

# **Phone Companies and the Truth: A Bad Connection**

**Released by the  
National Cable & Telecommunications Association (NCTA)  
March 14, 2006**

# Phone Companies and the Truth: A Bad Connection

The phone companies are at it again. They're using false and misleading advertising in order to get Congress to give them a sweetheart deal.

The Bells also continue to pay third party organizations to run advertising without disclosing their actual role "behind the curtain."

Why can't the telephone companies tell the truth?

The fact is that the real price for cable services – as measured by channel – actually has declined over the last 10 years, according to the FCC.

The fact is that *telephone companies* are hiking rates on many of their phone services even while claiming they will lower cable prices.

The behemoth telephone industry doesn't need special favors in order to compete against cable. Congress gave them permission to enter the video market over a decade ago, and since then, they have done little to live up to the good faith of legislators and policy makers.

The Bells' latest ads are the most recent attempt to mislead the public. Consider some of the claims:

***False Claim #1: A study by the FCC on cable prices found that the average monthly bill for cable service has increased 86% over the last 10 years.***

**Fact:** Real cable prices, as *Multichannel News*<sup>1</sup> and others point out, actually have declined when properly measured on a channel-by-channel basis. In the same FCC report that the Bells cite to back up their claims, the Commission reported that from July 1995 to January 2004, the number of cable channels offered in expanded basic increased 61%, and on a per-channel basis cable rates rose by 9%, while the cost of living (price inflation) *rose by 20%*. This represents an actual quality-adjusted *decline* in real cable rates. With more choices and higher quality programming, viewers are watching more for less.

Meanwhile, the telephone monopolies, who claim to be in the vanguard of competition, spent the last 10 years killing competition in voice services – competition that one of their own executives previously said had saved billions of dollars for more than 19 million consumers and small businesses.<sup>2</sup> The Bell telephone monopolies also are seeking legislative permission in numerous states to hike telephone rates, and they've already increased prices in many states (see Appendix).

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<sup>1</sup> "On Lies, Damned Lies and Cable Statistics," *Multichannel News* (Mar. 11, 2006).

<sup>2</sup> "FCC Call for Negotiations to Resolve Dispute Over Phone Competition Rules," *Associated Press* (Mar. 31, 2004).

Finally, the FCC report *doesn't* contain a 10-year study of “average” cable rates, but rather simply annual surveys of data reported by cable operators – and the FCC’s data requests have shifted and changed with each year. A first year statistics student wouldn’t attempt to aggregate these “apples and oranges” data, as the telephone companies have done in their ads. Comparing prices without considering how many channels you get or how much you use them is deliberately misleading. It’s like trying to compare the cost of a fast-food meal you bought 10 years ago, to the price of a high-quality buffet you might enjoy today. The largely static telephone companies which sat on DSL technologies for over a decade and which mostly declined to enter the cable television industry after Congress invited them to do so in 1996, would not appear to understand this. Today’s cable service offers consumers much higher value, many more services, and a far more robust list of choices than it did in 1996.

***False Claim #2: Telephone entry into the video services market – as the fourth and even the fifth provider in a particular market – will bring prices down.***

**Fact:** AT&T itself has just announced telephone rate hikes for 30% of its customers in Texas after it was awarded favorable franchise legislation. Similarly, the Bells argue that when Verizon entered Keller, Texas to provide video services, the cable operator instantly lowered rates. But the Bells know that this too is false. The reality is that the cable operator, Charter, had introduced lower promotional rates about a year prior to Verizon receiving its franchise, in part to combat competition from national satellite companies. Verizon was nowhere in the market then and had nothing to do with any price cuts there.

***False Claim #3: The Bells require new legislation in order to compete against cable companies.***

**Fact:** Congress passed legislation in 1996, **at the Bells’ request**, that opened the door for the Bells to compete in the cable business. But as they did with DSL technology, the Bells sat on the sidelines and failed to compete in video services. Now, with the proposed merger between AT&T and BellSouth, AT&T will have a larger market capitalization than cable operators serving 80 percent of cable subscribers combined. The reality is that the Bells want legislation allowing them to bypass many middle- and working-class neighborhoods when they upgrade their networks – despite the fact that all of these ratepayers paid for that network!

What the Bells want now is a sweetheart deal from Congress that benefits no one but the Bells. Under current rules, the Bells have little problem in speedily obtaining franchises in market after market – a fact that has been widely documented with one Bell executive admitting that it can easily obtain local franchises around the country.<sup>3</sup> The claim that they need special favors to “compete” against the cable industry is not credible and is highly misleading.

