

Essential Policies for Telecom Competition

Public Utility Research Center
Winter Conference

Remarks of Ron Binz, Competition Policy Institute

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Competition Policy Institute

CPI is an independent, non-profit organization that advocates state and federal policies to bring competition to energy and telecommunications markets in ways that benefit consumers.

- Founded in 1996 by Debra Berlyn and Ron Binz
- Advised by a committee of leading consumer advocates from across the country
- Funded by grants from a variety of energy and telecommunications companies and associations
- Complete information at <www.cpi.org>

“What I shall say here today is neither difficult nor contentious. The only merit I should like to claim for it is that of being true -- at least in part.”

J. L. Austin

How To Do Things With Words

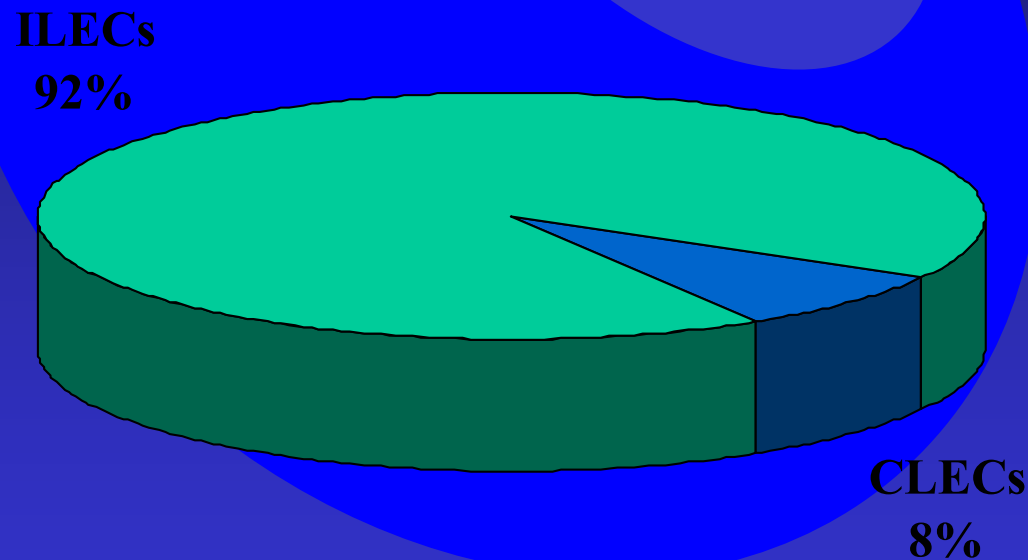
Some questions...

- What is the status of competition in telecom markets?
- What do consumers want?
- Is the model in the Telecommunications Act of 1996 still valid?
- What barriers to competition remain?
- Are other models worth looking at?

