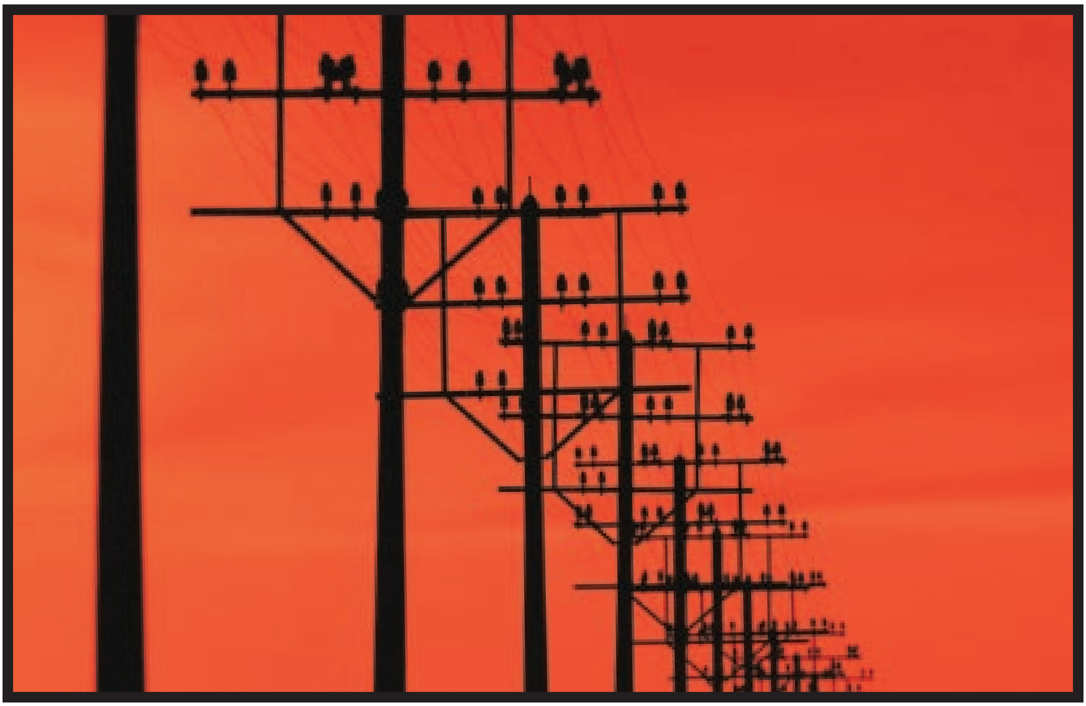
a special series report of the southern legislative conference

Telecommunications Competition in Southern States

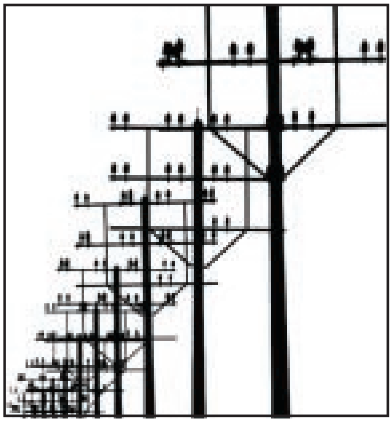


Telecommunications Competition in Southern States

A Special Series Report
of the
Southern Legislative Conference

Southern Office
The Council of State Governments

3355 Lenox Road NE
Suite 1050
Atlanta, Georgia 30326
404/266-1271
Colleen Cousineau, Executive Director



This report was prepared for the
membership of the SLC under
Speaker Tim Ford, Mississippi,
Chairman of the SLC.
Research and development of this
report was conducted by
Douglas Jacobson.

Design and layout: Jonathan Watts Hull

Contents

Introduction

In the last century, technologically advanced telecommunications networks have become increasingly accessible. From Alexander Graham Bell's first telephone to today's high-speed digital subscriber lines and Internet access, telecommunications, or telecom, has evolved from the relatively simple to the extremely complicated. The same holds true for the required state and federal regulation of this behemoth of industries. The telecommunications industry in the United States, before coming under the purview of city and state regulators, eventually fell under the control of this country's unique, two-tiered system of regulation, under which both state and federal agencies exercise supervision over the industry.

For years, competition in telecommunications, long considered an industry which operated as a natural monopoly, was almost nonexistent. Regional and national firms controlled huge percentages of the markets they served. However, the passage of the Telecommunications Act of 1996 (the Act) has changed the nature of the industry by leading the way toward competition. The Act has made it possible for start-up companies to compete with the entrenched regional monopolies which controlled the industry for decades.

Although telecommunications covers technologies as varied as cable television and the Internet, this report focuses on voice service, or POTS, plain old telephone service. This is in many ways the most basic of modern telecom technologies and the most universally adopted.

