ that gives the last number of the person who called, or the 976, 540, or 900 services calls. The industry is rife with sex lines and psychics, but also legitimate dating services and personals.

“The issue for customers here is simple. Did I make these calls that I’m being billed for? What was the price for these calls? Are they what I expected? Sometimes the question is ‘Did someone else use the phone?’ If not, and there are calls the customer didn’t make, then they were ‘crammed’.

Tom analysis is quick. “This phonebill has a lot of calls to the find out the lottery numbers. At 13 cents each, I guess it’s cheaper than reading the paper and faster to know if you’ve won or lost. However, we have phone bills with calls for \$3.50 or more that the customer swears they never made. So, it’s important to actually read your phone bill for mistakes.”

“So did we make it? Are those the major sections of the phone bill?” Relief is flowing through Valerie now that she understands the basics — and is starting to see that every charge has its own, *What did Kushnick call it? ‘Tale of woe’*.

“We still haven’t gone over packages, Valerie.” Tom wants to continue. “And we can also go over how to file a complaint?” Bruce wants to be thorough.

"Let's do that and packages at another time. Let me think this through. This was very helpful. Reading the report doesn't really give you the flavor of each charge. I'll get back to you soon."

And with that Bruce and Tom are left on the line.

Tom asks his partner, "So what did you think? Is she going to write something?"

"I don't have a clue, but at least she followed up from yesterday. I was sure it was dead when we left."

"As you would say, 'It ain't over till the fat lady sings'."

"Valerie better start eating. But, I've got to say, I like her the way she is."

## **Chapter 12 Dad, the Former IRS Auditor, Speaks**

“So how was your date with Greg?” Clara Kelso’s booming motherly voice echoes in Valerie’s small cubicle. It was clear Clara loved food because of her ample girth. Her smile and large breasts made her look matronly, like she was ready to either grab you for a hug or feed you.

“Greg was nice, and I’d like to see him again,” not wanting to put Clara’s match making attempts in a bad light, “though I just started seeing someone else.” Bruce’s laughing face comes into her inner vision. *Am I really interested in him?* is racing through her mind.

“Oh, that’s too bad. But sometimes the rich ones are more trouble than they’re worth.” Clara has a weird, knowing look on her face. Clara wasn’t as nearsighted as she played herself to be.

“Oh, by the way, here’s an FDX for you.”

From the address Val realizes it is from her Dad and quickly opens it up, finding an incredibly neat hand-printed stapled paper with some charts. *I can’t believe this detail. Why didn’t he use a computer?* — only to remember that her Dad liked going through the numbers slowly. His penmanship was impeccable and something he never wanted to lose through the ‘sloppiness of typing’.

Val had sent her Dad the report with a list of questions, and now each question was hand written with a response.

*1) Dad, read the “Surcharge and Taxes” section and see if the report is correct, not just the math but the approach.*

Dad wrote:

“Doing a cold audit of the phone bills supplied, I could not ascertain how these various taxes and surcharges were applied. I could not find any data on the calculation of any of the ‘surcharges’, or what the ‘universal service fund’ is applied to within the Surcharges and Taxes section or any other pertinent data about other charges. Further investigation on the company’s website did not yield any results.

“I therefore agree with the authors that the entire series of taxes should not be applied without adequate disclosure. Each tax and surcharge Teletruth outlined agrees with my analysis that there are a series of what they refer to as ‘Truth-in-Billing’ errors. There is also possible double and triple taxation being applied,

since many of the items in the tax section of the bill are also being taxed. This is illegal and violates numerous accounting and tax statutes.

“I was also personally appalled at the findings of this report pertaining to the numerous charges being direct, unmarked revenue back to the companies, specifically the FCC Line Charge. Also, the shoddiness of oversight in dealing with the Universal Service Fund is unacceptable.”

*2) Dad, do you know how these rates are set?*

“This is not my area of expertise and so I decline to offer any explanation. I must admit that I am troubled by the statistics presented in another New Networks Institute report on the company’s profit margins, cuts in staff and new construction in Verizon territory.

“I’m in a quandary as to how the company in the last three years can cut 16% of all staff and decrease its construction budgets by 53%, and yet be allowed to have increases in various rates.

### **New York City Phone Bill Increases**

“The example quoted of a 3% increase in rates in New York City, in 2003, and Verizon stating they did not have any increases for 11 years, is of course obfuscation of the truth. The phone bill data presented, assuming it is authentic, concurs with that in New York,

- The FCC Line Charge has increased from \$3.50 in 1999 to \$6.50 in 2003 — an obvious 86% increase in the customers’ phone rates.
- Inside Wire Maintenance has gone up from \$1.04 to \$3.45, an increase of 231%.
- Local phone calling went up on average 16% in 2003.
- Directory assistance went up from 50 cents to 80 cents a call, not counting tax, an increase of 60% in the last year.
- Basic Line Charge (Dial Tone) went from \$6.60 to \$8.61 a 30% increase.

“I would be interested to understand this further.”

“However, I need to emphasize that Verizon is also playing with the wording. The original states that ‘The new plan: Permits Verizon New York to increase its retail rates by 3% of its intrastate revenues per year in each of the two years of the plan. Though common sense reading is a 3% increase of the actual phone rate, the phone company also discusses ‘intrastate’ revenues, which could mean that

the rate increase is equal to 3% of the companies revenues... a small but subtle distinction that allows them to confuse the issues, but probably remain legal in their definitions."

*So, they are playing with the wording to confuse the public. Val rereads the section to understand the nuances of this customer deception. Rates vs revenues. I better look into this later.*

### ***3) Does the analysis of the packages they present hold up?***

"I was fascinated by the detail pertaining to their analysis of packages; comparing the costs of ala carte to the packages clearly shows that a significant number of customers are on the wrong package and thus paying more. I believe this should be an area of further investigation since all we see advertised are 'packages'.

"One other area I found particularly fascinating was the issue of 'cross-subsidization', where the company may be using the local phone business to help fund the development of other lines of business, such as the wireless business. In strict adherence to accounting principles, all subsidiaries must keep separate books on all expenditures and revenues.

"In the traditional phone bill envelope, an insert is placed in with the phone bill, as a form of 'customer education'. In fact, according to the report, the insert has a specific cost that was included in the cost of local phone service for decades. This new upgraded four-color piece of paper is now mostly advertising for other non-related products — such as Verizon's wireless, long distance or DSL services.

"From the analysis pertaining to the phone bill insert, it is clear that non-local related phone services are receiving benefits in advertising and other benefits that could obviously have significant cost-transfers to customers for non-related services."

Valerie stares at this for a while, trying to understand what her Dad had said. She reaches over to her copy of *Dirty Little Secrets* and finds the section on inserts.

*Ah, so that's what it means.*

Dad continued, "Each of these services should not be getting a free ride. If the customer is paying for this insert, then it should remain 'customer education' or stop all together and lower the cost of the service. The only other customer-

friendly option is to have these other divisions of Verizon pay for the advertising space, and that money be used to lower the cost of service.“

*So now we have these other company divisions possibly getting a free ride and that's what is known as 'cross-subsidization'... Ah.*

Nodding her head in disbelief. *Hey, Dad's right. Teletruth is right. Why should we pay to be advertised to?*”

In bold lettering, Dad wrote, **“Valerie, this section is most important.**

#### **78. Inflated Network Costs Cost Customers Money Annually: VET “Vaporware Equipment Tax”**

“Near the end of the report there is a section dedicated to something they define as the 'Vaporware Equipment Tax'. I read through the various portions of the report and believe that this is one of the most interesting items. The report quotes an FCC audit of the Bell companies' 'Continuing Property Records'. These are the records that document the equipment in the network that has been used to set phone rates. According to the FCC, some \$19 billion of equipment couldn't be found and that was only one-quarter of the missing equipment! Supposedly the FCC turned it over to the state commissions to finish but only New York conducted an investigation and it even found \$633 million in missing equipment.

“As a former auditor, if I was conducting this audit I would demand a more thorough investigation because the books alone would be invalidated due to the accounting errors; the company would have to show us the equipment for us to count the equipment in our calculations.

“Valerie, this is a smoking gun of the first order, which, from an auditing perspective, directly affects rates.”

Valerie is shocked that the companies could have missing equipment used to set rates. *I can't believe that Dad really took an interest in this material. I guess he's a numbers man reading a report about numbers. Lots of numbers.*”

“In conclusion,” Dad's ever-steady hand wrote: “The presentation was not to my liking because it is too inflammatory. The name “Dirty Little Secrets” is obviously used to sensationalize. However, I found the data presented to be accurate and an excellent forensic accounting job.

“I also believe that Teletruth has uncovered many items that have been ignored by the regulators given the task of protecting the Public Interest.”

Valerie sat in her cubicle for the rest of the afternoon and reread the report to try to get a better handle on some of the things her father had written. She now sensed there was a very big story here, but maybe it was too big for her as a consumer reporter to do alone. *Who can I trust? Karl? I also need to know a lot more about how rates are set.*

She would call her father later and thank him in person for the materials. Right now she was determined to get to the bottom of the mess; if Dad thought it was deplorable, than it was a great deal worse than that.

### **Chapter 13 How Rates are Set?**

*Tom and Bruce*

*I would like to use other commentators about how rates are set. Do you know anyone who I should talk to?*

"Yeah, well, at least she's still doing the story." As he stares at the computer screen, a kind-of relieved Tom chortles as he adjusts his sleek telephone headset.

"It ain't over till the fat lady sings, though this time it's a slim blonde." Bruce hadn't stopped thinking about Valerie since the last phone call. He tried to convince himself that he cared more about the story than the woman, but it just didn't stick. Like an old 45 record with a skip, his mind kept coming back to her.

"Well, at least she sent us an email. Impersonal, yet practical."

"Who do you think we should give her?" The list of people they knew was quite short.

After some back and forth, they decide not to give Valerie the other Teletruth board members, such as Dr. Robert Garnet, Dan Berninger, Eric Lee, or Scott McCollough. The independent short list includes Lee Selywn of Economics & Technology, Mark Cooper at Consumer Federation of America, and one other. "How about Larry Pinkus?

"Ahhh...Larry. I think he would make a great talking head. He certainly knows his stuff." Larry had been the lead counsel for the Public Advocate's Office of a mid-west state. He was the one who defended the public interest in rate cases, the cases that decide the costs of phone service for customers. In 2000, he was fired because he decided to go against the current Governor's wishes to forgive any wrongdoing by Ameritech, now SBC. Larry was almost as jaded as Tom and Bruce, but he was much more entrenched in working with state commissions and making a living doing incremental good deeds as a lawyer.<sup>34</sup>

Larry had contacted New Networks after a report on the broadband failures of the local monopolies was published in 2000. The report outlined the various state commitments and the monies that were collected for a fiber-optic future that never came. Tom had heard about him in a lawsuit over "inside wire maintenance". Except for writings on industry list-serves and articles, neither had ever met Pinkus.

"He sounds like a good choice to me."

"It is equally important to make sure that our roving reporter understands about Darth Vader and friends." Bruce was alluding to the fact that many of the consumer groups out there are nothing more than astroturfers. From the lobbyists and the 'public interest' non-profit groups, to the researchers and consultants... all those who are paid for by the Bell companies that comprise the skunk works for Verizon and the other Bell companies. As Bruce has said, *Is it simply a coincidence that James Earl Jones is the Voice of Verizon and the Voice of Darth Vader?*

"So you'll take care of this Kushnick?"

"I'll write her tonight."

"Okay, well it's 9PM. Past my bedtime." This was an inside joke between the two. Tom got up at 4AM while Kushnick went to sleep around 6AM. Every few days they would be on the phone doing a conference call at 5AM. Because one started when the other finished, their motto was often "*We're ready for anything, 24 hours a day...literally*".

Following the protocol of receiving an email and not a call, Bruce simply writes,

*Valerie,*

*Best bet is to talk to the very qualified Larry Pinkus, 212-777-5418.*

*However, if you want to know about fake consumer groups — Skunkworks, also called "astroturf" groups — let me know.*

Late that night, Val gets her email. *"Astroturf? More intrigue. Didn't Marcus mention that there were 'astroturf' groups? Maybe I should follow up on that?"*

After reading the last of her emails, Valerie goes to her refrigerator and pulls out a Saran wrapped half of a cantaloupe. Kushnick is prodding her into more discoveries, and once again, Valerie can't stop thinking about this curious individual. It was like an alley cat that would not leave her mind's alleyways. *Maybe this story is about Teletruth and what they found vs. the phone bills. Nah, stay focused. Skunkworks sure has a smell to it*" she laughs. She takes off her panties and bra and returns to turn off her computer for the night.

Devouring the fresh fruit, and doing what needs to be done before she goes to dreamland, her head hits the pillow. *I only hope I don't dream of smelly skunks, working, whatever that means.*

### **Chapter 14 How Rats Are Set. It Isn't a Typo.**

After the basic pleasantries that make up the formal “hello” part of the phone conversation, Valerie asks Larry to explain how rates are set, who regulates them, and what exactly the FCC and Public Service Commissions do?

“So you want to know how rats are set.” Larry was a heavy set, jovial, yalmuka wearing, long-black-hair-all-over-the-place lawyer who by now had seen it all. From the perspective of the straight mid-western public service commissions, Larry was a fast talking, New York City smart-ass Jew, but from the legal issue standpoint and the ability to examine minutia of data, there were few that outclassed him. His office is a classic case of too many documents and other legal items piled into one room over many years. While all walls are full of floor to ceiling shelves, the corners have become piling places that are stacked almost to the point of falling over.

“Are you from Ohio, Val? May I call you Val?”

“How’d you know?” Val wonders.

“I spent a few years arguing at and with the Ohio Commission, though I worked in other states as well. Your name was familiar and I saw that you worked for the *Dayton Today*. I was in Columbus and though you didn’t cover any telecommunications related stories, I could have sworn I read something you did — I think it was on Healthcare.”

“I’m impressed you remembered.” And she was.

#### **How Rates Are Set**

“Well, you might not like my interpretation but I don’t call them rates...I call them ‘Rats’. That’s what they should be called by the way. A nest of rats. An infestation of large sums of money being easily transported from the pockets of the customers to the large phone companies. Sometimes I liked to be the exterminator by setting traps for the larger rats.”

There was silence on the phone. She hadn’t expected this type of analysis, but she was laughing. *Did Kushnick set her up with a lunatic for fun?*

“Okay, let me be serious, but as you asked, simple. Let’s start with the regulatory landscape, more like a nationwide network of Swiss Cheese.” Larry pauses to see if Valerie was going to laugh or object.

## **Public Utility Commissions**

Larry continues, "For almost 100 years, the local phone rates were set by the Public Utility Commissions (PUCs), also called "Public Service Commissions" and the principle used was simple. The local phone companies are utilities first and foremost and thus regulated by the Public Utility Commissions.

"A Utility is a company that controls what are called 'essential facilities', and have been given a monopoly to run them. Take a highway, for example. You don't want private companies to own the road since it needs to be used by everyone equally. Imagine someone owning their own highway and they dislike SUVs so much that they block them from using their road.

"These agencies regulate (or deregulate) everything that's state-controlled, which is every 'utility'. This includes power, electricity and gas prices, water, and even state roads, not to mention telecommunications.

"For example, in Ohio there was a company called Ohio Bell. It controlled the local phone service for most of the state. The company had a monopoly. Ohio Bell controlled the wires into the homes for wireline phone service, and because of that, it had a captive audience. Remember, before 1996 there was no Federal law to open up the networks to competition and some states outlawed local competitors.

"To be quite honest, I view the Commissions as being all over the map, literally. It is a Swiss cheese network in that there are 51 state commissions, including Puerto Rico, with 51 very different state laws...but more to the point, 51 political controls. In some states the commissioners are appointed by the Governor as a political perk. In other states they are elected officials but still follow political lines. So in the states where the Bell companies help the Governor get elected through campaign financing, etc., the obvious ties to the political process become more pronounced.