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<sup>3</sup> Comments of NCTA, MB Docket 05-311, Attachment A (Feb. 13, 2006); *see* Business Week Online (Sept. 28, 2005) (according to Verizon’s CEO, when the company has pursued a local franchise, “[w]e haven’t been turned down anywhere we’ve gone”); *see*, Verizon Earnings Conference call for Q4 2005 (Jan. 26, 2006) (regarding obtaining local franchises, Verizon’s CEO said: “I think we have to go out and get -- and get franchise approvals and we’re doing that and we’re doing it aggressively. And we’re queued up. We don’t feel that there’s any impediment . . .”)

***False Claim #4: The cable industry is “fighting competition and choice.”***

**Fact:** The cable industry has never opposed competition. Cable supported the legislative reform in 1996 that allowed telephone company entry into cable. And the cable industry supported the Satellite Home Viewer Act in 1999 – and its subsequent extensions – which expanded the competitive services satellite providers could offer. Now, the cable industry supports the principles enunciated by Senators Conrad Burns and Daniel Inouye that would streamline entry for the Bells into the video market while treating like services alike. The cable industry also has supported compromise legislation in Virginia, which eased entry for the Bells. In short, the cable industry supports reform that will encourage competition where everyone plays by the same rules and where all consumers will benefit.

Indeed, in making this argument, the Bells have a “glass house” problem. In most markets in the telephone industry, the Bells control roughly 90% of residential and small business revenues – monopoly control by nearly anyone’s definition. The Bells have killed the federal telephone competition rules which will cost consumers and small businesses almost \$16 billion a year annually according to studies that AT&T (before the proposed merger) sponsored and supported. By contrast, in most cable markets today, there are at least three multichannel video providers – and in many cases, four – a robust competitive environment by most economists’ definitions.

***False Claim #5: “Today, most Americans have no choice of cable providers,” and “98% of consumers have no choice of cable providers.”***

**Fact:** Just a few weeks ago, the FCC declared that “almost all consumers have the choice between over-the-air broadcast television, a cable service, and at least two [direct broadcast satellite] providers” as well as “emerging technologies, such as digital broadcast spectrum, fiber to the home, or video over the Internet.”<sup>4</sup> *That means most consumers have a choice of at least three providers nationwide.* In addition, “overbuilders” serve an increasing number of markets. The Broadband Service Providers Association, the trade association for cable overbuilders, reports that its members’ networks pass 4.4 million homes,<sup>5</sup> or 4% of the video market. And that does not count the homes to which the Bells and rural telephone companies offer video services.

Contrast this to the Bell monopolies that reap roughly 90% of the revenue in residential and small business telephone market.

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<sup>4</sup> *In re Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming*, Twelfth Annual Report, FCC 06-11 ¶ 5 (Mar. 3, 2006).

<sup>5</sup> Comments of Broadband Service Providers Ass'n, filed in MB Docket No. 05-255, at 7 (Sept. 19, 2005), available at [http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native\\_or\\_pdf=pdf&id\\_document=6518159633](http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6518159633).

**False Claims #6, 7, 8: Independent “consumer” and “civic” groups support the Bell sponsored legislation.**

**Fact:** The media have widely reported on the Bells’ use of phony consumer and academic groups claiming to be independent organizations. In reality, these groups are the paid mouthpieces of the phone companies. They include:

**ASTROTURF ORGANIZATION # 1 -- Consumers for Cable Choice:** This purported consumer group is led by Robert K. Johnson, a long-time consultant to AT&T who, ironically, was called a “hired gun” by Verizon before the SBC-AT&T merger. The group has only admitted to receiving \$75,000 from Verizon and approximately the same from AT&T in “seed money,” but the organization refuses to disclose how it is able to pay for print ads<sup>6</sup>, radio ads<sup>7</sup>, “consumer forums,” and studies<sup>8</sup> in Washington, DC and numerous states. Here’s what others have said about Johnson:

- “‘Consumers’ Voice,’ the Indianapolis-based outfit Johnson leads, should really be named ‘AT&T’s Voice.’ At a recent National Conference of State Legislatures meeting, a representative from this group admitted that it is entirely supported by AT&T. Moreover, Consumers’ Voice has no state chapters or affiliates. Johnson actually is an AT&T hired gun who’s also active in New Jersey and Virginia.”<sup>9</sup>
- “‘Consumers’ Voice, a self-described watchdog group fighting controversial broadband legislation in Washington, receives most of its funding from AT&T but does not disclose the connection on its Web site or in its ads. . . . Mr. Johnson has no problem claiming to be a consumer group while receiving corporate money.”<sup>10</sup>
- “‘Consumers for Cable Choice is funded to a large extent by phone giants Verizon and SBC, which are set to offer TV service to millions of customers but want the rules changed so they don’t have to jump through as many regulatory hoops as cable companies.”<sup>11</sup>
- “‘To many observers, CCC is merely a veiled attempt by SBC and Verizon to add legitimacy to their lobbying efforts in state legislatures and in Congress. Rather than a grass-roots group, they dub CCC an ‘Astroturf’ group. ‘This is obviously a front group for those companies interested in breaking into cable,’ said Grant Smith, executive director of Indianapolis-based Citizens Action Coalition.”<sup>12</sup>

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<sup>6</sup> *Roll Call*, Feb. 14, 2006.

<sup>7</sup> “Changing Rules of Monopoly,” *Philadelphia Inquirer*, Nov. 21, 2005.

<sup>8</sup> “Broadband Video Access And Economic Advancement: Cable’s Unrealized Potential for Big Impact on Small Business” prepared by the California Small Business Education Foundation (October 2005).

<sup>9</sup> Letter to Editor from the President of Verizon Maryland, Inc., *Cumberland Times-News*, August 16, 2002

<sup>10</sup> Verizon New Jersey Press Release posting “In the News AT&T Ventriloquist Behind Voice?,” *Electronic Media*, May 21, 2001.

<sup>11</sup> “Cable ‘Coalitions’ Sketchy,” *San Francisco Chronicle*, Nov. 2, 2005.

<sup>12</sup> “Cable Firms Call Foe a Phony,” *Indianapolis Business Journal*, Nov. 21, 2005.

- “A group that calls itself ‘New Jersey Consumers for Cable Choice’ would not exist if it were not for continued cash infusions from Verizon.”<sup>13</sup>
- Verizon has itself called Mr. Johnson, the head of the organization, a mere hired gun, and repeatedly sought to discredit him for failing to disclose his previous relationship with AT&T (when AT&T was a CLEC fighting the Bells on the telephone competition rules.)

**ASTROTURF ORGANIZATION #2 -- American Consumer Institute:** The Bells point to ACI as a source to validate their advertising claims about cable prices, without disclosing the financial relationships of the organization. ACI’s independence on the issue of cable competition is questionable. Several of the group’s “experts” are actually consultants, many with ties to the telephone industry.

- The group’s head, Steven Posciask, also runs a firm called TeleNomic Research that regularly takes positions that support the Bell companies.
- Bruce Hahn is President of the American Homeowners Grassroots Alliance (AHGA), an organization active in pushing the Bells’ agenda on video franchising. According to its website AHGA “will not disclose any information whatsoever about their members, customers, or supporters to any other parties under any circumstances.” What is Hahn hiding?
- Mitch Wilk is a telecommunications industry consultant for the firm LECG.<sup>14</sup> LECG has been representing the Bells in the wireless industry, particularly in California, where Wilk formerly served as President of the California Public Utilities Commission. The client list includes AT&T Wireless Services, Inc.; Pacific Bell Wireless LLC dba Cingular Wireless, LLC; Verizon Wireless; and the Cellular Carriers Association of California.<sup>15</sup>

**ASTROTURF ORGANIZATION #3 – The Internet Innovation Alliance:** Co-founded by AT&T,<sup>16</sup> IIA has shifted its policy focus in light of the Bell merger. At its inception when it was fighting the Bells on behalf of then-CLEC AT&T, the IIA sought help from the cable industry and acknowledged to the cable industry that it was really an AT&T front group.

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<sup>13</sup> “Verizon campaign raises questions,” *Bergen County Record*, Jan. 24, 2006.

<sup>14</sup> <http://www.lecg.com/website/LWBios.nsf/OpenPage/G.MitchellWilk>.

<sup>15</sup> See, [http://www.cpuc.ca.gov/PUBLISHED/COMMENT\\_DECISION/53090-02.htm#P241\\_45001](http://www.cpuc.ca.gov/PUBLISHED/COMMENT_DECISION/53090-02.htm#P241_45001);  
[http://www.cpuc.ca.gov/PUBLISHED/COMMENT\\_DECISION/36615-05.htm](http://www.cpuc.ca.gov/PUBLISHED/COMMENT_DECISION/36615-05.htm).

<sup>16</sup> *National Journal*, Oct. 30, 2004 (“To advocate its position, AT&T is doing what it has done on many occasions in the past -- create coalitions. AT&T is a co-founder of the Internet Innovation Alliance.”)