Telephone service can be divided into two important subsets: local service and long-distance service. While competition has been possible in the latter since the divestiture of American Telephone and Telegraph Corporation (AT&T) in 1982, local service has traditionally been dominated by the regional Bell operating companies (RBOCs), such as BellSouth, Bell Atlantic (now Verizon) and Southwestern Bell.[1] While the passage of the Act has been a catalyst for competition in both areas, this report concentrates on the progress of competition in the local market, with a snapshot of state initiatives in the 16 member states of the Southern Legislative Conference (SLC), the Southern regional component of The Council of State Governments. Although the information contained in this report is current as of January 2001, pending court cases and ongoing commission hearings make much of the data subject to change.

History

The growth and influence of the telecommunications industry always have been closely tied to how the industry is regulated. The Interstate Commerce Commission was established in 1910 to regulate AT&T's interstate telephone business and to ensure that telephone carriers' rates remained fair. In 1921 the U.S. Senate's Commerce Committee opined that "telephoning is a natural monopoly," setting the stage for years of government regulation protecting the incumbent providers. State regulation of telephone service arose from the very same concerns about monopolies. Municipalities awarded the first franchises, but states began to take on regulatory responsibilities in the first decade of the 20th century.[2]

By 1907 independent (non-AT&T) companies provided over 50 percent of local telephone service in the United States. AT&T countered by reducing prices in markets where it faced heavy competition, purchasing competitors, and hesitating to cooperate with smaller rivals. Many smaller companies, whose customers could not reach AT&T's network without interconnection agreements, accepted the industry giant's offer of acquisition. States took over from municipalities after AT&T merged with its operating companies and began its domination of the industry. By the late 1930s the firm controlled practically the entire long-distance market, provided 80 percent of local service, and manufactured a large percentage of telephone equipment.

The use of rival networks hindered communication among ordinary citizens and businesses, therefore affecting public safety as well as commerce. Eventually state legislatures began to require interconnection among rival networks, which were heretofore incompatible. Twenty-six states passed such laws between 1907-1913. Public service (or utility) commissions (PSCs or PUCs) were established directly after World War II to act in the public interest, not only by protecting consumers from overcharging, but also by shielding AT&T from competition in urban areas. State regulation of big business was viewed as progressive policy at this time. On the national level, the Communications Act of 1934 created the Federal Communications Commission (FCC), an agency which continues to exercise great influence upon the telecom industry. From an historical perspective, telephone regulation has shifted twice to a higher level of government, first from municipalities to states, then from states to the FCC.

The United States is the only country with dual regulatory policy over telecommunications. Many critics of this scheme have claimed that it is redundant, since state regulation before 1984 did not tend to be particularly innovative. As a result of this apparent disinterest in state capitols, Congress did not want to leave telecom authority to the states, much less federal courts and the United States Department of Justice's (DOJ) Antitrust Division, so federal legislation was the logical choice, and the 1996 Telecommunications Act the result. However, Congress gave both the states and the FCC specific powers in the 1996 Act. States must address and, if possible and/or desirable, fix telecom tax policy, since ILECs (incumbent local exchange carriers, such as BellSouth or Verizon) have traditionally been allowed to pass taxes along to customers. Some incumbent providers have been accused of seeking self-serving laws by using their influence in the state capitols, forcing competitors to seek a federal remedy. States were constrained only in their inability to set barriers to competition. However, forward-looking states see the development of the telecom industry as an economic development issue which makes them attractive to business.

The beginning of the end for telecom monopolies occurred in the mid-1970s. In 1974 the U. S. Department of Justice filed an antitrust suit against AT&T, bringing charges of monopolizing the manufacturing of phone equipment and, more importantly, the long-distance market. The government also asked for the divestiture of Western Electric and Bell Laboratories from AT&T. After an almost decade-long court battle, the two sides negotiated a consent decree in 1982 which broke up the company. In 1984 the seven RBOCs[3] were created as a result of the Modified Final Judgment. These companies, also known as "Baby Bells," were required to provide network access to long-distance carriers, but were not allowed to manufacture equipment or offer long-distance service between local access transport areas (LATAs, *see box next page*). AT&T was permitted to continue manufacturing equipment and offering long-distance service, and the company was also allowed to enter the computer market for the first time. However, the AT&T breakup was not designed to promote local service competition, since most assumed that this market would remain a monopoly.

Long-distance competition emerged slowly in the 1970s, but it took off with divestiture in the 1980s. Companies such as MCI and Sprint began to establish market share once they were able to compete with AT&T, which still serves a majority of the market. Twenty-two Bell Operating Companies reorganized into seven (now four) large regional providers. The consent decree limited their lines of development so that their local-service monopolies could not affect the development of competition in other markets. RBOCs, for example, could not offer in-region long distance or produce equipment without a waiver from a federal court. Competition in local phone service, long the realm of the RBOCs, has been slower to evolve, with many concerned that the ILECs would use local-service monopolies to cross-subsidize entry into long-distance service and utilize connections in state capitols to hinder possible competitors in the local market.