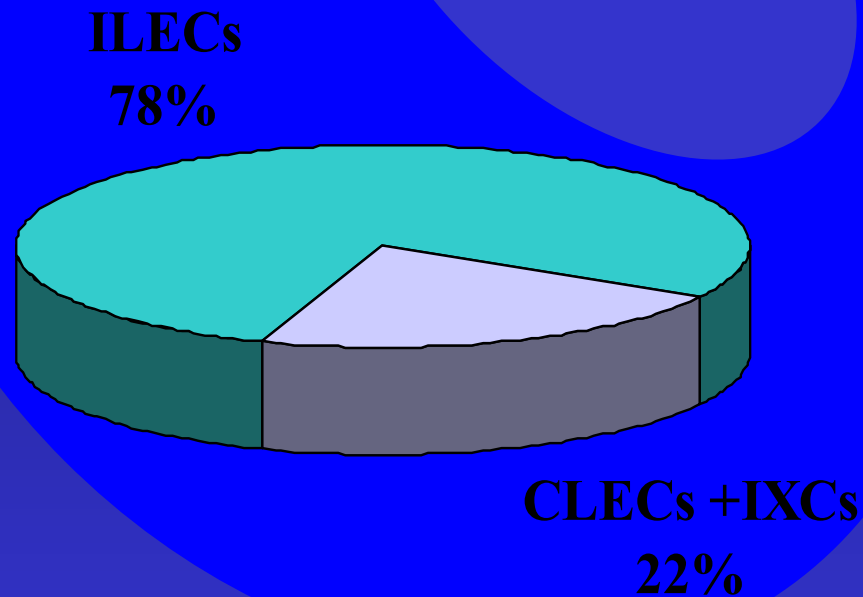
Effects of telecom liberalization

- Wholesale
 - Infrastructure investment
 - New technologies
 - Increased efficiencies
- Retail
 - Customer choice
 - New services and applications
 - Rationalization of prices

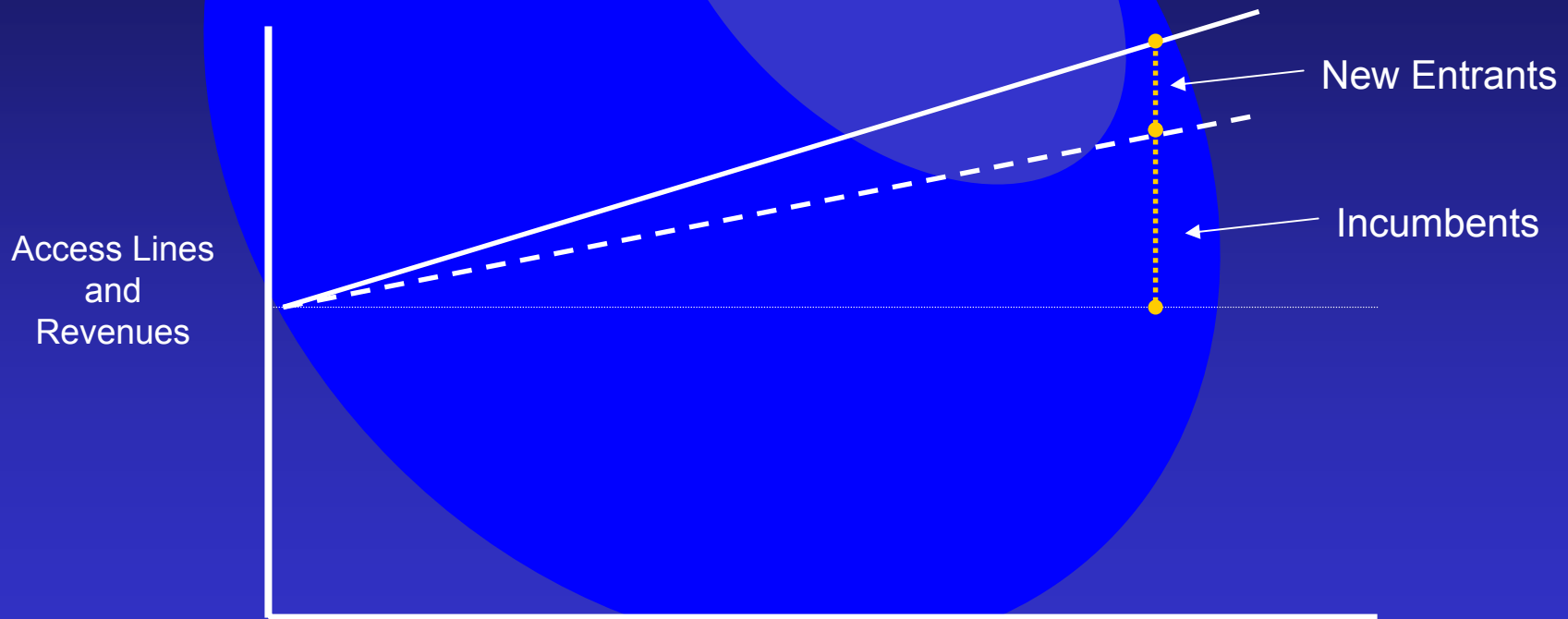
To date, CLECs have gained about 8% market share of local service



ILEC competitors are serving about 22%
of the 2.5 million DSL lines in service



The growth in local competition



While their market share is growing, CLECs are still capturing less than the growth in telecom revenues.

