PURC Telecommunications Roundtable

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Fred McCallum
V. P. Regulatory and External Affairs
BellSouth

Communications Markets are Competitive

- Voice
  - 175 million wire-lines in service
    - 18% served by CLECs
    - More than 10 operating CLECs in all states except Alaska and Hawaii
    - ILEC lines dropped to 143 million in 2005 from 181 million in 1999
    - Despite elimination of UNE-P, BellSouth continues to lose lines at a rate of 6-7% per year
  - Cable and Over the Top VoIP forecasted to grow to 26 million by 2010 (Yankee Group)

Wireless Communications Keep Growing and Growing . .

- Over 200 million wireless lines in service
- Instant messaging and text messages grew from 4.66 billion for month of December in 2004 to 9.76 billion in December 2005 – total of 81 billion in 2005

High Speed Internet Access Growth

- High Speed access lines grew 33% in 2005
- Current Residential Share
  - Cable modem 57.5%
  - ADSL 40.5%
- 99% of the U.S. Population has access to at least one high speed access provider
- 65-70% of the U.S. population have access to more than 4 high speed access providers

Video

- As of mid-2005, 40% of households could choose between telco and cable company for voice service, but only 4% have two choices for wired video service
- Where wireline competition exists, rates are 15% to 40% lower

Convergence is Happening

- Triple and quadruple play services on converged platforms
- The players bring very different legacy regulatory backgrounds to the table
  - Telco – traditional dominant carrier regulation at retail level; super-burdensome unbundling requirements on wholesale offerings
  - Wireless – light touch regulation on retail and wholesale
  - Video – light touch retail regulation, little or no wholesale requirements, and burdensome LFA requirements

Asymmetry in a Converged World

- The pace of change in telecom is accelerating
  - Internet
  - VoIP
  - IP Networks
- The ability and need for regulatory asymmetry, or indeed regulation at all, in this world is questionable
  - Removing regulatory hurdles to convergence should be the goal – Titles I, II and III, separating regulated and unregulated costs, cost accounting, affiliate transaction rules, and on and on . . . .

Streamlining Video Regulation

- A streamlined franchise process is imperative
- Symmetry in franchise fees, PEG obligations, local control over rights of way
- Build out requirements on new video entrants with no build out requirements on new voice entrants is asymmetric and will delay video competition and choices for consumers
- A more rational approach is to relieve cable incumbents from buildout obligations upon wireline competition entry
- Allowing cable other relief when franchise agreements expire or when wireline competition is present is worthwhile – prior to that relief not justified

Over the Top VoIP

- Asymmetry by default – significant disparities exist as a result of “blind eye” policy towards regulation of over the top VoIP providers
- This led to significant problems in equalizing public safety and social obligations such as providing E-911 and USF support
- Numerous other asymmetries still exist – interconnection obligations, state certification requirements and regulation, Truth in Billing rules, FCC accounting rules

Conclusions

- Symmetrical regulation should equalize public safety and vital social obligations
- Asymmetry still can have a role where significant barriers to entry exist
- Otherwise, the value of asymmetric regulation is very limited, given the pace of change in telecommunications markets – focus should be on removing all economic regulation where competitive forces operate