"But that's only one of the reasons for the Swiss cheese metaphor. While many in the Commissions care about the public interest, they are mostly under-staffed, under-funded, out-classed, out-researched and out-gunned in virtually every fight. It is closer to the finger in the dyke by the Small Dutch Boy than groups of regulators who are in control.

"In an Ohio rate case, it was calculated that the phone company was able to outspend the consumer side, the commission and consumer advocate, by about 30-to-1 in a big rate case.

“Our side also includes the state Consumer Advocate and their effectiveness also has been ruled by politics. In Ohio in the 1990’s, the former Consumer Counselor, Bill Sprately, was removed from office because of a political conflict with the Governor over a rate case that was totally in favor of the phone companies, not the customers.

“If the Commission is friendly to the Bell companies, as in many states, then the laws are biased against the public interest. When you are outspent 30-to-1, they can afford the press junkets, the 100 lobbyists per state, the million dollar research reports and other items including their astroturf firms create to essentially block any public interest effort.”

“I didn’t realize it was so political.” Valerie is surprised she hadn’t noticed this before, though most of the consumer issues she had covered didn’t relate to utility issues. *And there is that reference to astroturf groups.*

“Up close and personal it’s not a pretty picture. But it gets worse. If you have a decent commission trying to do the right thing, then the state legislatures will come in and try to rewrite the laws and hinder the good commission’s ability to do their job.”

“An example would be helpful.” Valerie needs something concrete.

“The recent scandals in Illinois in 2002-2003 are telling. The Commission set a reasonable price for competitors to use the network and it was overturned by the state legislature. It didn’t hurt that William Daley, the President of SBC, the Bell phone company, was the brother of Chicago Mayor Richard Daley, from that famous political machine. And it didn’t hurt that SBC donated almost \$670,000 to Illinois candidates in one year, as well as other perks. It finally went to court and the court stopped the legislature from overturning the commission. I really liked Rep. John Conyers statement about the incident ‘...in smoke-filled backrooms, with the waft of lobby dollars thick in the air, key Democrats in Illinois seemed to throw these traditional principles overboard, and with them millions of consumers who are now going to be paying higher telephone bills’.”<sup>35</sup>

*Is this is business as usual for local service and rate setting?* Valerie wonders. She’s dying to hear what the phone company flack says about this.

### **The FCC**

“What about the Federal Communications Commission?”

"When it comes to telephone charges, just to make a distinction, the FCC controls 'Interstate' services, meaning long distance service. With regard to the states, they also shape and enforce all written laws about various services. This current Commission is now being sued for almost every decision it makes. The main problem with this Commission is that it is bent on a bad economic model — a model that makes the case that regulation is unnecessary because market forces, meaning competition, will fix everything. This Commission has proposed blocking competition in broadband and they have a terrible record on enforcing the current laws. On the phone bill side, this Commission has simply allowed just about all phone bill issues to just go unnoticed."

"Didn't Commissioner Copps say that the FCC Line Charge didn't have the proper cost analysis?"

"Oh...I see that you read that Dissenting view. Copps seems to be one of the few on the Commission who cares about customers. Commissioner Aberrantly used to work for US West, a Bell company, and none of these Commissioners were ever consumer advocates, protecting the rights of the customers."

### **Congress and Telecommunications**

"We also have this third part of regulation, which is Congress. The main law of the land is called the Telecom Act of 1996, which gives the general direction of who controls what and the details on specific items, such as opening up the networks to competition."

"The Telecom Act of 1996? That's recent isn't it?"

"The Telecom Act actually updates the basic laws that were written in 1934."

"Ah, when the FCC was created."

Larry chuckles on the phone. "Been doing lots of research I see. Well there is also a serious undercurrent that doesn't smell right. It is again politics at the FCC and Congress. Is it simply a coincidence that the chairman of the FCC, Michael Powell, was sponsored by Congressmen Rep. Billy Tauzin who has many ties with the Bell companies and has created proposed bills to essentially protect the Bells from competition? Tauzin recently resigned, but he was the head of the powerful House Commerce Committee, so he could kill any bill he didn't like. As I recall, Bruce and his organization Teletruth suggested that Tauzin recuse himself from voting on telecom issues because of his many links to the local phone monopolies."<sup>36</sup>

“On the Senate side we have John McCain who heads the Senate Commerce Committee. McCain received large sums of campaign contributions from the Bell companies and has staffers who worked for these same organizations. Many of the competitive issues have not been fully examined by either the Senate or the House this last year. It’s not just being proactive for the public interest. If you do nothing, then the agenda for the competitors just gets worse through a lack of action. The status quo works for those with the most money to control the agenda. For the record, Congressmen Markey and Senator Hollings have been the most influential in trying to stop bills that are blatantly in favor of the Bell companies, but they are outnumbered.

“So as you see, each group exerts power over the phone bill issues and it is a total mess. Some charges are from Congress and some from the FCC, but in general, the largest chunk of charges for local service is controlled by the state commissions.”

### **The Courts and Telecommunications**

“Oh, I forgot to mention the courts...the final grounds for telecommunications laws and regulations. The Bell companies were formed in 1984, not through some major piece of legislation, but because of a Civil Suit presided over by Judge Harold Greene. He was the last person who made sense of all of this mess. Unfortunately, he was pressured into more and more decisions that were not customer friendly.

“Right after the Telecom Act in 1996, the Bell companies sued to stop portions of the law that required them to open their networks, and they continually sue over this and other topics. “

“Maybe telecommunications is simply a plaything of lawyers?” Valerie hints, “That makes the Swiss Cheese?”

“Cases are won and lost on both sides, but it delays various laws from going through for years — justice is a slow train on a crowded track.” Larry doesn’t want to dwell on the courts. “They are the laws of last resort. For example, in the case I mentioned in Illinois, the court threw out a state legislature law that overruled the public service commission decision. There was even a case that would have let a customer sue a phone company for antitrust violations, meaning anti-competitive behavior — something that is not currently allowed. The case was simple — if I buy service from a competitor and the competitor can’t deliver because the local phone monopolies block my order or don’t connect me for weeks, shouldn’t I have some rights as a customer? But that went nowhere after a part of it was shot

down by the Supreme Court. A long story. All in all, the court can be used to remedy a bad law or decision, but it is a process.

“The main problem in taking the local phone companies to court is that the Public Service Commissions act as a stone wall against simply filing a lawsuit. In many cases, they will be ‘remanded’, meaning returned, back to the Public Service Commission, and since many commissions do not allow lawyers to be receive fees if the work was done in contingency – meaning you get paid if you win, what lawyer is going to spend years on something without getting paid? And who can afford to pay law firms hundreds of thousands of dollars, with little hope you’d ever get it back, even if you won the case. Thus, most cases just get stalled and go nowhere. It’s a serious problem.”

Surprised, Valerie asks, “I thought Teletruth has two Class action suits active.”

“Well there are items, such as consumer fraud, and other legal strategies that can be used in some cases. But if it has to do with setting a rate, even if the data submitted was fraudulent, it almost always goes back to the commissions, and there it’s totally a roll of the dice.”

Larry adds “But the real reason the phone bill and the regulations are really Swiss Cheese is because, even with all these regulators, NO regulator examines all the charges on the phone bill. To make matters worse, with many states, most of the phone bill has been ‘deregulated’, meaning that the Bell companies’ rates are no longer examined for profits. No one is examining the charges on your phone bill for being ‘fair and reasonable’. It is a scam, and it is one of those little dirty secrets the phone companies and even the regulators don’t want you to know about.”

“Larry. Thanks for the overview about the regulators. If you don’t mind, let’s start again with the history and work our way forward.” Larry hasn’t told this part of the story for awhile, so he is happy to do so, especially when someone is listening instead of arguing with him.

“OK. After the break-up of AT&T in 1984, the rats got loose. By 2003 there was very little regulation protecting the public’s phone bill issues.”

“But aren’t they regulated?” Val’s mind can’t get around this concept.

**Rate-of-Return**

"In the original model, the states set rates based on a simple formula, though nothing is, of course, simple in telecom."

"It's more complicated than reading a phone bill." Valerie waits for the laugh, which is delayed but comes with a series of loud chuckles.

"Subtle joke. I like it. The formula is most commonly known as 'rate-of-return':

- Revenue — The money the company collects from customers.
- Minus expenses — The costs of running, upgrading and maintaining the network.
- Equals Profits — Revenue minus expenses.

"It is much more complicated, but the short and simple math is to take everyone's charges from phone bills and then figure out how much everything costs. As a regulator, you make sure that customers aren't 'gouged' and prices are legal, something called 'Fair and Reasonable'. If the company starts to make too much profit, then prices go down. This is regulation 101."

"So far I think I got it. But what about capitalism that says you can make as much profit as you can?"

"As mentioned before, these companies were and continue to be utilities and monopolies. They have been given other perks, including a steady relatively high-financial-return guaranteed. No other company has that kind of guarantee.

"This rate-of-return, while a simple model, still had a number of problems. For example, a phone company could pay for large corporate salaries, donations, memberships to clubs, almost all of its legal fees, and a host of other items all under this expense category. There are tens of thousands of different items that may or may not be included in this model. Remember, the higher the expenses, the more revenue a company can keep.

"Now, everyone in telecom knows the infamous story of T.O. Gravitt, former President of Southwestern Bell, Texas who left a suicide note in the 1970's that read 'Watergate is a gnat compared to the Bell system'. He supposedly paid for a private plane, created slush funds for politicians, and played with the books."

"You're making this up right?" Valerie doesn't know what to think.

"It's all there in the 'Unauthorized Bio'. Anyway, this model of regulation was the primary regulation from the turn of the 20th century up through the 1980's. It guaranteed that local prices all remained mostly fair and reasonable."

"I think I got it so far. Bruce Kushnick mentioned something about 'deregulation'? Did you ever hear about his Aunt Ethel?"

"I'm sorry I never met her, but she was certainly a great catalyst to get Bruce involved. But let's get back to deregulation." Larry is a lawyer who tries to stay on course when discussing a logical analysis.

"As far as the rate cases were concerned that began in the 1980's with the break-up of AT&T, the state commissions had to deal with both Federal deregulation of the phone and inside wiring, as well as the costs of service during the largest break-up of any corporation in history. The problem is that most states and the FCC were ill equipped for this challenge, and to make matters worse, they didn't really communicate on most items. What happened was an entire mess, though I have to admit that break-up was not a small feat.

"So here's where we see our first infestation of 'rats' (i.e. rates). The charges for phone and inside wiring were now moving out of this rate-of-return profit model. They were now subject to "deregulation" which meant letting the companies charge more for the same service. Of course one could argue that the customer benefited. You could maintain your own wire in the home or let the phone company do it for a fee.

Larry asks, "Do you know the history of the inside wiring and rotary phone deregulation?"

"Unfortunately, I do. Prior to the 1980's, the customer's wiring and phone was owned and maintained by AT&T, and under deregulation, the prices continued to rise for those keeping the services.... and many customers didn't have a clue."

"That's about right," Larry is impressed. "In many states, the state simply changed what was included in service and didn't even bother to change the calculations — meaning that if the inside wire charges went up 250%, then the rate-of-return and what was included needed to be somehow adjusted. Most states didn't care that customers were paying inflated prices and they got less services."

For Val it was finally sinking in, but she wasn't sure. "Okay, so what you're saying is that the rate-of-return was a calculation of how much money the company

collected minus how much everything cost, and if the profits were too high, then customers got money back or lowered rates. Also, some services were taken out of this pot known as 'rate-of-return' and these charges were, um, 'deregulated', so the profits weren't examined and the definition of local service as a bundled service was never redone or recalculated."

"If only my mother could understand this like you do, I'd be a happy man."

"But it gets a lot worse, not better, at least from the 'Aunt Ethel' side of the equation."

"Yes, let's keep this focused on Aunt Ethel. I like that idea."

### **Plead Poverty Regulation**

"Besides the 'deregulation' of specific products, the Bell companies started to cry, (actually whine) that they needed more money. In this 'Plead Poverty Phase', the companies were granted enormous rate increases from the state commissions. You see, the Bells were now only \$7 billion each and not part of this giant conglomerate. They were just these poor 'Baby Bells'.

"Within the first few years of the Baby Bells existence their 'rate-of-return' went from about 11% to 14% rate-of-return profit margins. About 9-11% was standard returns for utilities. So overall, the Bells received an almost 30% increase in profit margin. There's different ways of expressing the profits, sometimes it is examined for "Return on Equity", or "Return on Capital" or "Return on Investment" — The nuances are too long and complicated for this discussion.

"I guess it paid to plead poverty after all."

"However in the first instance, there were additional monies added in the form of the FCC Line Charge. Are you familiar with this charge?"

"Am I ever! So this means that the FCC Line Charge, which was now under the jurisdiction of the FCC even though it was on the local phone bills was added, while increases were also being done by the state commissions?"

"And when you add in the deregulation of the wire and phone, all of these new increases simply made these companies a great deal more money."

**Promise Them Anything Technological Future,**

"Besides this part of the story, the other part of the equation of how the rats got loose started the era of 'Promise Them Anything' — Phases 2 and 3. Starting in the 1980's right after the seven Bells were created, these companies all started telling the world that they needed more money. As they soon discovered, the best way to get more money, besides simply pleading poverty, was to promise a new technological future. "

"A technological future?"

**Alternate Regulations: Price Caps and Incentive Regulation**

"These companies said 'Let us cut staff to become more productive. Then, we will take this extra money from these savings and reinvest it in our networks.' In the first round of what are known as 'Alternate Regulation', or 'Incentive Regulations', or 'Price Caps', the plan said 'We will start to do the upgrades for calling features and then we will offer the public ISDN'."

**Phase Two: Calling Features and ISDN**

"ISDN? I've heard of that, but what is it?"

"ISDN is the posterchild of failed new technologies that the public never got but paid for. In the technology circles it was sometimes called 'It Still Does Nothing'. In the 1980's, there was supposed to be a new technology which allowed for a higher-speed service for online use, as well as being able to supply two phone channels and a data channel over the same copper wire."

"Two phone channels and a data Channel? Like um, DSL?" Valerie isn't sure about anything when it comes to technology.

"Yes, similar, but this was over 15 years ago. This technology promised to give a customer the ability to have the equivalent of a second line — two phone channels over one wire, thus, there wouldn't be a need for a second phone wire into the home. Also, it could be used for online service and a voice service, like DSL.

"However the technology didn't work as advertised and the rollouts never really happened with any force. The Bells learned that if they promised technology they could get more money. In this case, when the company agreed to Alternate

Regulation, the company was given more profits."

"Alright...so what you're saying is that in the 1980's there were changes in state regulations that gave the companies more money in the form of higher profits in exchange for something called 'ISDN' and upgrades to offer calling features like Call Waiting?"

"Cor-rect-o-mundo."

"And the rates...I mean 'rats'?" Valerie decides to play as well.

"In this phase, most of the companies made considerably more money than under rate-of-return, but that was not the main event. From 1991 through 1995 was where the rats owned the place, and what happened was a national disgrace. Where do you live, New York City?"

"I live in Hoboken actually. In New Jersey."

"Under the next phase of Alternate Regulation, the Bell companies made outrageous statements that they would rewire the entire state with a fiber-optic wire to customers' homes and offices. By 2000, half of America should have been rewired and this includes New Jersey."

"You're kidding me. Bruce had mentioned something about this but we didn't go into any detail."

"Actually Kushnick is one of the few that tracked any of this."

"Let me go into detail about how the scams played out. Starting in..." Larry stops. "Can you hold on a sec? I just got beeped." After an anxious minute, Larry returns. "I'm going to have to leave for a client conference call. We can continue in the next few days. I'll give you the basics of 'How the Bells Stole America's Digital Future',<sup>37</sup> which is actually the title of a Teletruth report about broadband."

"One other question Larry. Do you know a lot about astroturf groups?"

"I'm surprised you even are asking that question and that your company is letting you talk to the likes of Kushnick and me. I'm surprised that they haven't already killed your story."

Valerie feels a wave of panic. "Kill my story?"