While local competition is growing...
...it has a long way to go.

To gain just 30% of the nation's access lines
over the next four years,

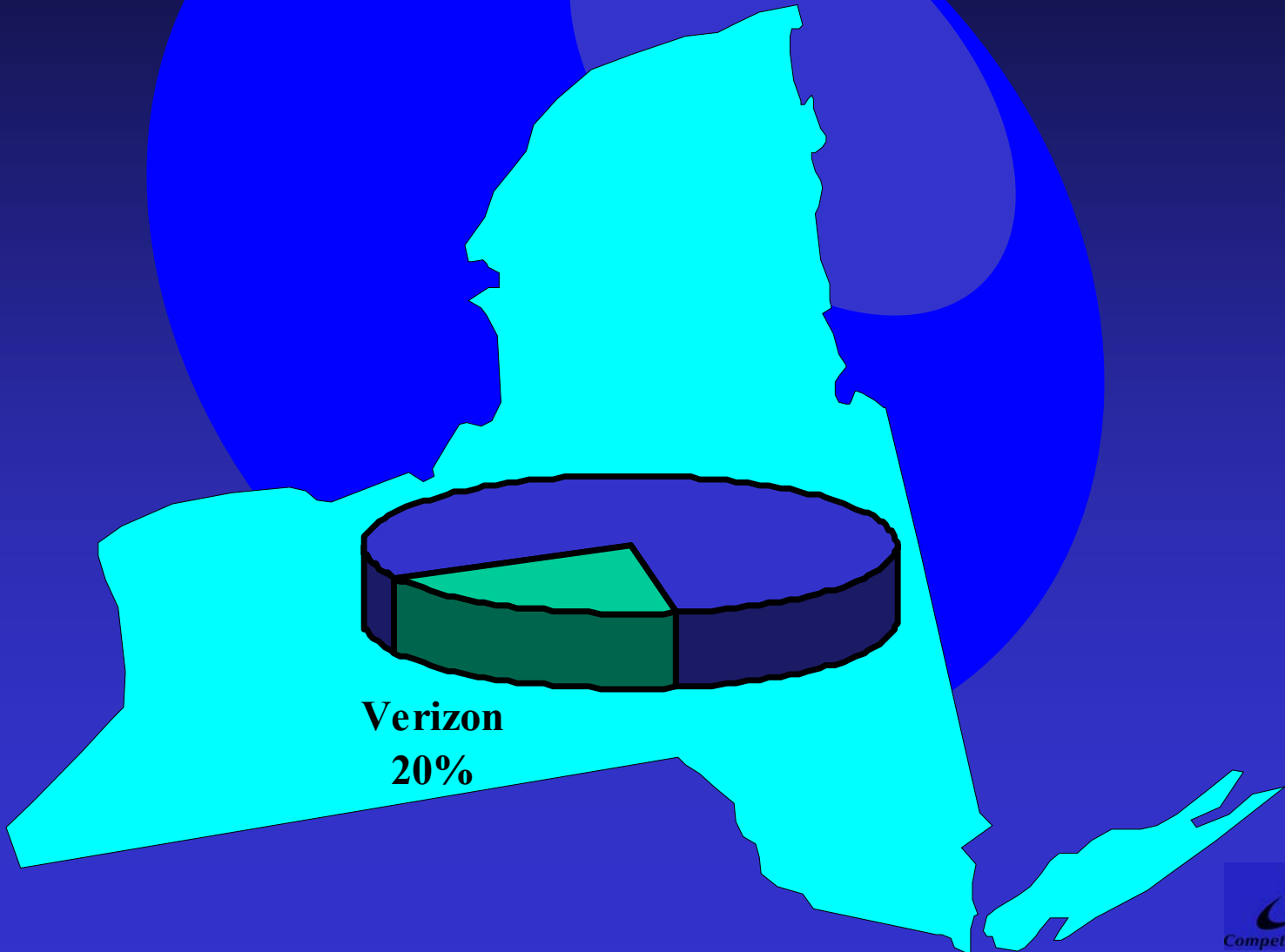
CLECs will have to add **48,000** net access lines
every business day for the next four years.