- In an investigative report commissioned by the NCTA, Larstan Business Reports found:
  - “[After the merger,] IIA shifts its focus from opposing rules that enrich the Bells at AT&T’s and other Bell competitors’ expense, to advocating rules that enrich the Bells. ... Earlier, the IIA publicly derided the Bells for seeking to keep in place ‘legacy access charges and subsidies’ on companies offering competitive phone service. Today, not only is IIA utterly silent about these Bell subsidies, but the group actually advocates Bell entry into video services on terms that favor them over other competitors – terms which call for an end to local oversight and anti-discrimination strictures that other competitors must observe.”<sup>17</sup>
- ***The FLIP-FLOPPERS: Phoenix Center for Advanced Legal and Economic Public Policy Studies:*** Prior to the AT&T/SBC merger, the Phoenix Center frequently lambasted the Bell monopolies in their research.<sup>18</sup> Since the merger, however, the Center appears to be following the money, and now actually *supports* the Bells’ deregulatory agenda.<sup>19</sup> “‘Everyone has to make a living in this town,’ Phoenix Center[’s] Executive Director...said in reference to contributions from AT&T and the Bells,’” reported *National Journal’s Technology Daily* in November 2005.

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<sup>17</sup> *Larstan Business Reports* (Nov. 2, 2005) (an investigative report commissioned by NCTA).

<sup>18</sup> *See, Phoenix Policy Paper No. 15*, September 2002 (“Increasing and protecting profits is the goal of the Bell Companies, not the altruistic promotion of consumer benefits realized from the rapid introduction of competition into the local exchange market. Policymakers should not ignore this fact.”); *Phoenix Policy Bulletin #3*, March 19, 2003 (“[B]ecause the concept of ‘[b]roadband’ has become nothing more than a smokescreen that provides a massive loophole for the [Bells] to retain and exploit their market power over ‘last mile’ facilities, ‘symmetrical’ regulation in the face of asymmetrical market power is bad public policy and fundamentally adverse to U.S. consumer welfare.”).

<sup>19</sup> *See generally, Phoenix Center Policy Paper #23*, September 2005.

## Appendix: Bell Monopolies Increasing Prices

NCTA consistently has urged government to “regulate down” rather than “regulate up” and doesn’t argue for price regulation of competitors. However, when the Bells misleadingly challenge cable pricing, it’s only fair to examine their own pricing behavior. At the same time the Bell telephone monopolies are promising to bring lower prices to video services, for instance, they’re lobbying state legislators for permission to hike phone rates. For example:

- **OHIO** – Last year the newly-merged SBC/AT&T pushed through an “alternative regulation” bill giving them “pricing flexibility” – code word for permission to raise rates.<sup>20</sup>
- **TEXAS** - In the much-touted bill that allowed AT&T and Verizon statewide franchises to offer video, the Texas lawmakers also gifted the Bells the right “to raise their basic local rates.”<sup>21</sup> And they delivered when AT&T announced its plans to raise basic phone rates for thousands of Texans in May 2006.<sup>22</sup>
- **INDIANA** - Governor Mitch Daniels just signed an AT&T-backed bill that “will remove price caps on local telephone service [and] take significant telecommunications oversight away from the Indiana Utility Regulatory Commission.”<sup>23</sup> No rules + no oversight = no chance for consumer savings.
- **MISSOURI** – After the legislature relaxed rate regulations on AT&T, the company increased its phone rates to 90% of its business customers,<sup>24</sup> costing consumers \$5 million more per year.
- **FLORIDA** – After pushing through phone deregulation legislation, in 2005 the Bells imposed on Florida consumers what may turn into the largest local phone service rate hike in the state’s history, costing consumers almost \$300 million more a year.<sup>25</sup>

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<sup>20</sup> Public Utility Commission of Ohio, “2005 End of Year Review.”

[http://www.puco.ohio.gov/puco/mediaroom/annualpublications.cfm?doc\\_id=1679](http://www.puco.ohio.gov/puco/mediaroom/annualpublications.cfm?doc_id=1679)

<sup>21</sup> Terry Maxon and Sudeep Reddy, “Bill would clear way for TV by phone line.” *Dallas Morning News*. August 11, 2005.

<sup>22</sup> “AT&T raising basic phone rates in May,” *Austin American-Statesman*, (March 11, 2006) (“The increase is possible under a law passed last year that ended state regulation of phone rates in markets where there is significant competition.”).

<sup>23</sup> Lesley Stedman Weidenbener, “Telecom bill promises big changes.” *Louisville Courier Journal*, (February 27, 2006).

