

The Utility Reform Network (TURN)
Regina Costa, Telecommunications Research Director

Presentation to the Informational Hearing
Telephone Service Outages and Infrastructure Needs
Senate Energy Utilities and Communications Committee
February 4, 2011

- Good morning and thank you for the opportunity to speak.
TURN Commends the Committee for acting swiftly to address this serious issue.

•As noted in the Background paper prepared by Committee staff, problems with inadequate repair and maintenance of AT&T's copper plant are not new.

-In the 1990's customers in Silicon Valley desiring second lines to receive Internet Service could not receive them because the company did not have sufficient plant in place to provide them.

-In the late 1990's, following the acquisition of Pacific Bell by SBC, Pacific Bell began implementing its DSL service. TURN received numerous phone calls from employees stating that the most experienced employees were being transferred to the Advances Services Affiliate, with lesser experienced technicians being assigned to repair of basic service.

-The CPUC documents cited in the Background paper show that the Commission was concerned that the failure of Pacific Bell – now AT&T – to meet service quality standards was due to inadequate workforce. This concern was raised throughout the last decade.

-Most recently, SB 1375 was proposed to address the “warm line” issue – arising from phantom phone calls being made to 911 service from unoccupied dwellings. Phantom phone calls occur when plant is not properly maintained. So, the fact that they occur with enough frequency to interfere with emergency service operations was a sign of things to come.

Upshot: The terrible situation in Los Angeles was a long time coming.

•The question we are all asking now is, why did this happen?

•It is important to consider the incentives that Verizon and AT&T operate under.

-The shift to incentive regulation and the now nearly complete deregulation of the these companies, coupled with inadequate regulatory oversight, created the conditions for this breakdown in service to occur. The assumption on the part of both California and federal regulators was that “the market will take care of it.” Well, the proof is in the pudding.

-This situation was anticipated. A 1996 report from the National Regulatory Research Institute, a research body established to support the efforts of state utility commissions, stated:

Newer forms of regulation focus on prices rather than costs to allow companies to become more efficient and better able to face competition. But a company that wants to reduce its outlays for capital and labor might be tempted to cut quality as well, and this at a time when new technologies are promising unprecedented quality improvements. In a competition marketplace, customers have a choice of providers and can easily switch from one to another. Where competition does not develop quickly, a price cap form of regulation can lead to an essential telecommunications provider cutting service quality expenses.¹

• Key factor: Our two largest telephone companies are part of very large telecommunications companies with telephone operations in many states.

-The squeaky wheel gets the grease. States with tougher standards or where there is comparatively more oversight will get more resources invested in telephone plant and maintenance.

•Key factor: The deregulated telephone companies have a powerful incentive to focus the resources that are available on their high speed broadband and video services and then claim that the landline service just doesn't pay its way.

-Claims about access line loss should be taken with a grain of salt. How many customers have AT&T/Verizon migrated from their PSTN networks to U-Verse and Fios, Respectively? How many customers have they migrated to their wireless affiliates?

¹ National Regulatory Research Institute, *Telecommunications Service Quality*, March, 1996, pp. 4-5.

-U-Verse and Fios are not deployed to all areas of the AT&T/Verizon service territories. Many customers who are still on the copper network need lines that are properly maintained.

•Neither the CPUC or the Federal Communications Commission (FCC) collect data that is sufficient to determine the root of the outages that occurred in the Los Angeles region, or to assess whether the networks in general are being adequately maintained.

Key question: are the deregulated telephone companies investing sufficiently in plant and do they employ an adequate workforce?

-In 2007, AT&T asked the FCC for permission to stop reporting service quality data. They were supported by the other multi-state, former Regional Bell Operating Companies. The FCC granted that request in 2008.

-Because of this, it is now difficult if not impossible to obtain data to analyze key information related to service quality, for example, changing trends in the number of employees in relation to the number of access lines. That data stopped in 2007.

-The California data on trouble reports and outages can show that there is a problem But, as I expect DRA will discuss, there are problems with that data and whether it is consistently reported. The data can be misleading. The other question is whether the CPUC is willing or able to put sufficient resources into ensuring that carriers comply with reporting requirements and then evaluating the information they receive. In the past several years, we don't believe the Commission gave this sufficient attention.

-CPUC data does not get to the fundamental information about plant maintenance and levels of investment.

-California has by far the largest population of any state. The available data does not show whether the revenue received from California customers is invested in California telephone plant and adequate staffing.

-When you have a multi-state telephone company, this is essential information.

•CPUC processes – The deck is stacked against consumers

-Complaint tracking is inconsistent, so it is difficult to obtain evidence to delve into service quality issues. I believe DRA will address this in more detail.

-Complaint process – the burden of proof is on the customer filing a complaint, and they are not permitted to meet with decision makers.

-Investigations and Rulemakings – During the last decade, telecom proceedings have been considered on an extremely expedited basis, with inadequate time to

fully pursue discovery and very few evidentiary hearings. Getting to the bottom of service quality problems takes more time and effort than the CPUC's process has permitted. Getting to the bottom of issues like manipulating trouble report data requires multiple rounds of discovery and this cannot be accomplished in a compressed schedule that allows three weeks for reply comments. This, coupled with the lack of adequate data has made bringing service quality investigations to the Commission very difficult.

- There should be further inquiry into the root cause of the significant outages in the Los Angeles area as well as whether similar problems exist in other regions. The inquiry should also address the broader issue of whether investment in telephone plant is sufficient and whether the copper plant is adequately maintained.

Such an inquiry should retain an independent expert, well versed in outside plant. If copper plant is poorly maintained, to determine this requires investigators to examine poles and aerial cable and go into manholes to inspect the plant. The investigators need to know what they are looking at. We do not believe the CPUC at this point has this type of expertise.

•Key questions for an inquiry to consider

1) How are resources for plant investment, maintenance and repair allocated?

- Between states; and
- Within states

2) Does California management make decisions about resource allocation in California, or are such decisions made by national management?

3) How is a multi-state telephone company's construction budget allocated across states?

- On a state-by-state basis?
- Or on a regional basis?

4) When a California customer calls AT&T or Verizon to report a problem, where is that trouble call received?

- In California?
- In another state?

5) Where are garages where service technicians are dispatched located? (This can affect response times within a region.)

6) Key question: Is selective maintenance occurring?

- 7) Are investment maintenance and repair targeted to areas where U-Verse or Fios are deployed?
- 8) In area where both U-Verse/Fios and copper are deployed, do trouble reports for the advanced services take priority over trouble reports for basic phone service on the copper network? What were/are service restoration times for basic phone service compared with those for U-Verse/Fios?
- 8) Is Redlining taking place with respect to investment, maintenance and repair?
- 9) How do “hours out of service” compare for U-Verse/Fios vs. circuit switched phone service?
- 10) How many AT&T/Verizon customers who lost dial tone for a week or more were offered U-Verse as a restoration opportunity?

These are some of the fundamental questions TURN believes should be addressed in a full inquiry.

Thank you for the opportunity to speak.