(The current pace is about 19,000/day.)

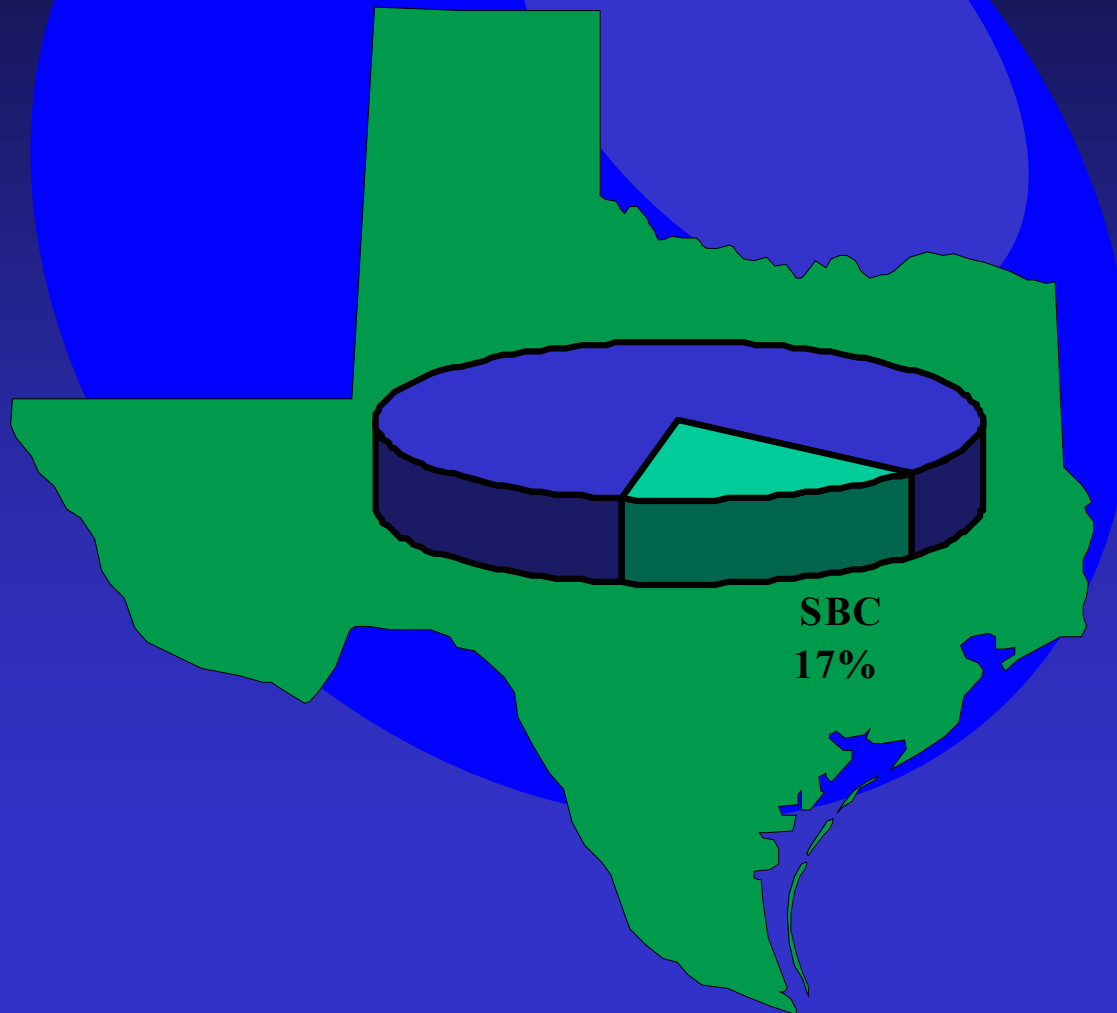
RBOC Long Distance Re-entry

- FCC has approved LD re-entry in 4 states: New York, Texas, Oklahoma and Kansas.
- Perhaps eight more states are in queue.
- New FCC administration may be signaling intent to adjust standard for ' 271 approval.
- How are Verizon and SBC doing in New York and Texas?

Verizon captured 20% of the New York LD market in 12 months following entry



In Texas, SBC obtained about 17% of the LD market in its first 6 months



What do consumers want?

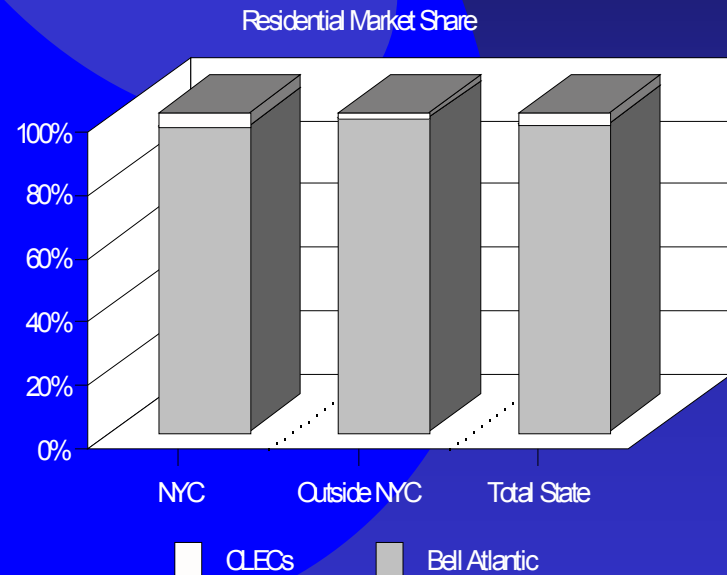
- There is a spectrum of consumer demand (and it is probably widening).
- Most consumers want a choice of providers.
- Almost paradoxically, consumers value simplicity.
- No compromise on quality and reliability.
- Consumers expect fair prices and predictability.

Caveat: Consumer demand is not immutable.

Despite overall gains, *residential* local exchange competition is in its infancy...

From a Fall 1999 CPI survey...

- New York may be the most competitive state
- Only 3% of New York residences had switched
- Outside NYC Metro, only 1.5% had switched
- Two-thirds were unaware of a competitor



Is the model found in the 1996 Telecommunications Act still valid?

- What has functioned as predicted?
- Which expectations were wrong?
- What occurrences were unknowable?