“Astroturf groups are the life blood of this corrupt political process known as regulation. They’re behind and in front of every campaign to make sure that their own clients are the only ones heard talking. They feed the press and regulators bad data that manipulate the story’s outcome or a specific law. They schmooze the right people with local perks and contributions to favorite charities. They grease the wheels of their funders and clog the movement of anyone else who opposes them. They are the cheese that the rats feed on. The Bells fund lots of fake groups and campaigns, all spouting the party line. Gotta go, Val. Talk to you in a few days.”

And with that, Larry is gone and Valerie sits there, her mind blown into numerous pieces. It was not a perfect world before, but now it was downright sinister.

## **Chapter 15 Telecom Skunk Works 101**

*Could they really kill her story? Who were they, anyway?*

By the time Val left the office it was dark and getting cold. The Path to Hoboken was almost empty and even the streets were quiet. She remembered she was all out of Amstel and she needed to think about anything but Telecom. Her choice was Jimmy's, an old styled pub where the old-timers distance themselves from the new, remodeled Hoboken. Except for the older Italian places that ruled when Sinatra was King, the new Hoboken was gentrified — a Starbucks next to a Gap. It was all the same as in any big city.

Jimmy's was relatively quiet with only a few older, heavyset gentlemen in their favorite seats, slouching into the bar as if it was their mistress.

In the back with a low hanging florescent was one of those only-found-in-a-bar pool tables. Valerie, for some reason, felt at home. With a bottle of Bud Light (they never had Amstel, it was too upscale) she made her way to the back of the bar.

Grace was playing alone. Val had seen her once before playing and noticed she was a decent shot. *Thwack* — five-ball in the side. *Wham* — eight-ball all the way down.

Val knew the rules. Put a quarter up on the table for the next game. Val really enjoyed billiards ever since she dated Joey Carone. They would go to the college tables and play for hours. By the end of their three-month relationship, she continued to play in an effort to let off steam. “Smacking the balls around is fun”, Joey said to convince her, and it was the only thing great about that short love affair.

Grace looks up. “You’re on.” With that Grace clears the last remaining three balls in rapid time.

“I’ve seen you in here before. Nice place huh?” Grace is an attractive, lanky thirty-something with short black hair and a lot of attitude.

“Better than Starbucks.” They both knew they were on the same page.

The balls are racked and after the lag, bouncing the ball off the far side of the table and back, closest to the cushion starts, Grace breaks.

Three balls later it is Val's turn. Bending over for the first shot, her hair now back in a pony tail, "So Grace, what do you do?"

Deciding on a straight answer, "I work for a public relations firm in New York City. You?"

Valerie isn't surprised, though she wondered if their paths ever crossed. "I'm a Consumer reporter for the Gazette."

"I'm pretty new to New York. I was in Washington, D.C. for the last few years."

"Let me guess, working for some astroturf group that..."

"How did you know?" Grace is shocked at hearing those words.

### **Astroturf Groups**

"Oh my god, I was just kidding." The pool game finishes with neither of them caring about the score. They immediately walk over to one of the well worn wooden booths, where the seats are contoured to customer's bottoms because of all of the previous bottoms that had found comfort through the decades.

"I used to work for a firm that did campaigns for the tobacco lobby, and yes, there were fake groups, though we would never admit it to anyone in the press or the public. It was so lucrative. I had to pay off my student loans and I met with lots of interesting people — Senators, Congressmen, etc. We threw lavish parties and who knows what else we supplied to those who would guarantee a vote. I wasn't very high up the food chain. I would stand around and look pretty..." Her face blanches. "...though I never did anything sexual or illegal, I mean..."

Valerie is just taking it all in. She always knew that this stuff existed. She remembered there were some healthcare lobbyists in Ohio that had tried to stop the stories she wrote.

Grace, regaining her composure, takes a long sip off her Bud. "So one day I just had enough and two weeks later I'm working at a PR firm doing high-tech stuff. It's sometimes sleazy but not like Washington. In D.C., astroturf groups are expected in the land of the 'Wink-Wink-Nod-Nod'."

"Wink-Wink-Nod-Nod?"

"Everyone in Washington knows what's going on. This is business as usual."

Every company has its own astroturf groups, some are just better at it than others.”

“Did you ever hear of...” Valerie is trying to remember the name Marcus Lewis had mentioned... “Um, Issue Dynamics? I’m doing a story on phone bills and...”

“Oh. You mean the group that it was rumored gave the Gray Panther’s \$200,000 of Bell company money to buy ads that said seniors were being harmed by MCI?”

Valerie looked perplexed. “Ummm...I think you had better assume I know nothing. Could you explain what you just said?”

Grace is almost finished with her own beer. Feeling a pang of hunger, she goes to the bar and orders, since this place hadn’t had a waitress since the 1929 Depression.

Coming back to the table with two drinks, “I think you’ll need this” and hands Valerie another Bud Light and a bag of Pretzel Nuggets. “Something tells me that you would like to hear the long version of this scenario, gory details and all. Am I right?” Valerie nods in the affirmative.

“In Washington, D.C. and throughout the US there are hundreds of companies that have created thousands of fake consumer groups. If you were to ask the corporations what the role of these groups are, you would hear responses like, ‘... speak out on issues of consumer rights and helping low income families of all nationalities.’ Another reason would be, ‘making connections among the stakeholders, corporations, and associations, on important issues’.” Grace looks up at the ceiling as she recites her former script, “Or maybe they say, ‘The policy initiatives and alliances will help shape important legislation that benefits the public interest and our clients needs’.

“You see, first they create a non-profit so that they can get tax benefits. Then they have fake reports with very dubious data, written by a fake group that makes sure that the company they really represent gets some political advancement. In the case of phone bills, the Bells get more money from the customers through less regulation. They hire experts to tout a ‘fake’ report’s biased findings or come up with their own, hire a PR firm to get the word out about their wondrous findings and then ultimately buy TV and radio advertisements to make sure that their message is heard. Can’t leave it all up to the PR flack now, can you?

“Next come the visits to the various politicians, and these visits are of course accompanied with bag loads of cash for these specific politicians’ pet projects or

campaign needs. Usually it's followed by a proposed bill in Congress that they themselves have helped to draft with their own expensive lawyers."

"What is this? 'Citizen Kane' meets 'Wag the Dog'?" Valerie was always convinced that some of this went on, but how much and how deep she had no idea.

"It's more like 'Jaws' meets politics, and the fish don't matter." They glance at each other and take a new sip, toasting to their new found friendship.

"In a state fight this is also true because they can afford almost anything when the client has very, very, very deep pockets." Grace's brow furrows as she remembers something distasteful. "It's all one big crock, designed to fool the public that these large corporations should get their way."

"And the reason these are called astroturf is because...?" As a reporter, Val wants to hear what the interviewee thinks, not her own answer.

"'Grassroots' is real people fighting for some cause that is mostly just. Astroturf, the fake grass roots, is fighting for some corporation to fool the public. Remember, they usually disguise the fact that there is some big fat company doing serious funding to out-spend and out-talk everyone else who might be legitimate.

"Now don't get me wrong, in Washington, D.C., many times you have one, two, or ten astroturf groups for one group of companies, fighting another one, two or ten other astroturf groups for another set of companies. Without a serious scorecard, you can't tell who is who real and who isn't. Of course there are also degrees of 'real' and 'fake' because a lot of funded groups get real people involved, many times with them not knowing what is going on behind the scenes."

"The corporations are the real string-pullers, the real wizards of slime behind the curtains, the..."

"Skunk-works...and this smells like hell." Valerie had almost reached her alcohol limit, but she has another gulp.

"Exactly. Stinks to high hell. You're a reporter though. Don't you know about..."

"It looks like I was one of those who have been fooled. Please keep going, Grace. I need to understand the phone bill side...the consumer side of this."

“For the local phone monopolies like Verizon, Issue Dynamics run by Sam Simon, leads the charge. The story, as far as I could tell, was that Simon used to be a real consumer advocate and even worked with Ralph Nader. He then decided why be poor when I have someone who can pay me the big bucks?”

“The local phone companies wanted their own skunk works, so in 1993, Sam Simon launched the Internet’s first corporate, public affairs web site for Bell Atlantic-now Verizon.<sup>38</sup> They were telling everyone that they (Bell Atlantic) wanted to go into long distance and that they were going to give America something called the ‘Information Superhighway’. During the 1990’s they also wanted to pass a national law, which eventually became the Telecommunications Act of 1996, where it was noted that some lobbyists were writing some of the law.”

“How do you know all this?”

“If you’re in Washington working in one of these firms, it’s a very small world of who’s doing what to who, especially since everyone is always pitching new clients.”

“And what about the Nader connection?”

“We used to back Saddam Hussein, right? People change. While Simon tried to put on the airs of a real ‘consumer advocate’, what really happened was that he created or supported new and various groups to control various parts of the agenda. All of this benefited his clients, the Bell companies, and it harmed the competitors as well as the public interest.”

“Do you have some real details or is this just speculation?” Valerie is listening but needs some data.

Grace likes Val and realizes she knows nothing of this intrigue. She starts again, slowly.

“Okay, Sam Simon runs something called the ‘Telecommunications Research and Action Center’, ‘TRAC’, which he started in the 1980’s, and he is now the Chairman. It runs at a loss, as told by its own IRS statements. In 2001 they lost over \$100,000 and their 2002 info shows that they not only lost over \$28,000 but had a ‘liability of \$122,000.<sup>39</sup> And remember, this is a non-profit, so they don’t have to pay taxes on any income. While TRAC may have been real sometime in the past, today it does research that most researchers simply dismiss as biased.<sup>40</sup> Sam Simon is also the chairman of Issue Dynamics, which runs TRAC and

manages it. It's obvious then that Issue Dynamics is funding the losses of TRAC, most likely paid for through Verizon and the other Bells, their clients.

"And tying it back to the phone bill issues, TRAC wrote numerous reports with questionable data that said that if the local phone companies were allowed to offer long distance... are you familiar with the long distance issues?"

"Kind of. Why don't you give a bit more detail?"

"Sure. In order to get into long distance the companies needed to prove that their networks were open to competition. TRAC writes a report that says if the Bell companies are allowed into long distance, customers would save money. This, of course, was done without well research analysis or proof. Headlines stated, 'Consumers would save \$1.7 billion in Florida, Georgia, Pennsylvania and Illinois on local and long distance prices if these companies are allowed to go into these states and offer long distance service'.<sup>41</sup>

"Besides the reports, TRAC and friends put out and ran campaigns in multiple states that claimed allowing the Bell companies into long distance would save billions for local and long distance customers. This included New Jersey, New York, and other states... and it was all a ploy to give the Bells more money. Also, if you go to the TRAC website, you'll see that they virtually never, ever..." Grace says slowly and with emphasis, "...ever, go after the local phone companies in any press release.

"For a simple proof of the relationship between TRAC and Issue Dynamics, just go to a TRAC press release on the site that's in HTML and look at the source code and you'll see Issue Dynamics is behind it all."<sup>42</sup>

"HTML source code?" Val wasn't sure what source code or HTML was, but it sounded like some sort of serious proof of there being a direct relationship between TRAC and IDI.

You really don't know computers. When you have a web page, there's all this other hidden information on the page, and you can see it if you look at something called the 'source code'."

"Ah. And you're saying these reports were done by TRAC and funded by the Bell companies through Issue Dynamics?"

“Wink-Wink-Nod-Nod. It gets a lot worse when you include the fact that the next step was to create astroturf consumer groups in many states, some called ‘Connect USA’, and groups to do the state lobbying fights.”<sup>43</sup>

Grace is now working on her third beer and is having a grand old time. She never really got to explain how this entire system works to someone who was interested.

Grace continues, smiling. “Want more proof? Just go to the Issue Dynamics’ website and go to the client list. While you’ll see a lot of legitimate groups, you’ll also see a number of quasi-consumer groups that all of the phone companies represented as clients.”<sup>44</sup>

Grace starts to rattle off names of the IDI clients, “Alliance for Public Technology (APT), Ameritech, Bell Atlantic, BellSouth, Coalition for Affordable Local and Long Distance Service (CALLS), GTE, iAdvance, National Latino Telecommunications Task Force, Pacific Bell, Qwest, SBC Communications, TRAC, The US Internet Industry Association (USIIA), United States Telecom Association (USTA), US West, Verizon, and Verizon Wireless, blah, blah, blah.”

“Verizon even said publicly that they were funding IDI for campaigns, but never disclosed how much.”<sup>45</sup>

“There are a host of other groups that Issue Dynamics either dreamed up or helped to use Bell funding. For example, there was a Washington Post article that outlined how Verizon was paying Issue Dynamics to do a campaign to smear MCI. They staged a fake rally outside of a court house, and gave the Gray Panthers \$200,000 to pay for advertisements explaining how MCI was hurting seniors.”<sup>46</sup>

“And when Verizon and the other Bell companies want to show that they care about broadband, they use another Bell funded group, the Alliance for Public Technology (APT), to make a report or do their bidding. I remember a story in a publication called Network World back in 1998, that said, ‘IDI’s associates helped organize and manage coalitions with names such as the ‘Alliance for Public Technology’. Each group has a different phone number, and the phones are manned by an IDI employee who answers with the name of the corresponding coalition. It also lists either IDI’s street address or a District of Columbia post office box.”<sup>47</sup>

“If you go to the Alliance for Public Technology’s website, you’ll see that their funders are mainly the Bell companies and that the executive director is a ‘Ms.

Sylvia Rosenthal' who is the Assistant Vice President of Issue Dynamics Inc. where she devotes her time exclusively to the management of APT.<sup>48</sup>

"But what's really sad is the definition of what APT is all about. It claims that they are for non-profits and members, some of whom historically have been left out of the Information Age, including the elderly, minorities, low income groups and people with disabilities.<sup>49</sup> The Sponsors and Affiliates in 2001 were AOL Time Warner, BellSouth, SBC, US Telecom Association (which is the association of the local phone company) Qwest, and Verizon.<sup>50</sup> These are all of the Bell companies, plus Time Warner to make sure that they, not the competitors or anyone else gets heard in Washington.

"I also saw that they are publishing reports on Broadband that all end with the punchline, 'Get rid of regulations and the Bell companies will, of course, deliver broadband. It will help the state's economy, create more jobs, help the poor, and the needy.' This is nothing more than a plan to help the local phone companies."<sup>51</sup>

In the back of her mind, Val remembers her previous conversation with Larry Pinkus, but the alcohol has dimmed her ability to recall why this all sounded very familiar.

"The most recent IDI group is something called the New Millennium that was designed to present the lopsided Bell point of view. When you click on some of the links you find it saying that 'The NMRC is an independent project of Issue Dynamics, Inc. (IDI), a consumer and public affairs consulting firm that specializes in developing win-win solutions to complex policy issues.' And after some searching you find that one of the authors for one of their reports that slams Consumer Federation of America, one of the few mostly legit groups, for 'lacking objectivity', is Stephen B. Pociask. He is listed as the President of TeleNomic Research, LLC. His resume states that he was Chief Economist and Director for a major telecommunications provider', but according to an author note in an article he wrote years back, he was the former Chief Economist for Bell Atlantic".<sup>52</sup>

"Oops" Valerie is having a hard time accepting just how devious it all is. "You would think that some reporter would call them on this stuff and..." She realizes that these are stories rarely told to outsiders of the "Wink, Wink, Nod, Nod". Who else would even question the veracity or question the intentions of major, well-funded, research firms.

"However, my personal favorite is the annual lunch and award, named for a former United Church of Christ official, the Rev. Everett C. Parker, which is

organized by a group founded by Simon, and which still operates out of his Washington office. It is called the 'Annual Everett C. Parker Ethics in Telecommunications Lecture'.”<sup>53</sup>

"Whoa. Ethic's In Telecommunications? Supported by the 'bad guys'? You have to be making this up."

"Now don't get me wrong, the speakers are usually legit, but the entire fabric of reality is seriously stretched because these groups are doing it to make sure that they can get public opinion on their side. They don't really care about the truth."

"The 'Tele —Truth'?" Valerie offers with no recognition by Grace.