<sup>24</sup> SBC Tariff, filed February 21, 2006.

<sup>25</sup> *Sarasota Herald-Tribune*, “Phone Rate Hike Receives Court OK,” July 8, 2005.

But this is nothing new. For years the Bells have been hiking prices using hidden fees and add-on services such as call waiting and voicemail.

- Bell companies **increased rates nearly 300%** between the divestiture of Ma Bell, and 2002.<sup>26</sup>
- Although consumers increasingly have dropped their wireline service in recent years, Bell revenues from extra fees and services have **increased by hundreds of millions of dollars each year**.<sup>27</sup>
- While the average bill for local phone service has remained fairly constant over the last decade, fees for subscriber line charges and other services have nearly doubled, resulting in a nearly **25% increase in the average monthly bill**.<sup>28</sup>
- Increases in the *total* price for local phone service have outpaced inflation by a significant margin in four of the last five years, often double **and sometimes triple increases in the Consumer Price Index**.<sup>29</sup>
- The charge for local directory assistance has **increased 1,800%** since Divestiture, and the Bells' typical fee for the "call waiting" feature is **48 times its cost**.<sup>30</sup>
- In 2004, the Bells began to charge, with no advance notice, their DSL customers an **additional "regulatory cost recovery fee"** for Universal Service Fund payments, even though there was no new fee or rule imposed by regulators.
  - BellSouth - \$2.97 per month, April 2004<sup>31</sup>
  - SBC (now AT&T) - \$1.84 per month, February 2004<sup>32</sup>
  - Verizon – 10% of customers' monthly bill, November 2004<sup>33</sup>
- Illinois customers saw SBC increase their rates for **local toll calls (20%)** and local and long-distance **directory assistance (32%)** in 2004.<sup>34</sup>

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<sup>26</sup> New Networks Institute, 2002, <http://www.newnetworks.com/roadmap.html#7>

<sup>27</sup> Federal Communications Commission, "Telecommunications Industry Revenues," 2000-2003, Table 6. <http://www.fcc.gov/wcb/iatd/lec.html>.

<sup>28</sup> Federal Communications Commission, "Statistics of Communications Common Carriers," November 7, 2005, p. 145, [http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/DOC-262086A1.pdf](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-262086A1.pdf).

<sup>29</sup> *Id.*, p. 144.

<sup>30</sup> New Networks Institute, "Teletruth Act of 2002: It's Time to Break Up the Bells," 2002. <http://www.newnetworks.com/breakuparticle.htm>

<sup>31</sup> Jim Hu, "Stealth DSL price increases loom," *ZDNET News*, April 6, 2004. [http://news.zdnet.com/2100-3513\\_22-5185215.html](http://news.zdnet.com/2100-3513_22-5185215.html)

<sup>32</sup> *Id.*

<sup>33</sup> *The Washington Post*, "The Hidden Cost Of High-Speed Internet," June 15, 2004.

<sup>34</sup> "SBC hikes 'extras' post-price control; Competition fails to keep phone rates down," *Crain's Chicago Business*, June 21, 2004.

- On the very same day that Ohio regulators allowed SBC to increase the wholesale lease rates it charged to its competitors, the company raised rates on 26 different residential and small business services, some by as much as **90%**.<sup>35</sup>
- In January 2005, Qwest took Colorado consumers for up to an extra **15%** on all home phone service plans with features such as call waiting.<sup>36</sup>
- In Massachusetts, Verizon **tripled** its directory assistance charges and **more than doubled** the charge for an unlisted number –\$2.03 to \$4.95.<sup>37</sup>
- In Ohio, SBC’s prices for call forwarding, 3-way calling and repeat dialing rose to \$5.99 monthly from \$5, with per-use rates for these features **rising 33%**.<sup>38</sup>
- In Texas, AT&T announced that it will increase the phone rates for 30% of its customers by \$1.90 to \$2.65 per month for those customers who add features like Caller ID.<sup>39</sup>

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<sup>35</sup> Competition Ohio Press Release, “SBC Breaks Promise of ‘No Consumer Price Increases,’” March 25, 2005.

<sup>36</sup> “Qwest Rolling Out Rate Hike: Feb. 7 Increase Will Affect Home Phone Packages,” *Rocky Mountain News*, January 11, 2005.

<sup>37</sup> *The Boston Herald*, “Verizon to charge more for assistance,” March 2, 2005.

<sup>38</sup> *Communications Daily* July 7, 2005.

<sup>39</sup> “AT&T Raising Basic Phone Rates in May,” *Austin-American Statesman* (Mar. 11, 2006).