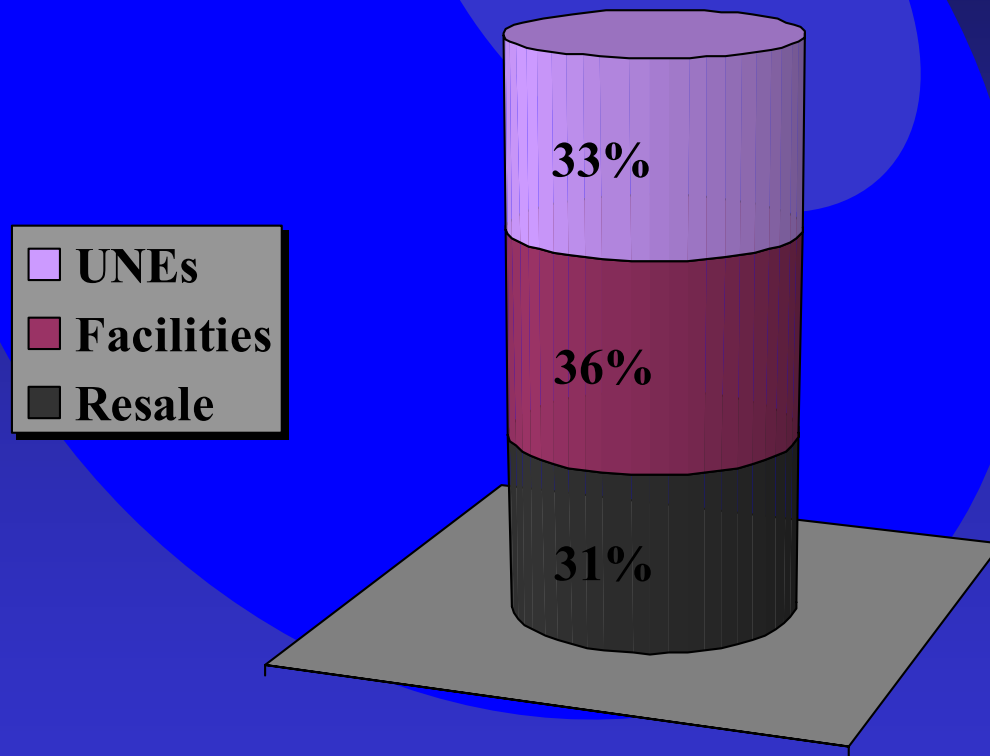
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Revisiting the checklist...

- i. Interconnection
- ii. Access to network elements
- iii. Access to poles & ROW
- iv. Local loop transmission
- v. Local transport
- vi. Local switching
- vii. Access to DA and E911
- viii. White pages listing
- ix. Access to numbers
- x. Access to databases
- xi. Number portability
- xii. Local dialing parity
- xiii. Reciprocal compensation
- xiv. Services for resale

CLECs use the three modes of entry at nearly equal rates



Mistaken or missing assumptions in 1996...

- Role of cable companies in local competition
- Influence of the Internet
- Role of wireless
- Market arrangements (*e.g.*, recip comp)
- Pressures & opportunities for consolidation
- Practical difficulties in opening the local exchange
- Strength of §271 incentives (*see date certain language*)
- Persistence of regulation
- Growth of data networks

Some important trends...

- Consumer telecom spending continues to grow
- Data is dominating the network
- High speed Internet access, especially “DSL,” has become socialized.
- Local competition occurs mainly in business markets

Remaining barriers to competition...

- Capital constraints on CLECs
 - Access to Equity Markets
 - CLEC market cap has fallen 63% since peak in 1999
 - Venture capital
 - Remains relatively available
 - Strategic Investment Partners
 - Much less activity in this sector
- Lack of full implementation of 1996 Act
 - In only 4 states have BOCs been judged to have opened markets sufficiently for '271 approval
 - Court challenges continue to pricing rules of FCC

Remaining barriers to competition...

- **Small Margins for Residential Service**
 - Mass market character of service
 - Variance in demand
 - Variance in costs
 - Lack of universal service mechanism
- **Other Barriers**
 - Building Access
 - Large percentage of customers are located in MTEs
 - Emergence of BLECs
 - Wireless number portability

Are other models possible?

- ILECs want data “relief”
- CLECs want complete and stronger enforcement of §251
- IXC's are shifting their focus
- Consumers still want choices and are gradually adding new services
- Political landscape is changing

Some conclusions...

- Until a superior alternative appears, policy makers should stay the course with the incentives of the 1996 Act.
- The changing alignment of players and evolving markets could offer some political compromises to modify the policy structure provided by the 1996 Act.
- Robust growth in competition for medium and large business customers will continue
- Competition for most residential local customers is not assured and will depend on changing demand patterns.
- Consolidation among competitors appears inevitable.