"Sounds about right. All you have to do one day is just follow the leads on the various groups and who's funding them to get a clear picture of how policy and facts are distorted to fit the needs of the large monopolies. Remember, these groups intentionally hide the fact that they are funded by the local phone companies. It's pathetic."

"Verizon Pathetic." Val interjects.

"How true." Grace snickers.

Grace and Val take a long, tasteful gulp.

Grace recollects, "There are many other groups that are funded and do work for the Bell companies. According to the Wall Street Journal, in 2001", and Grace quotes, 'Verizon is mounting a concerted effort to convince regulators and lawmakers to back positions on issues such as broadband deregulation. First, Verizon is a big contributor to the Progress and Freedom Foundation, a conservative think tank that frequently releases position papers and holds conferences devoted to broadband deregulation. Next, the company backs African Americans for Telecommunications Equity, a self-described 'advocacy' group that wants to make it easier for the Bells to sell high-speed Internet access. Verizon contributes money to the United States Telecom Association, which in turn helps groups such as Keep America Connected run television ads pushing broadband deregulation. The company funded a recent study by a researcher, Robert Crandall at the prestigious Brookings Institution which concluded that broadband deployment could give the nation's economy a large boost."<sup>54</sup>

"Funny how all of this slime gets burned into your skull after enough time."

Grace and Val just sit there, almost drunk, almost good friends.

“So, that’s why I left DC. The ‘wink-wink-nod-nod’ is taken as business as usual. What’s really appalling...” Grace looks into Val’s eye to see if they’re on the same page “...is that this ‘wink-wink-nod-nod’ is paid for by us to harm us. In the price of local phone service is built in the costs of these skun...skunk works.” Grace’s tongue begins to get a bit lazy under the influence of the beer. “They are not only funded through the phone companies but they are also tax exempt, meaning, we pay for it twice.”

Valerie doesn’t understand this part. She feels great, but can’t focus easily.

Grace intuits Valerie’s vacant look, “These fake groups are known as 501-C-3 non-profits, and they don’t pay taxes.”

Valerie is trying to add this up. “We pay taxes and they don’t? On top of that they get to lie to us? How’s this all possible? Why don’t the politicians...?”

“Guess who takes money from these companies in the ‘wink-wink-nod-nod’?”

“Ahhhhh.” Valerie’s consciousness now fully understands and she begins laughing at the absurdity of it all.

Shaking her head at her new friend, Grace smiles. “Ahhhhhhh.” Val is still not sure of the impact on phone rates. “So how does all this deceit translate into...” She stops before she is going to finish with the word “meat”, a total non-sequitur, but it rhymes. Her blood alcohol content is more than usual. Grace, beginning slowly to avoid slurring her speech, “Every time the company wants a phone rate increase so it can go into another business like long distance, or not deliver on some promise, or harm a competitor...” Grace, too, is feeling great and continues her run-on sentence, “...then all they do is get one of these jerks to create a new report, or buy off some senator or congressmen, or fake a ‘customer’ rally, or buy more advertising for their cause than anyone else can afford, or any one of a thousand other ways to harm the customer, and voila, they have their skunk-works smell up the place. Perfume ala putrid.” Grace starts to laugh.

“Smell-o-grams of lies.” Valerie is now laughing.

“Crap Cakes.” Grace can’t resist.

“The Evil Doers.” Valerie remembers the Hussein line.

“To the Evil Doers,” Grace and Valerie toast each other, and then get up and start to shoot some more pool, this time with a sloppy fluidity that you can only get after too many beers. Though the number of balls that go in has dropped dramatically, neither really cares.

During the middle of her nth shot, she has no idea or cares where the balls go.  
“Do you think they’ll try to kill my story on phone bills?”

“Of course, Val.” Grace comes over and puts her arm around Val to comfort her.  
“That’s what they do.”

Val goes over to the juke box and types in E19. Old Blue Eyes starts crooning,  
“When I was 17, it was a very good year.”

**Chapter 16 Opportunity New Jersey, Pennsylvania, and other Broadband Scams.**

“Where did we leave off? Ah, I remember. The rate-of-return profits had been increased first through the break up of AT&T, followed by the ‘Plead Poverty Phase’ and then through the beginning of the ‘Alternate Regulation’ for calling features and ISDN, however that was only the dress rehearsal.” Larry and Val are sitting by their respective phones, Val in her office, Larry on a cell phone in a Bagel Nosh.

“Imagine you’re a large company and you want to make more money from the current customers. The best thing to do is to promise new services so that the laws get changed to give you more money from your current customers.

**Phase Three: The Information Superhighway Broadband Scams**

“So, the then Bell Atlantic, NYNEX, Ameritech, Pac Bell, and the other Bells devised a plan that said ‘get rid of the regulation of our profits and we’ll build this new fiber-optic highway’. Bell Atlantic hired Deloitte & Touche to explain how wondrous our lives would be in this ‘new world’, and starting in New Jersey, with a million-dollar study called ‘Opportunity New Jersey’. Over the next few years this report was ‘cookie-cut’ with similar reports used in other states, such as Illinois, Indiana, Ohio, and Pennsylvania.”

“These campaigns had astroturf groups and consultants?”

“You bet. It was presented with a very heavy lobbying budget to all of the state senators, congressmen, and local politicians about how it would personally help their own constituencies.... low income households would become high-octane info-highway cruisers, small businesses would soar, libraries would become digital wonders, hospitals could treat everyone through tele-medicine, and on and on and on.”

In the back of Valerie’s mind she could picture some of the advertisements that Ohio Bell had done to tell everyone why this was good for Ohio. “I remember something about this. This was about 7-10 years ago right?”

“Starting in 1991, the Bell companies first worked the state legislatures for new bills to build this stuff, followed by a massive campaign to get the Public Service Commissions to also sign off on this wondrous future.

“There are thousands of ‘Information-Superhighway’ stories in every state, all based on fiber-optic services to residential and business customers, as well as schools and libraries, hospitals and government offices. Southwestern Bell in Texas had 99 different lobbyists registered in that state alone to convince the regulators that this was the most important thing that could happen. From Massachusetts, that was supposed to have 300,000 households wired by 1995, to California that was supposed to have 6 million households wired by 2000, to the 8.75 million households to be wired by Verizon-Bell Atlantic by 2000 – It was all pure hype.

“Within all of this there was a large and dirty secret — These fiber-optic based services could NOT be built at the prices that were being quoted.”

“What? How could that be? Isn’t that fraud?”

“Well, yes. In any other industry, charging customers for new equipment and then not delivering would be considered clearly illegal. But welcome to telecom!

“And we’re are not talking about DSL, which is an inferior product going over the 100-year-old copper networks that are already in place and are 100 times slower than what was promised. Customers were promised a fully-loaded Ferrari and we ended up with a skateboard on a dirt road.

“The most recent case of a Bell being taken to task over this is the current situation in Pennsylvania, where the company promised to have half of the state rewired with fiber-optics by 2004, including all rural, suburban and urban areas equally, at speeds of 45mps in both directions. This case just had a ruling by the Public Service Commission to not hold the company accountable for this failure and there are other current state legislature bills that would remove any obligations of these companies. Only the Chairman of the Pennsylvania commission, Terrance J. Fitzpatrick, had the kahunas to stand up for the public interest.”

“How can this be? Hasn’t anyone kept track of the promises and held these companies accountable? And how does this directly affect customers’ phone bills?”

“Teletruth filed a Complaint about this that you should read. According to them, every household was charged \$1135 for this network service that they never received, and most of it is from phone bill overcharging.

“Pennsylvania is one of the only states that even attempted to hold these companies accountable. The New Jersey Ratepayer Advocate tried, but didn’t get very far.

“But let me get back to the rats. The trade-off was simple. The rates of the companies were ‘frozen’ for a few years under Alternate Regulation, but while this sounds like a good thing, it’s terrible for every customer. Known as ‘Price Caps’, the price is kept steady, or increased slowly, but what happens when you have deep cuts in expenses, including staff and new construction?

“Arthur C. Clarke, the noted science fiction writer and one of the inventors of our communications satellites, stated that ‘the price of a phonecall should go to zero because the equipment keeps getting older and ‘written-off’, and with computers, the staff needed to maintain them gets smaller and smaller. At some point, the costs should be a small monthly fee and everything else costs a small fraction of a cent’.

“Poor Arthur didn’t figure out that instead of logic, the monopolies were in control. While literally one or two charges are examined for profits, every other charge under this new plan was ‘freed’ from the regulators’ examinations. No one was examining the profits from Call Waiting, Call Forwarding or any of the other charges, and these services each cost literally a few pennies to offer.”

“Tom Allibone mentioned a study by the Florida Commission that found Call Waiting had a profit margin of 48,000%, since the company charged \$4.80 and the cost was less than a penny. Hard to believe.”

Harold took a bite of his onion bagel with a schmear of cream cheese.

“The companies also took massive write-offs on the copper networks — combined they took around \$21 billion from 1993-1995, so the value of the remaining equipment in the network suddenly got much cheaper. Under Price Caps the phone companies were not obligated to pass these savings on to the customers, even though they took these deductions based on their promises to rewire the states.

“And when you have no one looking at the profits or even the expenses anymore, what you end up with is Corporate Greed 101. From 1992 through 1996 and beyond, the Bell companies became some of the most profitable businesses in America. According to the Unauthorized Bio, the rate-of return from 1992-1996 went to 29%.”

Valerie is shocked. “29% returns for a utility that is supposed to make 10-11%, from the same captive customers? A 190% increase in profits? Amazing.”

### **Yellow Pages Are Extremely Profitable.**

“They also played with the Yellow Page Directory profits as well. “

“Yellow pages? What does that have to do with the cost of local phone service?”

“Another dirty little secret is that the Yellow Pages has been one of the most profitable businesses in the US, if not the world. It is a license to print money — and it continues today. Basically, Yellow Pages have been a total monopoly. While everyone gets the Yellow Pages for free, most small companies pay tens of thousands of dollars to make sure they are in it. Its profits were over 50% the last time I looked, because there are very few competitors.

“The prices were kept inflated because the money was used to help subsidize rates. However, with the new Alternate Regulations, these services were no longer obligated to give any money back. Not only did small businesses get hosed by inflated prices, but this also allowed the companies to claim that they needed more money to cover the loss of money to pay for local service.

“Alright, alright. Let me get this straight. Starting in 1991, the companies claimed they were going to rewire America. Most states changed laws to give the phone companies more consumer money by no longer examining profits. Since the network keeps getting cheaper and cheaper to offer service, then there are more profits from all of the different charges on the phone bill. Additionally, subsidies, such as Yellow Pages and tax write-offs of billions are also no longer accounted for. “

“That’s pretty much it, with numerous caveats because each state is different.”

Valerie continues, “And the amount of money per household in Pennsylvania that customers spent for a fiber-optic network they will never get is approximately \$1135? That’s an incredible amount of money that was collected and not used. Where did all the money go? How did they get away with it in the majority of states?”

“Swiss Cheese and thus my rat fetish.”

"This doesn't sound right. I..." Valerie decides to just continue to see if the other stories were as audacious as this one. "Besides New Jersey and Pennsylvania, were there any other major reports done on the failed deployments?"

"Ohio and Indiana made some noise about the failed commitments, but little was returned, or rates reduced. However many of the state laws also allowed the Bell companies to use customers' excessive profits for DSL rollout, like in Louisiana and Oregon."

"Hmmm...now that sounds as if it's a good thing. Sanctioned by the state and the funds were allocated to broadband...what's the problem here?" Valerie doesn't understand the distinction.

"The DSL rollout was supposed to be competitive and not funded from phone rates. This gave the phone companies exclusive use of networks which were not supposed to be funded by the excess profits from other non-regulated services. When you buy a car, you don't pay for them to build a bus, even though you may at some point use the bus."

"My Dad mentioned something called 'Cross-Subsidization'. Is this the same thing?"

"Sound's like your Dad has a background in this stuff. That's exactly right, but let me continue on this story in a few days and you'll see how it fits together. Let's talk on Thursday. How does 4:00 work for you? The next phase of state regulation gets even more confusing. The bottom line is that the prices that were capped in 1993-1995 are the starting point of the current laws, so if those are inflated, then the current rats are scurrying as well."

"4:00 is fine. One last question. Do you know anything about the FCC audits and how they affected the rates...I mean 'rats'?" Valerie says with a smile.

"If you think the rats are sleazy, the FCC audits are the darkest, dirtiest secret that has inflated every phone rate for every customer. I have to go, but we'll talk later." Harold pops the remaining bit of bagel into his mouth and looks around at the other customers in the Bagel Nosh. *What they don't know costs them plenty*, and leaves.

Confusion reigned and rained into her. This was not what her world view was about these regulated monopolies. The phone companies still owned the monopoly of the wireline businesses, and while many people owned a cellular

phone, large businesses and the overwhelming majority of residential and small businesses did not want to cut the umbilical chord of telephony.

She would never get rid of her wireline service. When someone called, she resented having to move her location just to find that wireless signal. Though she obviously used it during her travels and interviews, the wireline service was not a luxury but a necessity. Nevertheless, the wire was a monopoly. The cable companies did not offer local phone service and her Internet and phone service were still coming through this one wire. Even a competitor offering local phone service was going to use that wire, as was the Internet company Val used.

This whole situation reminded her of something. Again she came back to, “*Since the Public Service Commissions controlled the other utilities...*” The light bulb went off. *Is this why there was a power outage in California? Was it because the state deregulated the power companies?* Val had followed this story with some interest. How could a state have roaming blackouts and not a continuous protected stream of power? Wasn’t the concept of a “utility” all about giving companies the monopoly with captive customers and therefore constant revenue and profits?

Like the problems in California in which the companies had not properly upgraded the networks, it now seemed that our entire future was not upgraded as well. Our entire “digital future” that was supposed to be on a fiber-optic wire, that we had in fact paid for through all of those dirty little charges on the phone bill, was just all mounting up to gigantic profits for the local phone monopolies. *It’s like that Lilly Tomlin skit where Ernestine says, ‘We’re the phone company. We don’t care, we don’t have to’.*<sup>55</sup>

The picture was simple — the customer paid inflated bills that were excess profits to the monopolies, who were supposed to have built our Digital Future. It was in their hands and they blew it, but they also blew off their customers’ futures and our future economy as well.

*What was that Bruce had said? ‘We lost an entire generation of technology growth because these networks didn’t show up.’*

*Ah. So what that really means is that had this fiber-optic wire been installed in everyone’s home and office, then there’d be an entire generation of new technologies generated for this new very high speed world. Whoa. New faster computers with more and different equipment, new Internet software, high speed gaming, TV and cable services together and real teleconferencing that doesn’t look like a moon mission. That would mean that the telecom and computer crash*

*that took down the rest of the economy might have been averted and there wouldn't have been a slow down in the first place?" Val felt she was right, but she also knew she wasn't an expert in these markets and so, who really knew if this was truly something that happened.*

*And all this from those dirty little charges on our phone bills?*

## **Chapter 17 Mother and Dad Do Phone Bill Research**

The phone bill analysis was still not complete. Dad had said to examine phone bill packages, and that there were still various other issues on the phone bill besides taxes and surcharges.

The phone rang and it was Dad.

“Valerie, this is your father. Mother is on the line as well.” *Dad seems to be in an odd mood, as if he was interviewing someone at the IRS.* Valerie was always fearful of that voice. There’d be hell to pay if her homework wasn’t finished, or worse.

With her usual bubbly enthusiasm, “Oh hello Valerie. This is Mother. How are you dear? I...”

Dad’s formal mood would take no prisoners. “Mother, can we please do the pleasantries later. This is important.”

Val is now a bit worried. Dad hadn’t sounded like this for years. What could be wrong? Her lower lip trembled with trepidation, as if she was still in high school and stayed out late with a boy.

“Oh, let me tell it, Dad. He got sooooo excited. You don’t know what hornets nest you unleashed.” Dad is silenced, knowing the girls would ultimately win any discussion. He was really a pussy cat.

“Your father was so inspired by that report you sent him that he would not shut up for a second about phone bills, of all things.”

“Phone bills? Dad?” Val asks but Dad knows his place when Mother takes over.

