

## **PROMISES, PROMISES: WHAT LOCAL PHONE COMPETITION?**

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So what happened to all the promises of local phone competition?

In 1996, Congress heralded a new era in phone competition when it passed the Telecommunications Act. Washington policymakers declared the local service monopoly held by Ameritech and the other Baby Bell companies over. In its place a new optical fiber "overbuild" network would be built by the long distance, cable TV and new telecom start-up companies. This network was supposed to replicate and eventually replace the copper-wired network of the Baby Bells. Soon telemarketers, interrupting dinner with pitches for cheaper dial tone and superfast Internet services, would join the annoying long-distance hawkers. The policymakers largely saw the future as a reflection of the past. They expected competition to ride in over the construction of a new, parallel, but competing, fiber optic network. That prediction has been off the mark, but the promise of competition has not. Although it hasn't occurred the way in which the policymakers thought, competition for local telephone services is evolving, although under the radar.

The business news is peppered these days with stories of the financial failures of telecom start-ups. The collapse of the telecommunications market would be truly breathtaking if the dot-com bubble burst hadn't already sucked all the air out of the room and Enron wasn't dominating the headlines. Yet we're actually about to become spectators at a virtual Wrestle Mania of competition among local phone companies.

This may sound like a pollyannaish assessment. After all, for most of us Ameritech still is the only game in town for local telephone service and many of its competitors have been stumbling like Russian figure skaters. But despite the chronicle of spectacular company failures, real competition for business and consumer phone dollars continues to grow.

It is true that the long distance and cable TV companies found the cost to upgrade their systems to provide local calls would be too dear. And the upstarts, after having had an amount of money equal to the gross national product of Australia--\$320 billion--that they invested over the last five years, are looking at a mountain of debt and 20 to 30 competitors in every major market. There just hasn't been enough phone traffic to support them all. The Internet, which was supposed to provide vast amounts of video and text content to fill all the new wires, hasn't done so yet.

Now the industry is consolidating, which is a predictable occurrence. Companies

are filing for bankruptcy, merging and closing their doors. The politicians tell us this is not what they intended so, therefore, telecom reform must be a failure, the "Enronization" of telecom competition if you will. But the "irrational exuberance" that led to overinvestment in 1996 has turned into "overstated pessimism" in 2002 with new predictions of doom.

Beneath all the headlines of telecom consolidation there is strong evidence of accelerating competition, though on a path that was not predicted in 1996. MCI is rolling out its "Local Choice" local and long distance residential calling plan in Chicago and AT&T local service is offered in four states, with Chicago slated for introduction later this year.

Despite the consolidations, there are still almost 200 competitive carriers operating around the country. There are about 35 carriers competing for Ameritech's customers in Chicago alone, which, although down from a high water mark of 50 in 2001, still suggests a pulse beats in the competitive breast. Statistics published in February by the Federal Communications Commission show that the competitive phone companies have captured about 9 percent of the total number of local lines in the country--up from 7.7 percent last year. When you consider that those carriers are concentrated in the top 50 metropolitan centers, those carriers probably have doubled their market share in those areas. Research suggests that in Chicago the competition has stripped away about 25 percent of Ameritech's best-paying business customers. Consolidation will not eliminate all the competitors and those that survive will be stronger as a result.

But what about residential competition? Residents are voters and businesses are not, so by and large politicians tend to care more about the benefits of competition for residential consumers than businesses. The FCC tells us that the competitors have poached about 5 percent of the residential customers from the Ameritechs of the world. The economics of providing traditional wired telephone service to the vast majority of residential is not encouraging and the prospects for that competition have been greatly oversold. But look at what's happening in the marketplace with wireless service. Today Cellular and PCS companies like Verizon, Sprint PCS, AT&T Wireless and Cingular are offering packages of wireless minutes in Chicago that beat the pants off of Ameritech's plain old telephone service. The actress Jamie Lee Curtis, on TV for Voicestream, cheers us on to yank out that old wire in our house and go solely for wireless. A recent survey in USA Today reported that 11 percent of Americans consider their wireless phone as their primary phone.

Competition has not developed along the lines predicted when the market was first deregulated and it certainly is not developing without fits and starts, but it is real and sure looks sustainable if you read below the headlines.