



TELECOMMUNICATIONS POLICY BRIEFING

November 6, 2003

As State's Implement FCC's Triennial Order, Baby Bells Plan \$40 Million Lobbying Blitz

As state regulators move to meet the terms of the Federal Communications Commission's (FCC) Triennial Review Order, recent press reports have exposed an effort led by Verizon and the nation's Baby Bells to spend as much as \$40 million to lobby Congress to scrap the current telecom regulations that have led to brand-new competition in the local telephone market.

Last month, high-level officials from the country's four Baby Bells joined representatives from firms that sell hardware and high-tech gear to the Bells to discuss a major lobbying offensive designed to push Congress to end government regulation of the telecom sector as set forth in the 1996 Telecommunications Act - specifically the Unbundled Network Element Platform (UNE-P) and the TELRIC pricing formula.

UNE-P and TELRIC have been used effectively by state regulators to remove barriers set by the Bells to inhibit competition in the local phone market.

Worse than the effort itself is the Bells attempt to coerce suppliers into helping to fund the major lobbying blitz. "Carriers and manufacturers are interdependent," wrote Walter McCormick, President of the U.S. Telecom Association, which sponsored the gathering. "If we (the Baby Bells) grow, we buy and then they (manufacturers) grow as well."

The meeting to discuss the proposed \$40 million lobbying campaign is another in a quiet, months-long effort by the Bells to press lawmakers into changing current

telecom rules, using the Bells size and market strength as leverage to end regulations that have helped create competition and lower local telephone prices across the country.

UNE-P and TELRIC have been used by state regulators to set fair wholesale rates at which competitive providers can lease access to the Bells networks and switches to offer their own local telephone service. Here in New Jersey, the Board of Public Utilities (BPU) successfully applied TELRIC to force Verizon to lower its wholesale rate by more than 40%. Prior to BPU's decision last summer, no competing firms offered local phone service in New Jersey. Since the decision, at least four carriers are now offering service here, helping to spur competition. New Jersey consumers and small business can now take advantage of bundled service plans, lower prices and better service.

The Bells claim current rules create "government-managed competition." The reality is, without these rules, there would be no competition at all, given the Bells past and current track record to embark on competition-ending initiatives like the planned lobbying blitz.

Fostering competition, even by creating artificial environments in which competition can grow, is imperative. That's what Congress authorized the FCC to do in passing the Telecommunications Act of 1996 - create an artificially competitive market until true competition could take root. True we may be seeing the benefits of an artificially competitive market now, but at least, for the first time in the local sector, we're seeing some benefits.

Consider:

- UNE-P regulations require the Baby Bells to lease access to their networks to competitors so those competitors can gain market share. UNE-P has led to the "all-in-one" package becoming so prevalent today, in which consumers can get local, long distance, broadband and even wireless services all on one bill. Studies show these bundled services save consumers as much as \$15 per month in telecom costs.
- The TELRIC pricing formula has enabled state regulators to take hard data and set fair wholesale access rates the Bells can charge competitors. This formula seeks to ensure the Bells are able to collect their costs plus a reasonable profit. Studies have shown the Bells make nearly \$700 million in *profit* from lease payments by competitors each year.
- UNE-P and TELRIC have led to an increased market share among non-Bell providers - up from less than 6% of the total market two years ago to nearly 15% today. Several studies have put the savings to consumers

nationally in the billions of dollars each year as a result of this new competition.

- A study by the *Phoenix Center* shows that competition is also good for network and infrastructure investment - by both the Baby Bells and non-Bell providers. The Bells spend an average of \$759 more per year in network investment for every customer they switch to a competitor. The non-incumbent providers have traditionally spent far more than the Bells (in relation to profit) on network investment and will only invest more as they grow market share and amass capital to build their own networks.

To quote Congressman Edward Markey (D-Mass), a member of the House Energy and Commerce Committee, "The Bells are still pining for the old days (when they were monopolies in their markets). The digital economy is not going to thrive, create jobs and promote innovation and investment if it is embodied by the cozy community of a few big carriers."