“So I thought this whole thing would help the church’s auxiliary club and we had a ‘Phone Bill Night’. Isn’t that exciting?”

Valerie can’t believe her ears. “A ‘Phone Bill Night’?” *Bruce would love this one.*

Dad, as excited as he gets, “Valerie, that report of theirs had some very interesting materials about the cost of a package versus the regular service and about phone bill mistakes and other topics where customers are paying more than they should. You know how I feel about that.” Dad worked at the IRS at first to stop cheaters from cheating the government, his government, our government, on

taxes. He felt that everyone should bare the responsibility of a free society and the government needed to be protected and funded. He also hated when someone took advantage of someone else through a shady financial transaction of any size. Dad was also frugal to a fault. He was the one who cut the coupons or went on "Discount Days" or anything else dealing with the exactness of a financial transaction.

*I should have realized Dad would have had a field day with that report, assuming he accepted it as the truth. The title, Dirty Little Secrets, had not made him happy.*

"So your father and I set up a table last Friday night and we had 23 people give us their phone bills.<sup>56</sup> I couldn't believe they have all those charges!"

Dad continues, "Valerie. Miss Laramie and Frank Berrelli were both on the wrong package of services. Frank swears he never ordered his local package. Poor Miss Laramie was also on the wrong package, paying \$14 a month extra. She and the Johnstons were paying for 'inside wire maintenance' which they didn't order either."

Mother interrupts with some sadness in her voice. "You know her dear. She lost her fiancée in the Second World War and never married."

Dad's anger is evident. "Valerie, there is a pattern here. Miss Laramie never makes enough calls to justify this 'package'. When she moved into that seniors home over on Jackson Street, the phone company told her it would save her money. Poppycock! And Frank had a package on a line that was only still used for faxes, no outgoing calls.

"I'm sending you a new report that I'd like you to forward to Teletruth and ask them to examine my data, if you don't think they would mind. If there's a fee, let me know."

Valerie couldn't believe his father's enthusiasm over this. "I'll be glad to forward it and I'll get their comments personally. I feel obligated since I sent you that report."

"Tell them about the survey dear." Mother continues to prod Dad, who doesn't like the spotlight.

Dad, sounding proud of himself, "Oh, I asked a few questions of the group: 'What is the FCC Line Charge? How much is our Directory Assistance? Do we get any free calls?'.

“The results were appalling. Everyone thought the FCC Line Charge was on the bill to fund the government agency. Since you know how I feel about government charges, this is misrepresentation, pure and simple. How dare they!”

Mother is proud of Dad as well. “Dad has done this nice report. Make sure you read it. He took a lot on time on it.”

Val is amused but a bit overwhelmed. “Well, I don’t really know what to say. Thanks for this report and I’ll talk to Teletruth for you.”

“One last thing Valerie.” Dad’s voice is very serious. “I’d be curious to know how to file a complaint or get refunds for these people who were harmed.”

Surprised, “Sure Dad.” I’ll call you soon.”

Mother gushes. “Valerie. I’m so proud of you. You have no idea. Please call us and tell us how this all turns out.”

Stunned and amused, and shaking her head in disbelief, *What has this guy from Brooklyn wrought?*

## **Chapter 18 How Rats Are Set, Part Three**

“Sorry about the delay, Valerie. I’m not sure where we left off.” Larry is getting comfortable in his office for yet another session on the rats of telecom.

“Let me try to recap.” Valerie wants to see if she has it figured out up to this point. “For most of telephone history, the rats, *I love that but can’t obviously quote it in my article*. A *shame*, were based and set on the rate-of-return. You examine the company’s profits from phone service and if it gets too large, you lower rates or give refunds.

“Next came Phase One: Plead Poverty. In this phase during the 1990’s, some services were freed through deregulation, but there was still some control of profits. Without serious competition, a utility that’s also a monopoly should not be allowed to gouge their captive audience — the consumer.

“Phase Two: The ‘Promise Them Anything’ Phase...” she is surprised she has gotten this far, “...was based on a trade. The companies promised to roll out fiber-optic networks and in exchange, price caps were applied. This meant that the prices for services were fixed and no one would look at the profits from some items, like calling features. Since the costs of the network kept decreasing, then the profits continued to go up. Profits went from 14% to almost 30% during this time for the exact same local phone service. How is that so far?”

“Couldn’t have said it better myself.” Larry is impressed with her ability to make this sound simpler than he could.

### **Phase Four: Competition Calamity**

Larry takes a deep breath as he begins another chapter to the story; “...that leaves this current phase, which might be better named ‘Competition Calamity’. I’ll try to explain why and keep it simple, though this is about as far from simple as you can get.

### **The Telecom Act of 1996**

“In 1996, Congress passed the Telecom Act of 1996 with the goal to lower prices and bring new services through competition.”

“That was the goal? Lower prices through competition? Then why do all of the prices keep increasing?”

“Before 1996, the Bell companies were restricted from offering long distance services because as a company that had the local phone monopoly, they could cut out the other long distance companies, such as AT&T, MCI and Sprint. They would have a big advantage by just adding long distance to their local phone service.”

“But today, we can buy separate packages of local and long distance.”

### **Open the Networks: Bells Allowed into Long Distance**

“I’ll get to that.” Larry is on a roll. “Anyway, the mandate for competition was that in order for these local Bell monopolies to be allowed to offer long distance, they would have to open up their networks for competitors to use. In 1996 the local phone companies sued to stop the Telecommunications Act, in order to block competition. They claimed that it was illegal to force them to open up their networks to competitors. Notice it was ‘their networks’. The idea that customers have been paying for upgrades all this time — some of which never even showed up — was never brought up. Also, the phone companies believed they had no obligations to be a ‘common’ carrier. Being a common carrier is descriptive of networks that should be open to competition because they are essential to the health of the US economy.

“But why this is a ‘Competitive Calamity’ is because of the continued mess the last seven years have been. You have state laws that are designed to let competitors use the networks (each with their own quirks), you have the FCC making laws about this (and most recently, harmful laws), and then you have Congressional mandates.

“Over the last seven years, the Bells probably initiated more law suits than anyone else claiming that opening the networks to competitors is wrong for both local phone business as well as broadband business. The details are far too many to explain in any article and much too complicated. One important detail however is that each state has been setting the cost of the network for the competitors. This is known as ‘UNE-P’ or ‘Resale’.”

“Uni-Pee?” Valerie brakes into hysterics. A vision pops into her mind of a group of small Cub Scouts standing around a campfire on their first big outing and all relieving themselves on the flames.

“U-N-E-P?” more hysterics from Val.

A confused Larry, “Excuse me? What did I say that was so funny?”

Her mind won't stop. "Five guys who drank too much beer. Or how's this, a new drug for incontinent problems?"

"Uni-Pee." Now Larry can't stop laughing; he's laughing so hard that he almost falls off his chair, his large stomach now heaving to the rhythm of the laughter like a whale in heat.

"Wait!" He tries to stop laughing but comes up with, "A Unitarian, transgender bathroom in Greenwich Village!" And now both are laughing so hard that the conversation has completely stopped and all you can hear are two people trying to retain composure but not having any fortune doing so.

After a few long moments, "Ah, well, I..." She takes another breath. "What exactly is this UNE-P?" And again they can't continue, taking numerous deep breaths, wiping the tears of laughter from their eyes and trying to start slowly. "I'm going to post those on some telecom-geek lists. Maybe you missed your calling and should do tech-comedy? The industry certainly needs a good laugh."

Slowly regaining composure, Larry begins "Okay, so..." He breathes a long breath, "Unbundled Network Elements", UNE-P, are the prices to competitors that were established by each state. The FCC also had proceedings on the cost of the networks, and believe it or not, seven years after the law went through, there are still law suits and new proceedings.

"Here's what happened. The states started to set the discount rates and, as you can imagine, every state had proceedings and multiple law suits. However, over the last seven years, some markets opened up more than others to competitors because the prices that were set either blocked competitors from being profitable, or were considered reasonable enough, though, once again it's all debatable. Meanwhile, when the networks were declared 'open'; i.e. it was deemed that the phone monopolies had completed a 'check list' of items that allowed competitors to use their networks to offer local phone services, the Bell companies were allowed into long distance services. Currently the majority of states have been declared open.

"During the 1996-2000 period, thousands of companies that were formed with the idea to compete were in for a big surprise. The Bell companies didn't want competition, and so there are many documented cases of anti-competitive behavior that blocked competitors from ordering or getting service for their customers"

“I remember that there was a telecom crash that had lots of competitors, called CLECs (pronounced C-LECKS) going into bankruptcy or folding.” Valerie is trying to be serious but is also working on a joke about C-LECK. Fortunately, nothing shows up.

Larry resumes, “Right. Competitive Local Exchange Companies. Some of the states decided that they would have to compensate the local phone company for competition by raising rates to customers. In fact, a new regime is now being put into place called ‘Price Flexibility’, where the company can raise prices once again without worrying about their profits being examined.”

“Really? Isn’t that robbing Peter to pay Paul? If you raise the rates and the competitors make more money, everybody has a price increase. That’s ridiculous.”

“And what’s worse about this plan is that it rewards the Bell monopolies because the less they spend on construction or on employees, the more money they make— pure and simple. The outcome of all of this is that the Bell companies have become some of the largest long distance companies; they made more money from the same clients and froze out lots of competitors, while the commissions raised rates without any profit analyses.”

“This is ridiculous. The end result still means higher prices because competitors can’t possibly compete on price, and so, rates are raised.” Val is non-plussed.

In fact, while the hundreds of competitors left only have 12 million phone lines, including both large and small businesses, which is the bulk of these services, as well residential customers, the Bell companies at the end of 2003 had over 30 million long distance mostly residential customers — about 25-30% of the entire market. According to Verizon, about 40% of their current customers added Verizon long distance to their already existing local phone service. Who got the better deal? Letting the Bell companies into long distance before there was real competition was a disaster, not a blessing for customers. It’s a fact: The more competition, the more innovation. Also, the Bell companies have been able to kill off many of the DSL providers who were using their networks to offer services as well. So is it any wonder that Verizon now controls 90+% of the DSL markets?

“UNE-P pissed on us.” Valerie is not laughing, but underneath is now frustrated at just how ridiculous all of this is. Larry, though, is chuckling at the joke.

“So what’s the bottom line Larry?”

The Rats are running wild; the customers' phone bills keep going up because no one is minding the store. As you so eloquently stated, UNE-P pee-ed on us.

"The way things are going, the companies marrying their siblings and harming competitors through numerous means, including law suits and bad laws, we're rebuilding Ma Bell. We'll have only a few companies supplying us mediocre services at inflated prices with a blurry, slow, Digital future.

First, I think everyone in America should back Teletruth's call for getting refunds for the missing broadband networks, or make the companies actually do what they already collected funds for, but make sure that these networks are not owned by the Bell companies, but are open to all as 'common carriers'. Currently, the FCC has essentially given these companies America's Digital Future through something called the 'Triennial Review.'

### **The Triennial Review: Harm to Internet Providers and Competitors**

"Triennial?" Three years?" Valerie is not sure what he means.

"Every three years, the FCC is required to examine its rules. And this time they decided to give the future, fiber-based broadband networks to the Bell companies for exclusive use. Worse, they also said that the Bell companies can block competitors from using 'line-sharing', meaning that ability to use their phoneline for DSL service as well. These two things will kill off a lot of competitors. It's a really bad decision for the US economy, since the Bell companies will most likely never build out their networks and deliver the fiber-optic future.

"What's really sad has also been the plight of the small independent Internet Service Provider (ISP) the FCC has continually ignored various petitions and complaints by numerous ISP associations, not to mention these small companies themselves. Teletruth filed a petition outlining various and obvious cases of anti-competitive behavior, such as not fulfilling an order in a reasonable amount of time, or demonstrating that if an Internet Provider resells the Bell offered DSL networks, the ISP will continually lose money since the discount prices to these small competitors is more than the retail costs to customers. And now, the Triennial blocks them from not only using these networks from line-sharing, but will also close them out any new upgraded networks.

"That's incredible I should learn more about this."

"Teletruth has a lot of materials on this. Check out their web site."

“Getting back to my story, what about phone bills and profits?” Even though her interest is piqued about this ‘Triennial Review’ and the future, she just wants to close up this phone bill story.

Next, is to insist on a full audit of the costs of local phone service. I believe with all the current hanky panky, including the FCC Audit findings, there is plenty of reason to believe that most of the current fees could be dramatically reduced. I know Teletruth has been a proponent of this, and it’s about time.

“The major issue I see is that because of Price Caps, local service will always be inflated, since there can never be real competition where a competitor can change the price more than 10% from the currently set price. They would lose money. And since the local phone company has such an advantage, including the fact that they can piggyback everything to pay for the long distance part of the bill, then a competitor will have a hard time in winning market share.

### **Which Regulators Controls Which Phone Charges**

“Worse yet, every regulator wants to keep increasing the various charges on the phone bill without ever checking if it’s ‘fair and reasonable’.”

“Explain this part slowly.”

“Okay:

- 1) The FCC Line Charge went up 86% in the last four years with no cost support and no analysis of the total phone bill. It is controlled by the FCC.
- 2) The FCC also put on a portability charge, even though it is also revenue back to the local phone company and not for a bid to the competitors.
- 3) The FCC, Congress and others control the Universal Service Fund, though Congress tries to increase it, with the FCC lacks the cost support analysis.
- 4) Then you have the E911 charge, controlled by the states, which, in most cases is also revenue to the local company and not up for bid.
- 5) You have the Spanish American War Tax, also controlled by Congress.

“Should I continue?” Larry doesn’t know if her silence is from boredom or real interest.

“Please do, I like this list of regulatory bodies and the phone bill.” Valerie likes the summary approach as it helps her in making sense of an enormous puzzle.

“Then you have the added state taxes like the New York Utility Tax.”

“I like the MTA Tax in New York. You know that one?”

“One of my personal favorites.” Larry continues.

“In many states there is no longer any cost support for any of the calling features; you have a deregulated inside wire, a deregulated directory, a deregulated Yellow Pages, a...”

“And let’s not forget the charge for non-published numbers, which has no costs.” Valerie adds.

“How true!” Larry is impressed. “When you add everything together, it doesn’t pass the most basic ‘End Result Test’. — Add everything together and it’s too much money for a customer with a monopoly wire in their home who just wants to make phonecalls and be left alone.”

“And how does the FCC Audit of the Bell companies fit into this?”

“If the price of the networks has been inflated, then every cost - whether under rate-of-return or price caps, which were set with the rate-of-return as their starting points — has been inflated. Ask Bruce Kushnick about Mr. Smith.”

### **VOIP Fight**

“And you know about the V-O-I-P fights that are just now starting?”

“V-O-I-P?” Val can’t think of a joke, but is now angrier and just wants to understand this stuff.

Harold is surprised Val hadn’t heard about it. “Voice-Over-Internet-Protocol? It’s the ability to use the Internet to make phone calls and bypass some of the local phone networks. You can use it for local or long distance calls, but it still requires a broadband connection to sound good.”

“And how does it relate to phone bill issues?”

“It’s again complicated but the simple answer: The VOIP providers today don’t pay many of the taxes and surcharges that the current local and long distance services pay and so it’s cheaper. The FCC recently ruled that if it stays only on the Internet completely, then it doesn’t have to pay anything. Jeff Pulver’s Free World Dial-up is leading the charge on this type of VOIP service.

“Ah. I get it. And if it uses the regular phone networks, it will be taxed all these dirty little charges that should be removed anyway? Right?”

“Ex-act-due-mont. Now, every regulator fears that the Universal Service Fund, etc. will be harmed by people not paying any of these fees. Vonage, for example, allows a caller use the Internet to make the call, but the call gets completed by the local phone companies when they call using a regular phone. In this case, the bets are in that these companies will also be forced to pay those ‘dirty little charges’.”

“Shouldn’t they just rid of these charges in the first place?”

“If only life was that easy.” Harold sighs, knowing that these next years will be more fights about what should happen next, but mostly to block the Bells from harming the US customers in multiple ways.

After some cordial good-byes and each trying to think of another UNE-P joke, Val sits in her car even more bewildered. She is also thoroughly agitated at this entire situation. The charges on the phone bill were nothing but a series of scams with the regulators all wink-wink-nod-nodding. This would be some article.

## **Chapter 19 How to File A Complaint. Don't Get Mad: Get It Resolved**

“Well hello.” Bruce answers with a surprised tone. “I was wondering if you were still chasing the phone demons or had given up and decided to work on something else.” After that meeting in her office, Bruce wasn’t sure what to think.

She could tell he was rubbing it in. She had called Tom and not him in the last round of conversations between reporter and interviewee. “Actually, I, um, my Dad, wrote an analysis of your report and a new report on phone bills in Ohio. It was inspired by your report.”

“How funny. You’re shitting me?” Incredulous.

“I shit you not!” She steals his line from a previous lunch and they both laugh.

“Tom’s gonna love this.” A serious chuckle is heard over the phone.

“So how about you explain to me how to file a complaint, phone packages, skunkworks, the FCC audits, and rat cases...as your friend Larry Pinkus calls it.”

“He does? I only know Larry from a list we’re on and I’ve read some of his complaints and filings. I never met him. He’s a trip.”

“A trip?”

“Ah, you didn’t see him. The picture on his web site shows that he has long wild hair, a beard, wears suspenders and is very rotund. The skullcap adds to the picture as he’s an Orthodox Jew.”

“Huh. I knew I should have visited his site before the interview.”

“So is this another interview and should I get another free lunch?”

*What the hell* runs through her mind as her pulse starts to race. “How about drinks at 6PM tomorrow?”

“Should I bring Tom if he’s free?” For some reason he became very nervous and wanted to almost back out without Tom.

“Unless you feel you need some back up?” *Is he at all interested in me? This should be an interesting drink.*

Valerie is wondering if this is a good idea and doubt seeps in. "Um, Why don't we start with how to file a complaint. And then we can discuss the other items when I see you?"

"Well, OK?" Bruce is surprised. *Is she getting cold feet?*

"So, if you have a problem with service, what should you do?" Valerie had never filed a complaint, though years ago when her phoneline went dead and she had to wait almost a week before it got repaired, she was looking for blood.

### **Filing a Complaint**

"First, we suggest trying to resolve it with the company. However, when that doesn't work, the next step is to file a complaint. There are four types of complaints that are common:

- Local phone company's services or charges put on the local bill.
- DSL complaints, which also may be caused by the local phone companies,
- Long distance complaints complaints about long distance services that are caused by long distance companies,
- Wireless complaints.

Bruce continues with authority. "Most complaints can be filed as "consumer" complaints, without the need for a lawyer. However, because of the myriad of problems we've encountered at Teletruth, Tom has had to intervene more than once. And we're getting more and more complaints that should be class action suits, since many of customers contacting us have problems that effect tens of thousands of customers.

"An example, Mr. Kushnick?" Valerie snidely asks.

"Well, one customer using Verizon long distance as part of her 'Freedom Package', couldn't get through to make calls – the lines were always busy. In fact, she got a letter addressed to her state representative from Verizon claiming that they knew about the problem and were fixing it — 'due to unforeseen demand, ya-da-ya-da."<sup>57</sup>

"Really? They actually said that?"

"Not the ya-da-ya-da part" Bruce laughs at his own joke. She knew he couldn't stay serious.

Kushnick continues "We're now trying to find out how many other customers were effected by their lack of available network facilities. You're not supposed to advertise to a customer when you can't handle the calls.

"And we get lots of customers who send us complaints about wireless services — the advertising didn't mention some specifics, or they kept charging them, even when they dropped the service. It goes on and on.

"Unfortunately, Each type of complaint is handled by different regulators.

- The state Public Service Commissions are supposed to handle local phone complaints.
- The FCC handles "interstate" complaints — that is a complaint against the long distance companies for calls that cross state-lines, i.e.; a call from New York to Massachusetts.
- The FCC is supposed to handle all DSL complaints -- because it has declared DSL an interstate service. However, many state Public Service Commissions are also receptive to these complaints
- The FCC handles wireless complaints. — which is also under their jurisdiction.

"But why should anyone bother filing a complaint in the first place?" Valerie just sees this as a waste of time.

Well, if you don't get any satisfaction from the companies in question and they are jerking you around, the best thing to do is to get even and try to get it resolved with some help. In some states the Bell companies are penalized millions of dollars when they have too many complaints. So, in some small way, you can make a difference. Also, by filing a complaint you have a better chance of getting some settlement out of the phone company. Even though the complaint process is a total mess, if you feel your case is serious and that it might be effecting others, then filing a complaint is a good thing.

"However, before you file a complaint, there's some things that customers can do."

"Let's say you find charges on your bill that you didn't order or calls you didn't make.

"Check to see if everyone else who uses that phone account didn't add those charges, make those calls, etc. Many times, someone in the house has made the questionable calls. This should be a first step. If you live alone, unless someone

has tapped into your phoneline illegally, you should know the answer to this question.

“Next, get your story down and what you want them to do about it. If there are added charges and they've been there for months, make sure you can tell the customer representative exactly what happened. If you've been disconnected, or your line is out, make sure you note how long it has been out for, etc.. Also, since there are sometimes multiple companies putting charges on the phone bill, you need to determine which company needs to be called. Most phone bills have a phone number to start with.

“In short, write down the exact problem and how long it's been going on for. In some cases, the story can be numerous outages in a month, and each incident needs to be itemized. Most importantly, get all pieces of paper in one place, including your account number, the bills in question, the story, etc.

“This all sounds like smart advice.” Valerie is glad Kushnick is just staying on course.

“Next, take a deep breath and remain calm.”

Val smirks at that.

“OK, It might sound foolish, but the person on the other side of the call is just doing their job. They are not the enemy. They are simply going by the rules, and may not have flexibility in even what they say to you. So, the best approach is to NOT start screaming, but say something like "I have a problem and I hope you can help me". This way if they can help you there's a better chance of success. Everyone we talk to about problems gets so angry that it's hard not to start screaming.

“Then, call your phone company. Get a human on the phone. And write everything down or even record it — but tell them you are recording it. In some states it is illegal to record a conversation without warning the other person. It is not illegal if you are just using it as notes. But it can almost never be used as evidence legally.

“Also, get the exact reason, in writing, or the exact material that you can read, as to why they are not giving you whatever you believe you're entitled to. Then, if they do not say that they will not take care of your charges, ask them why and you would like to "speak to a supervisor

### **Other Tactics to Get Phone Problems Resolved**

“And here’s a secret: Ask them for whatever you feel you’re entitled to, including time lost, etc. If they say they can not help you, ask them what they are willing to give you to keep you as their customer. If they show no interest in settling with you, you might want to consider leaving them.

Many times you can’t even get a customer service rep to answer the phone or the questions you pose. If you get voicemail, leave a coherent message. If you are sent a letter, answer them with your story exactly. And always keep all correspondence with the company.

“Withholding payment is an option but this depends on the situation. The first thing most people say is — I’m not going to pay that. In the case of the local service charges, withholding payment can lead to being disconnected, and even if you’re right, you may not have the ability to have local service. Further steps may require a professional phonebill specialist or a lawyer.

“Then, if you’ve been reasonable and you feel they haven’t then it’s time to take it up a notch... You could do what Marcus Lewis did.”

Val chimes in “Verizonpathetic. Now there’s someone who they should have listened to. It would have been easier than the bad press they get.”

“Verizonpathetic also has a lot of customers leaving their own tale of woe. Since they’re on the Teletruth board, we’re in touch regularly about what people are complaining about. Also, at the Teletruth site we have a ‘Complaint Toolkit’ on how to file a complaint, with links to the FCC and the state commissions as well as a sample letter.”

“Ah. That’s useful. I should mention it in the article. I guess you got a lot of people who come to read that.”

“Lots of other sites link to it as well. There are also some other tactics to take that we found useful.

“Like what?” Val is curious about what Kushnick would do next.

Well, you know this one —Tell the press your story... And tell the phone company you are intending to do this. Depending on how absurd the story is, the more the media might want to cover it. Case in point? — A woman called that her phone number had been given to someone else, and she had called the phone company

and got totally ignored. Meanwhile, her father had a heart attack and the other person didn't call her to tell her. She got it on a consumer show and the next day she had her old number back.<sup>58</sup>

"Does the Gazette ever get involved with this type of activity?"

"Not really." Valerie is embarrassed at the lack of caring most newspapers have about their own constituency. There are some New York papers that do more on this topic than we would, that's for sure. Unless it's a human interest story, getting an editor to go out on a limb for a customer is hard.

"Is that because you have advertisers who would get annoyed?" Bruce is rubbing it in a bit.

Changing the subject quickly, Val continues "What other things do you tell customers to do?"

Bruce, getting the hint, "You can call a lawyer or if there's blatant overcharging or double billing, etc., Teletruth can get involved. The problem with us is that we're only a volunteer organization, and so unless we can solve the problem, we always suggest filing a complaint, or we turn it over to our lawyer partners who examine it for a class action suit. .

"However, one of the most effective ways of dealing the phone company is to threaten them." Bruce is smirking at this.

"Threaten them?"

"If you're right and they're wrong, tell the phone company you intend to file a complaint. Tell the phone company that you know all about filing a complaint with the (FCC for interstate, PSC for local) from Teletruth. Just by saying this you will at least be taken a bit more seriously.

"Huh? Does that really work?" Val is surprised at that.

"As I mentioned before Ms. Simpson, in many states, like New York, the number of complaints are added up and if they aren't resolved, the company gets fined. Tell them you know they'll get fined and then call the state Commission. We've heard stories of things being fixed much faster when you know they're wrong and you're going to make sure that other people know it as well.

And I need to point out. — the complaint process is a total mess. It can take months or even longer to get anything resolved. However, the more people complain, the better the chances are that the company is held more accountable to customers and they make more of an effort to fix their problems.

Also, as we have done, when we find patterns of problems, we can take class action suits. That stops them dead in their tracks and can get money back tens of thousands of customers.

## **Chapter 20 Packages and Passion**

“Alrighty. Where do you want to start?” They are sitting in a dark corner of a hip, trendy drinking hole with no name on the outside and illegal smoking of cigarettes on the inside. The chairs are old style with a gothic or even baroque feel and the walls are lined with a deep crimson satin fabric. Smooth, cool Miles Davis soaks the ears and gives the place an ambiance of silk. The table is highly reflective glass, with a mirror underneath, but the overall effect is like sitting in a dark castle, contemplating the existence of good versus evil. It is so “in”, that most “in” people didn’t even know it existed.

To Bruce, Valerie looks radiant against it all, her flaxen hair shimmering in the ambient light, making her almost glow. *She’s definitely smiling at me.*

“I came here one night for a party that a friend of mine gave. I didn’t know a thing about it but it definitely grows on you. So, where do you want to start?” She asks again, a bit nervous this time.

‘When I was a young boy of five my mother...”

“Very funny.”

“And then when I was nine...”

“Getting less funny.”

Valerie takes out an envelope with two stapled packages of 8 1/2 by 11 documents. Moving to be under a spotlight, Bruce slides on his glasses and starts shaking his head amazed.

“What penmanship. I almost failed Technical Drawing because I could never be a tenth as good as this.”

“My Dad’s a former draftsman and a former IRS auditor.”

Glancing through the materials it looks as if they were printed on a laser printer, but it was all by hand. Bruce is intrigued at what he sees. “I’ll need to go through these slowly, some other time.” After placing them into his black bag, Bruce and Valerie once again assume the familiar roles of interviewee and journalist

## **Packages**

Valerie begins with a single word, "Packages."

"There are all types of packages available today. They include 'Local Unlimited', 'Toll Calls', 'Local and Long Distance', 'Local, Long Distance with Wireless or even DSL' and let's not forget packages with calling features. I even found one in the mid-west that has the wire in the home, a phone rental and unlimited local calling for 4-5 times what Aunt Ethel paid back in 1980. Ahhh...now that's progress."

### **Verizon Freedom Package, New York, (Phone Bill Exhibit 12)**

### **Additional Taxes on the Verizon Freedom Package (Phone Bill Exhibit 13)**

Valerie gives Bruce a look to stay serious, but Bruce can't tell what it means. Nonetheless, he decides to play it straight. "So, some packages can obviously save some customers money, however we found that 15-25% of the people were on the wrong packages and spending more money. To make matters worse, since most packages leave out key pieces of data..." Bruce looks at Valerie and waits until she realizes it is a question. "Truth-in-Billing violation", is said in unison.

Bruce pulls out a phone bill from his bag. "In this example, NY842, notice that the Verizon Freedom package price is \$59.95. It has calling features and comes with long distance and local phone service. However, there is a series of taxes that make the total \$71.94." Bruce flips the page. And here on this other page of the bill we have an additional \$9.43 in taxes. And this from an older bill, when the FCC Line Charge was only \$6.00."

And this is a 'truth-in-advertising violation' since the taxes represent \$21.42 — which is 36% more than the advertised price. Also, notice, as Tom would point out, that the package is part of the "Verizon Optional Services" category, even though it includes local dialtone, and long distance service, both of which should be in their own sections.

Seeing the numbers in front of her, Valerie is surprised. "Wow. That's outrageous. There is really a large difference between the sticker price and the actual price. In this case it is..." She tries to add it in her head but Bruce already knew the answer "\$81.37 — an additional 36% more than the advertised cost.

"I'll get back to this in a second."

## How to Select a Package

“So, how do we select a package you might ask?” Bruce is trying to sound like a sleazy car salesman but Val will have none of it. “OK”, acting calm and business like, “Step one is to figure out what exactly you use and don’t use. This is a pain in the butt, but there are some very basic things to note. Also, you need to do this analysis for at least two or three months to make sure that you average the results. Meaning, in some months people make more phone calls than in other months, so you don’t want to make the mistake of only looking at last month’s bill. It takes longer, but it’s worth not messing up because some packages are on a year or more contract. Making a mistake like that can cost you more money.

“The questions you have to ask are:

1) How many local calls do you make a month from the same phone line?

“Remember, you can’t add your cell phone minutes to your wireline minutes or even the minutes from your multiple wireline accounts.”

2) When do you make these calls?

“There have been plans for evenings, daytime, weekends, etc. Also, if you remember in our Phone Bill 101, there was a section on local phone calls, Toll calls, directory, etc. As we pointed out, the old version of local calls in New York was to have calls that had ‘time-of-day’ discounts that were applied. This could be important if you made a lot of calls on weekends.

3) How much are you paying for what you currently use?

“This is somewhat easy, though it can change from month to month.

4) The next step is to examine all the other features and services you use.

“If you’re a customer that only uses, say Call Waiting, then a package that has a lot of features is just overkill.

5) Taxes and Surcharges Additions: Sticker Shock.

“As I just pointed out, this is where it gets really complicated. Customers have sticker shock when they order a local plus long distance package that is advertised for \$59.95, like the Verizon Freedom package was selling for during 2003, and found an additional 36% in charges.”

“And notice that the FCC Line Charge and every other tax and surcharge are not included in the advertised price. Therefore, if your current total is less than that for local and long distance, then these packages are a waste of time. In fact, according to the FCC’s data on customer spending, the majority of customers do not spend enough money to need a package, when the taxes and surcharges are added to the total cost.”

Valerie is now annoyed. “That’s outrageous! You would think that the local phone company should be required to tell the customer which is the best plan — or maybe they don’t need a plan — but today it’s ‘buyer beware’. You would also think that they would have some chart on a web page so that you could go over each charge to see if it’s accurate and what they all mean. I decided to go through the Verizon web site and couldn’t believe all of the information I couldn’t find. No where does the website explain how much each tax is and how it is calculated.”

Smiling, Bruce moves over to the Victorian love seat Val is sitting on. “Way to go Val”. He offers her a high-five, but instead of a knee jerk response, she almost grabs his hand. *A subconscious overture*, she wonders? *Maybe I shouldn’t even finish this Amstel.*

Bruce likes the touch. *Is she interested or just acting chummy today for a good interview?* He still doesn’t have a clue. He knows his hormones are rising. He’s definitely aroused.

## 6) Special Package Issues.

There are lots of different plans across the country and from competitors. We’ve seen local plans that give unlimited directory assistance or that include the wire in the home maintenance. When you are considering a plan, make sure you need the extras.” With a Chinese accent Bruce proceeds, “Ah. A wise man in Brooklyn Chinatown sayeth, ‘Check the traffic both ways before you cross the street’. I was really into fortune cookies as a kid.”

Valerie starts laughing though she isn’t sure what it means or even if it’s funny. She turns to look Bruce in the eyes and everything else in the room becomes dark. After a few moments of their eyes meeting and remaining focused on their object of desire, Val moves slowly and kisses him on the lips. It begins as a short kiss of uncertainty until Bruce gladly complies and transforms it into the long wet kiss they had both visualized. After a few more moments, both are in the midst of embracing each other; hot passions are raging.

“Do you want anymore drinks? Oh, I’m sorry you’re busy.” The waitress, looking like she belonged in the filming of the Adams Family as Morticia Adams, leaves professionally.

“Oh, I have to go to the bathroom.” And Val rushes to get up and leave, like a highschool girl that gets kissed and is caught by the teacher behind the bleachers.

*What am I thinking? Val is amused and ashamed and confused and happy. I must remain professional. I will go back like it never happened and finish this interview like a professional and write this story.*

“It must have been the drink. I think it’s totally unprofessional of me. Sorry. It won’t happen again.”

Smiling, Bruce confesses, “But I want it to happen again. I admit it. I liked it.”  
“Please. Let’s just finish the interview. I have to go home and write the story.”

Bruce, still wearing the glasses, fixes them. They are all steamed up.  
“I think we’re done with packages.”

“I just have a few questions left. Can you tell me about the FCC audits of the Bell companies’ books and ‘Vaporware’?”

Bruce is trying to get eye contact, but also trying to look professional. “Alright, Vaporware. In 1999, the FCC released a series of audits that showed that the Bell companies had reported \$19 billion of equipment that was either missing or unverifiable, meaning couldn’t be found. This was only 25% of the potential audits to be done.” And all is suddenly back to normal, as if nothing has happened that was the slightest bit out of the normal reporter-reportee relationship. All business. “The audits were of accounting books known as ‘Continuing Property Records’ that were supposed to be a listing of all of the equipment in the network — an inventory of everything that customers were being charged for as part of their local phone rates.”

Val, sounding warm but still professional, “My Dad thought this was a smoking gun. I don’t understand how this could go unchallenged?”

“Well, the story is that the Bells, with the help of Congressmen Tauzin and Dingell among others, challenged the FCC and made it clear that there would be hell to pay if this audit continued. So, instead of doing its job to protect the public, the FCC killed the audit and told the state commissions they could continue it if they

chose to." *I wonder if she is still interested.* He is going to put his hand on hers, but as he moves toward Val she backs away.

"We also found a report from the New York State Commission, the only commission that did anything as far as we can tell, stating that \$633 million was missing in that state alone and that was still only  $\frac{1}{4}$  of the potential audits. Teletruth has filed with three states, the IRS, and the SEC to investigate. There was a story in Forbes, but the Bell companies just ridiculed it and said that 'perhaps I'd landed on the website for the *National Enquirer*? But no. No Elvis, no aliens hoarding Iraq's art'.<sup>59</sup>

"We also got our hands on excerpts of the actual Continuing Property Records. We have filed an FOIA request with the FCC to make these documents available. They had tens of thousands of items marked 'Undetailed Investment', or just '\*\*\*\*\*' blanks, or..."<sup>60</sup>

Valerie enters her own ether. She wants to kiss Bruce again. He is one of those good souls that will try to make right what is obviously bad, if not downright illegal.

"Val? Hello?" Bruce realizes she's distant.

"I just can't believe all of this."

"And Mr. Smith?" Val remembers the name from the interview with Larry.

"Ah yes. Mr. Smith. I could ask him to talk to you. He was actually at the Bell companies during the break up of AT&T when these companies had to upgrade their networks and billing systems. They had to transfer the old, on-paper records to a new computer system. At the time, about 30% of the equipment in New Jersey that was on the books — and is still on the books — couldn't be found."

"Really? And this missing equipment was added to the price of phone service?"

"That's correct. Remember, even under the various changes in state regulations, the original price of service starts with the cost of the phone network, missing equipment and all; more costs equals higher phone rates."

Valerie just wants to run and hide. She returns to the bathroom, confused about her feelings, but decides to just finish this story. This story of missing equipment was just another incredible scam and Dad's input on this made her determined to get to the bottom of this smoking gun.

As they leave the bar with no name on a dark deserted street in Tribeca, "Well, goodbye. You'll email me Mr. Smith's contact info?" And Val puts out her hand to shake as if it was just another meeting.

Bruce will have no part of it. "I'm ransoming the data for another kiss." Hesitantly, she moves to kiss him on the cheek, but quick side-step by Bruce has their lips in an embrace and both are smirking.

"So, do you think this story of yours will ever come out?"

"Why shouldn't it? I've done my due diligence. I have some more interviews, but I think most of the materials are solid. At least my Dad thinks so. Please read his report."

And with that, Val hops into a cab and Bruce takes a long walk down Broadway to clear his mind of Valerie, both confused and amused.

**Chapter 21 These Are a Few of the Dark Little Things.**

With Val's interest piqued, Bruce arranges a talk with the mysterious Mr. Smith.<sup>61</sup>

The phone rings and a weird sounding mechanical voice is heard on the other end. Mr. Smith is on a phone with a "voice changer" which makes him sound odd.

**The Story of Vaporware**

**SIMPSON:** Tell me a little about your background in telecommunications and with the Bell accounting books.

**Mr. Smith:** I was new to the Bell System during Divestiture in 1984. I was in the Chesapeake & Potomac Headquarters Group through 1986. C&P represented Maryland, Virginia, West Virginia and DC, but because it was all one big network and because we were all scrambling like mad to comply with the Divestiture decree, all of us were helping out wherever we could.

**SIMPSON:** And what were your responsibilities related to the inventory/accounting books?

**Mr. Smith:** At C&P I was in the Cost and Economic Development Group. We were mostly responsible for the Division of Revenue Traffic and Investment Studies. These divisions were used to allocate the cost associated with investments used in common by many companies. We would come up with the relative usage for each company and apply that to our total capital cost and the result would be the investment used to calculate the rate base for each company. Remember, they each had to get individual rates approved by the state commissions, so this is how they got the numbers they filed in those rate cases.

**SIMPSON:** Just to make this clear to the readers, you examined the equipment in the network, the inventory, and used formulas to determine how much traffic there was, and this was used in the creation of phone rates.

**Mr. Smith:** Yes. Rates were set through this process because after staff, the only real expense is the equipment you have and how it's being used. Remember, C&P was a utility and a monopoly and we were regulated for our profits by the state commissions. This is called a rate-case.

**SIMPSON:** So tell me about the inventory.

**Mr. Smith:** At the time of Divestiture, we were required to split up a company which was attached like an octopus to all of its long distance and local phone service divisions. It was all one big happy family for almost 100 years and now it had to be parceled out.

Up until then, it was only an accounting issue. If a call needed to be routed we didn't ask who owned the equipment, we just sent it through. Starting in 1982, everything needed to be separated, so we started looking at our inventory records and literally splitting up the inventory. I remember counting cars in the car pool and deciding which ones would go to which state.

For network investment, people throughout the System were using the information in the TIRKS inventory system and splitting it up between companies. TIRKS was supposed to take the place of the old manual paper inventory everywhere in the Bell System.

New Jersey was behind in getting on TIRKS, which had been no big deal before, but now it was the only way to separate these assets in time; so everyone suddenly was worried about why NJ couldn't move to TIRKS.

I was asked to work with the NJ inventory team to see what was wrong, and it quickly became obvious. The problem was that **they couldn't find about 30% of the inventory that they had been listing manually**, so they couldn't get it loaded into the TIRKS system.

**SIMPSON:** Was this common and how do you know this was happening throughout the Bell System?

**Mr. Smith:** Well, I was new to all of this compared to the lifers who had been there for decades, so I was surprised, but they weren't. They had known there were problems and what they did was just make things up. In your recent materials you talk about "Undetailed investment" or "Unallocated Investment". These are all placeholders for items that couldn't be found. Now, I assume that sometime, somewhere some of this existed, but it certainly wasn't there when we had to transfer the records.

So they weren't acting like there was anything strange at all about this, just they didn't know how to keep anyone from finding out. When it was a manual inventory they had all sorts of tricks to bury it. They told war stories about how it had been done before and how it had gotten by the auditors. Now that there was this computerized system, they didn't know what to do.

**SIMPSON:** And the equipment was important because...?

**Mr. Smith:** Well, if we admitted that we had 30% less inventory than we had said, we would have had to have given a whopping refund. After all, the equipment was part of the 'rate-base'. The commission had been basing rates on those numbers for years, but we all knew that we couldn't give a refund. If I wanted to keep my job, I couldn't go back to my boss and say, 'we can't find the equipment and we need to give millions in refunds'. That was not acceptable. We would all lose our jobs.

**SIMPSON:** Did the higher-ups know about this?

**Mr. Smith:** They were careful to maintain plausible deniability throughout the chain of command. For example, my boss knew there were problems that could trigger refunds, and he made it clear that if I wanted to keep my job that this must not be allowed to happen. He never wanted to know any specifics of how we "fixed" the problems. It was understood throughout the company since everyone in the management chain knew that refunds were never an acceptable option. With this model, nobody saw the whole picture and it was easy to fool the internal auditors who weren't set up to take on a conspiracy of this sort. It was a brilliant scheme, but obviously in a very twisted way.

**SIMPSON:** So what did you do?

**Mr. Smith:** As I said, I was still green, so I just wanted to see how to fix it. At one point, we decided that we should create fake "repeater-huts" — meaning extensions of the network — but after doing the math of how many repeater-huts equals 30%, it was obvious that we would be swimming in these things. It would be obvious that we had thousands more of these things than anyone else. In the end, we just made it fit with various items that didn't really exist anymore.

**SIMPSON:** Does this missing equipment come into play with the current inventory?

**Mr. Smith:** The current inventory is based on the same starting points, so it must have some relationship. As you pointed out, when the FCC did its audit it found, what, \$19 billion in missing equipment from the Bell companies? To think that was only 25% of the potential audits! Why do you think there's so much "Undetailed Investment"? So that if anyone checked, there'd still be a line entry counting as inventory, until someone actually checked, and no one has to date.

**SIMPSON:** And what do think about the missing equipment impact on phone rates?

**Mr. Smith:** Well, everyone knew that the rate-setting process was just a game, us against them and they made up their own numbers as well. Everyone knew that none of the numbers were real and it was just a matter of who could tell the best story would win. Since our job was to not give refunds, we were more motivated and we had the raw data.

**SIMPSON:** Mr. Smith, first, I thought you'd like to hear this, which dovetails to your own "repeater huts". According to the New York Public Service Commission's Audit of New York Telephone, the company from 1971-1980 went from having 9,500 "unallocated and undetailed" items, amounting to \$16 million, to 34,300 items, amounting to \$305 million during the 1981-1990 timeframe, the years you were working at Bell.

**Mr. Smith:** That certainly shows how the Bell staff was able to add items to the accounting records without any detail. A jump of approximately \$290 million for an additional 25,000 undetailed pieces of equipment in just one state during the time of Divestiture clearly shows that the staffers had to be creative in making this all fit, and they used the "undetailed and unallocated" placeholders as the simplest way.

**SIMPSON:** And I would like to call your attention to the fact that in some of the FCC audits, such as the audit of BellSouth, the FCC found 29% of the items were missing or unverifiable. Valerie begins to quote various excerpts,

"In the case of BellSouth, 29% of the information required was missing or couldn't be found or had serious errors."

Meanwhile, the Southwestern Bell Audit found 113,700 records containing \$1.1 billion in "Undetailed or Unallocated" costs.

"We found 46,900 such line-items representing \$923.8 million in Undetailed Investment. Southwestern Bell has not shown any specific physical plant or provided sufficient or convincing cost support data relating to any of the line-items for Undetailed Investment. We also found more than 66,800 line-items representing \$157.4 million in Unallocated Other Costs."

**Mr. Smith:** As I said, the Bell Company was originally one big family and so we all used the same methods of record keeping.

**SIMPSON:** I would also like to call your attention to this quote that demonstrates that the equipment in the network in 1992 was the basis for the rates in New York even today, because the current prices used 1992 as the starting point.

"New York Telephone also states that the findings have no relevance to rate setting under the current Alternate Regulation (PRP). Under the PRP, cost precision contained in the company's accounting records became less important when determining a reasonable level of customer rates. Therefore, the company claims that even if it was found that New York Telephone overvalued its plant, customers are not harmed because customer's rates were not based on accounting costs. However, the PRP forecast was the 1992 calendar year accounting records. To the extent that the 1992 costs were overstated, customer rates that were based on those costs are overstated." Source: NY PSC Audit of New York Tel.

**Mr. Smith:** You should remember that the depreciation rate of most equipment was 30 years, meaning that the company had this equipment on the books and active and was writing it off over a 30 year period. The copper wiring in the streets, for example, that is still being used was laid in the 1920's. Since the prices of all services was based on the equipment in the network, then equipment or missing equipment for that matter, from the 1970's, 1980s and 1990's, is all relevant to today's pricing structure of rates. This material is the starting point for every state's price regime, whether it's under 'rate-of return', which examined profits, or "Alternate Regulations", sometimes called "Price Caps" or "Incentive Regulation", that examined the price of the service. The New York Commission staff got it right.

**SIMPSON:** Why are you telling me this now?

**Mr. Smith:** To clear my conscience a bit. I was just a kid and didn't really understand all of the dynamics. My take on the equipment was that we inherited bad books and so we would just take the bad stuff off the books. I only later thought about how much these companies really got away with and it makes me mad to think about what I was forced to do. Time to "Tell The Truth" I guess. I only wished some of my colleagues would step forward and tell their own tales. Believe me, there's a lot more to tell.

I leave you with this, "Watergate was a gnat compared to the Bell System". This is from the suicide note of T.O. Gravitt, the former president of Southwestern Bell Texas, in 1977. And the phone goes dead. Valerie is now totally convinced this story needs to be told. It is far more enormous than her, but she will try to do it justice.

It was not just the phone bills or the physical records that the customers got every month; it was the entire system by which rates had been created and increased. The pennies, nickels, dimes, and quarters added through many different scams, but all designed to increase the companies' bottom lines at the expense of customers.

**Chapter 22 You Can't Always Get Want You Want.**

For days Val suffers over what is sure to be a Pulitzer-prized story. This story should rip the blinders off the eyes of customers, politicians and regulators. Maybe it will even start a crusade in the search for justice. Instead of talking to Harold for direction, she decides to write this on her own. After a few long days and nights of sifting through mounds of data, taped interviews and notes, she has produced three tales entitled — *The Dirty Little Secrets: The Truth About Your Phone Bill*

“Hey, that’s great news Tom! We finally win one.” Bruce and Tom had been anxiously awaiting the outcome of a class action suit they helped to develop using the results of the phone bill survey. A few hundred thousand small businesses in New Jersey will be getting their missing discounts. Bruce and Tom will get consulting fees for doing the work that was done on contingency. The case wins, you get paid. If not, you eat two year’s worth of work.

“I sent Valerie the press release. No word.” Tom adds, “Any word on that big story?” Sarcasm oozing from every word.

“Well, at least she was cute. I, um, I’m kind of...”

“I know you lusted after her. Sorry it may end up on the editor’s floor.”

“I’ll let you know what happens.”

Later on, Bruce dials Valerie’s work number and gets voicemail. “I’m sorry Valerie Simpson is no longer working at the Gazette at this time. Would you like to speak to her replacement, Janet Callahan?” *What? How can this be? Did the Bell companies get another reporter fired?* Bruce can’t help but feel some loss and guilt. He had waited a week and hadn’t heard a thing. His hopes for an encounter that did not center on telecom were now suddenly diminished.

Bruce dials Harold’s number and there’s just voicemail. “Harold, so I was wondering about the status of the story? Um, also I was wondering what happened to Valerie Simpson? I’m at 212-777-5418.” Bruce then tries Directory Assistance in Hoboken, NJ. *Damn. I should have guessed she’s paying for an unlisted number.* He sends her an email, but doesn’t expect much. It’s to a Gazette email address. It bounces.

The next day Tom calls. “So, did you see the three-line mention in the Gazette about our case and that’s it. Verizon has a larger response then us!”

Bruce can’t stop laughing about the irony of it all. “I guess you were right. The entire thing was a waste of time. Did you see the Associated Press article about our case? They gave us more space than Verizon.” And they continue to chat about other pressing issues. Bruce is a bit depressed about the Gazette story, but more about Valerie. *What the hell happened?*

### **Chapter 23 Disconnected? Bell Out Of Order?**

It was late and the air cold, but Val couldn't stop thinking about what had just happened in this last week. The streets of Hoboken were empty, and so Jimmy's was again her first choice. Damn. There was Grace, as if on cue, waiting for her entry. Grace is playing against John, one of the 70 year-old Italians who could still shoot a mean game of pool. John would say, "Who calls it billiards anyway? Snobs or assholes."

"I was checking the Gazette for your story? What happened? Disconnected? Bell out of order?" Grace looks empathetic but upbeat.

Val's anger subsides with a large sigh. "Phew. I need a beer. Hell, give me a Jack Daniels on the rocks." *I shouldn't have said that. Bruce's drink. Damn.*

She puts a quarter on the table. "I'm playing the winner. Come on John, let's see what you got." Grace and Val walk over to each other and give a big hug of support.

John, not having any idea about all this, "Goy-irls, not here, Okay?"

Val and Grace snicker. "John, we're both straight. Sorry but we're not interested in being your sex toys either. But thanks anyway."

John isn't in on the joke, but misses an easy shot. He just wants to get back to the bar and feel the wood under his arm. After a few more shots, Grace easily wins and Val racks up.

"I can't prove it, but this smells of skunk works. Here's what I wrote." Val pulls out the article that is stuffed in her purse and they go back to the booth. Grace sits there amazed.

"So what happened? Tell Gracie everything." Val starts at the beginning and by the end Grace is not surprised, but shaking her head. "Business as usual. But what about this Kushnick guy you keep mentioning? I could sense something's up. Right?"

And Val gives her the ping-pong ball swings that have been her emotional state on this topic.

“But what’s really pissing me off is what happened. Why this story will never see the light of day.”

Grace is all ears.

“I worked my butt-off to finish it. It had grown from a simple ‘read the phone bill’ story to a major exposé on how rats are set...”

“Rats?” Grace looks confused.

“Inside joke. So I walk into Harold’s office and he’s visibly upset. Harold doesn’t usually look upset. He gives upset.” Valerie pauses and takes a swig of her Jack. It is rough and loud in her mouth, but she likes it. “He tells me that Karl Harrison thought we could get sued over this, and that the interpretation and data are all wrong. At the meeting to publish it, the head of the group says, ‘We’re not going to publish this because of the legal consequences and we are not sure of the veracity of the researchers’. Harold hits the roof and storms out of the meeting, at least that’s what Clara Kelso told me.”

“Clara is...?” Grace is following intently.

“She’s the food critic and movie reviewer for the Gazette. Another story.”

“I later find out about what happened from this cub reporter, Jon. He was behind the story so he did some digging. It turns out that it was the Group publisher in Chicago that owns the Gazette who killed it. How they found out about it is still a mystery, however it’s quite clear that the phone companies have political ties with various politicians who eat at the same trough with our Group publisher. It was also mentioned that they didn’t want to risk a law suit or lose money in advertising.”<sup>62</sup>

Val sighs. “Harold was not pleased, but what was he going to do? Quit? I assume over the last 12 years he’s killed other stories he believed in. So when I tell Harold that I’m outraged, like a coach in one of those b-movies after his team loses a big game, he says, ‘This will be okay. Don’t worry,’ and suggests I wait and sell the story to some other online publication or something. He’d even get me a legal waiver to publish it elsewhere. I was so outraged that I thought of just leaving. Instead, I’m now on an official story ‘leave’ for the next few months.”

Grace. “Well, that’s great news.”

“What? Grace, how can you say that? I more or less kissed off my nice New

York job. I can't decide about this guy who's in the story? I don't want to become another crusader. I like getting a steady paycheck and not being some freelancer. I...." Val just doesn't see how this is at all even good, much less great. "Where's the silver lining in this tale of woe?"

"Don't get mad. Get even Val." Grace is glowing with confidence.

"Revenge would be nice, but I don't see how?"

"Bubbala. Do you know what I do for a living?" Grace just sits there with a large smirk on her face, outdoing any Cheshire cat.

"You're a press relations person who..." Val repeats it again, not really sure what it means, but Grace seems to know. "You're a press relations person who..." and again, with more understanding. "You're a press relations person who..." Val's not exactly sure what this all means. Then, as the internal light-bulb goes on high-beam, "Ahhhhhhh".

Grace picks up her Heineken, Val her Jack Daniels. "I'm a press relations person who..."

Val's eyes go wide as Grace whispers in her ear the next step in Val's new life.

**Chapter 24 Sometimes You Get What You Need.**

The room is poised with ecstatic excitement. You could cut it with the proverbial knife. The crowd of hundreds, mostly woman — housewives, widows, businesswomen and college students, are all very excited to be in one of these cherished seats.

The TV studio is expansive and very well heeled — the stage surrounded by hundreds of seats, cameras everywhere. Suddenly, the applause sign goes on which is a rain drop in a tidal wave. Nothing would have kept this crowd from getting on its feet and cheering.

Out on the stage comes Oprah Winfrey, a woman whose stature as an important person in America's homes and reading rooms cannot be denied.

She starts after a few minutes of loud applause. "My first guests today, like many of my guests, have a very interesting story to tell. Valerie Simpson, a reporter on leave from the New York Daily Gazette, was given the assignment, 'Why are there all these little charges on the phone bill?'

Audible moans and groans can be heard.

"I know all of you have asked the same question many times when paying those phone bills." The entire room nods in the affirmative.

"It was fortunate that during her search Valerie Simpson ran into Teletruth, a customer advocacy group run by two telecom analysts, Bruce Kushnick and Tom Allibone. They decided that the story of how all those charges got on the phone bill needed to be told. They found that nobody was doing anything about it, even though these charges really add up. So they did a novel thing, literally. They wrote a novel with real, factual information as part of their story. In an amusing tale, they tell how to read your phone bill charges, how to file a complaint when you find mistakes, and how to select the right phone package. Besides that, they tell how the regulators have dropped the ball and it has cost us all money. Lots of money." Audible gasps and vitriol come from the gathering. "This book was a quick and fascinating read, even if it talks about something so indecipherable as phone bills. Quite a monumental task that was very well done."

"Please welcome authors Valerie Simpson and Bruce Kushnick and their new book, 'The Dirty Little Secret Lives of Phone Bills'."

Val and Bruce come onto the stage from stage right. They have been waiting nervously and now the time has come. “The Dirty Little Secret Lives of Phone Bills” was about to be revealed to the public. They sit on the couch together and Valerie takes Bruce’s hand and gives it an affectionate squeeze. Bruce looks into Val’s eyes and smiles. They think, *Verizon, can you hear us now?*

## **Endnotes**

<sup>1</sup> For a more detailed description go to <http://www.teletruth.org>

<sup>2</sup> For a Map of the Bell companies <http://www.teletruth.org>

<sup>3</sup> The Unauthorized Bio of the Baby Bells, Published 1999 New Networks Institute

<sup>4</sup> For a link to the free book see <http://www.teletruth.org>

<sup>5</sup> Actual customer letter to Teletruth, September 2003

<sup>6</sup> See: <http://ftp.fcc.gov/cgb/policy/truthinbill.html>

<sup>7</sup> "Re: Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps, dissenting statement by Commissioner Coppers.

<sup>8</sup> "Shortchanged: The Baby Bells may have bilked consumers out of billions by inflating the cost of their networks. Regulators seem content to overlook the matter." Scott Woolley, May 12<sup>th</sup>, 2003

<sup>9</sup> "New York DPS Reach Agreement On New Regulatory Plan", Investor Information / News Verizon, Feb 11, 2002

<sup>10</sup> Verizon web site <http://www.verizon.com>

<sup>11</sup> The Americans for Tax Reform has written about this for years. See: "Abolish the **Telephone Tax**" by Peter J. Ferrara

<http://www.atr.org/policybriefs/010899pb.html> There has also been bills in the House of Representatives. A bill presented in 2003 was H. R. 2957, to repeal this tax.

<sup>12</sup> Actual customer letter to Teletruth, September 2002

<sup>13</sup> Actual customer Letter to Teletruth, see:

<http://www.teletruth.org/About/newsletter/Portabilitynightmare.htm>

<sup>14</sup> See:

[http://www.govtech.net/news/features/news\\_feature.phtml?docid=2003.01.14-37912](http://www.govtech.net/news/features/news_feature.phtml?docid=2003.01.14-37912)

<sup>15</sup> "Many Unhappy Returns: Policies Vary Widely From Store To Store Author(S)" Bruce Mohl Date: December 1, 2002 Page: G3 Section: Business

<sup>16</sup> "Teletruth Files FOIA with FCC", America's Network Weekly, Shira Levine, July 11, 2003

<sup>17</sup> "Is Bay Ridge Paying Too Much for Its Telephone Network?" Bay Ridge Courier Life, week of August 27th, 2001

<sup>18</sup> "Many Unhappy Returns: Policies Vary Widely From Store To Store Author(S)"

Bruce Mohl Date: December 1, 2002 Page: G3 Section: Business

<sup>19</sup> Posting by Bell company employee, Broadband Reports, September 2003.

<sup>20</sup> "Many Unhappy Returns: Policies Vary Widely From Store To Store Author(S)"

Bruce Mohl Date: December 1, 2002 Page: G3 Section: Business

<sup>21</sup> "Verizon OSS under legal assault", TelephonyOnline.com, Aug 20 2003

<sup>22</sup> "Analyst hits Bell Atlantic: Phone firm denies gouging customers in state for \$1bilion" By Peter J. Howe, Globe Staff, 10/06/99

<sup>23</sup> Verizon Web site, as of august 2003

<sup>24</sup> "Criticism Over the Fine Print of Calling Plans The New York Times", By Matt Richtel, September 8, 2003

<sup>25</sup> "Phone Bill 'fanatic': Break Up the Bells", The Washington Times, July 30<sup>th</sup>, 1992

<sup>26</sup> New Jersey phone bill, May 2003

<sup>27</sup> "New York DPS Reach Agreement On New Regulatory Plan", Investor Information / News Verizon, Feb 11, 2002

<sup>28</sup> "Telebaloney" was used by two different Verizon spokespersons over the last two years.

<sup>29</sup> From bill stuffer, NY Telephone, June 1991 "New York Telephone pays taxes too. The company must pay a New York State Gross Income Earnings tax, which we are permitted to recover as a surcharge to consumers and appears on your bill as a 6.5% New York Surcharge. This surcharge applies to monthly and one time charges and to most calls made within the state."

<sup>30</sup> To read more see: [http://www.lightreading.com/document.asp?doc\\_id=41218](http://www.lightreading.com/document.asp?doc_id=41218)

<sup>31</sup> "The Rape of Ma Bell", by Constantine Raymond Kraus and Alfred W Duerig, Lyle Stuart, Inc., 1988.

<sup>32</sup> We do not know if these services were ever ordered or used by the customer.

<sup>33</sup> This document exists.

<sup>34</sup> There are a number of documented cases of Consumer Advocates being let go for their opinions, including Bill Sprately of the Ohio Consumer Counselor, among others.

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<sup>35</sup> "Illinois Victory Emboldens The Baby Bells - Verizon, BellSouth, Qwest to Employ Similar Strategy", Telecom Policy Report, May 27, 2003

<sup>36</sup> See our "Tauzin-Dingell Is Evil" page.

<http://www.newnetworks.com/TauzinDingellisevil.htm>

<sup>37</sup> <http://www.netaction.org/broadband/bells/>

<sup>38</sup> From IDI website:

[http://idi.net/about/?PROACTIVE\\_ID=cecfcc6ceccccc5cecfccfc5cececcccc9c8c7cbccc5cf](http://idi.net/about/?PROACTIVE_ID=cecfcc6ceccccc5cecfccfc5cececcccc9c8c7cbccc5cf)

<sup>39</sup> From Guidestar, a source of non-profit information

[http://www.guidestar.org/controller/searchResults.gs?action\\_gsReport=1&npold=646039](http://www.guidestar.org/controller/searchResults.gs?action_gsReport=1&npold=646039)

<sup>40</sup> "In the matter of the inquiry into Verizon Virginia Inc., compliance with the conditions set forth in 47 USC at 271 © Case No PUC 2002-0046," declaration by Lee Selwyn, May 3, 2002.

<sup>41</sup> Idaho Coalition for Competition, Volume 1., Number 3, 2001.

<sup>42</sup> Designed and developed by Issue Dynamics, Inc. For more information see <http://idi.net>. --> <TITLE>TRAC News and Alerts</TITLE> [http://trac.org/proactive/newsroom/release.vtml?id=20000&PROACTIVE\\_ID=cecfccfc7cdcfcbcccac5cecfccfc5cececccccaccccecbcecc5cf](http://trac.org/proactive/newsroom/release.vtml?id=20000&PROACTIVE_ID=cecfccfc7cdcfcbcccac5cecfccfc5cececccccaccccecbcecc5cf)

"Price Hikes Add Confusion To Phone Bills. Comparing Long Distance Options Could Save Consumers Up to 50% on Bills."

<sup>43</sup> <http://www.nwfusion.com/news/0126snow.html>.

<sup>44</sup> <http://www.idi.net/about/clients.vtml>.

<sup>45</sup> "WorldCom Opponents In Sync, D.C. Firm Helps Organize Protest," by Christopher Stern, Washington Post Staff Writer, Friday, June 20, 2003; P A01.

<sup>46</sup> ibid.

<sup>47</sup> <http://www.nwfusion.com/news/0126snow.html>.

<sup>48</sup> <http://www.apt.org/about/staff.html>.

<sup>49</sup> <http://www.apt.org/about/>

<sup>50</sup> <http://www.apt.org/about/sponaffl.html>. The current group now includes Covad and Intel.

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<sup>51</sup> <http://apt.org/publica/telecom-release.html>.

<sup>52</sup> "Author note: Steven C. Pociask is executive vice president and chief economist for the economic consulting firm, Joel Popkin and Co. (Washington). He previously was chief economist for Bell Atlantic Corp". ("Two Degrees of Structural Separation" Stephen B. Pociask; America's Network, Duluth; Dec 15, 1998; Vol. 102, Is. 24; pg. 38, 4 pg.)

<sup>53</sup> Ibid.

<sup>54</sup> Wall Street Journal, August 15, 2001.

<sup>55</sup> <http://www.lilytomlin.com/charns/lupe/home.htm>.

<sup>56</sup> Each story presented is from an actual customer in the Teletruth survey.

<sup>57</sup> This is based on an actual customer letter sent to Teletruth with the accompanying back up documentation, 2003.

<sup>58</sup> Based on an actual customer letter, 2003

<sup>59</sup> "Shortchanged" Forbes Magazine, Scott Woolley, 05.12.03.

<sup>60</sup> <http://www.teletruth.org/auditupdate.html>.

<sup>61</sup> Mr. Smith is an actual person, and this interview is factual.

<sup>62</sup> In 1993, Bruce Kushnick was pulled from a featured news broadcast about phone bills with the reason being that the company would lose advertising. In 2003, Kushnick was told on a news program not to mention the name "Verizon" for fear of a law suit. They would have killed the interview if he refused to back down and just say "the local phone companies".