After divestiture, ILECs began to feel some competition in the local market. New companies started to compete in the late 1980s by building parallel facilities, mostly in large metropolitan areas. As late as 1994, however, 20 states still had laws or constitutional provisions barring local phone competition. However, by the same year, the great majority of SLC states had implemented some form of regulatory reform for local exchange carriers. By 1995 about half the states had adopted price caps as pricing regulation for local telephone companies. However, merely having a law or state regulation on the books allowing competing local exchange carriers (CLECs) does not ensure that local competition will thrive. For example, a 1995 Texas law required potential carriers to build their own networks, a procedure so cost prohibitive that no company was willing to take the risk. CLECs began to worry about barriers designed to hinder them from competing fairly with the incumbent providers. They started emphasizing the concept of "unbundling," or separating the costs of each service provided by the ILECs, in order to prevent the possibility of abusing cross subsidies. After price restructuring regulations were enacted, local carriers began to seek approval for infrastructure improvements. Since price regulation had a positive effect

InterLATA vs. IntraLATA

Local access transport areas (LATAs) are geographic zones created by the U.S. Department of Justice in 1984 in which a local carrier is allowed to offer local and "short long-distance" service. Their geographical boundaries depend on population sizes. Wyoming, for example, has only one LATA, while more populous states have several. Calls within a LATA (intraLATA) may be handled by the local Bell company, while calls originating in one LATA and terminating in another (interLATA) must be operated by a long-distance carrier, such as AT&T or Sprint. Once RBOCs receive permission to offer in-region long-distance service from the state PSCs and the FCC, LATAs will become insignificant.

on service, states actually cleared the path for federal deregulation. In 1989 the New York Public Service Commission blazed a new trail in telecom by ruling that CLECs could compete freely, paving the way for the most important piece of federal legislation affecting telecommunications in over 60 years, the Telecommunications Act of 1996.

The Telecommunications Act of 1996

Congress hoped that the Act, which was signed into law in February 1996, would standardize the rules of telecom service nationwide. The role of government during the transition from the monopoly stage is making competition possible by creating the conditions for CLECs to have the opportunity to vie for customers on equal footing with incumbent providers. As a result of this groundbreaking legislation, state regulators play a major role in creating an even playing field for competition. Section 251 of the Act requires interconnection agreements among incumbent and competitive carriers' networks and prohibits the installation of features and functions which do not comply with FCC guidelines. The FCC adopted the actual rules for the interconnection agreements in August 1996. In addition, all ILECs must provide access to their network elements, in other words, their facilities or equipment, on an unbundled (separately priced) basis for "just, reasonable, and nondiscriminatory" prices.

States must rule on what constitutes "reasonable" costs. In order to provide the foundations for competition, public policy must address the questions of compensation for those who built telecom infrastructure and how to set appropriate prices for competitors who want to use these networks. The monopolies which built the publicly-switched networks are generally willing to allow competitors to use these networks, but incumbents expect the newcomers to offer generous compensation. Obviously, competitors often complain that prices for access are too high. State commissions must determine fair resale rates, so competitors can purchase existing capacity from the incumbent at wholesale prices and sell to the public at a retail cost. The state public service commission (PSC) usually conducts a price study to arbitrate in this battle between the incumbent and new providers.

Factors in the Passage of the Telecommunications Act of 1996

- Congress wanted to enact legislation allowing competition for local telecommunications services uniformly in all states. Before the Act, Northern states had taken the lead in allowing competition, while Southern states lagged behind. Congress acted to even out the rate of competition across the country.

- The federal government wanted to make access to high-capacity telecom services universal and affordable, so that no one would be passed by on the information superhighway.
- Massive improvements had been made in fiber optic and signaling technologies, which made local competition more feasible. Fewer cables and less labor could be utilized to transport more data. Furthermore, since the Act has been in effect, advances in cellular technology have made wireless service a reasonable substitute for local switched service.
- The Bell companies lobbied heavily for permission to enter the manufacturing and interstate long-distance markets. Their best customers, big businesses in urban areas, were being courted selectively by the competition for local service.
- Long-distance companies pushed for inclusion into the local market, since they would soon face competition in their market as well. Cable TV companies have targeted phone service as a possible new market.[4]

State Public Service Commission Duties

Under the provisions of the Act, state authority is retained in many cases. There is one major exception. Section 253 states that "no state or local statute or regulation, or other state or local legal requirement, may prohibit or have the effect of prohibiting the ability of any entity to provide any interstate or intrastate telecommunications service."[5] However, states retain the authority to:

- preserve and advance universal service;
- protect public safety and welfare;
- ensure continued telecommunications service quality; and
- safeguard consumer rights.

The FCC is required to consult with state PSCs about whether a regional Bell company meets the Act's 14-point checklist, which spells out the local carrier's responsibilities, before the Baby Bell may serve its in-region interLATA (long-distance) market. A list of these requirements follows. According to Section 271 of the Act, the RBOCs must fulfill these conditions, as well as maintain separate entities for manufacturing, in-region interLATA, and interLATA information services.[6] RBOCs may offer out-of-region long-distance service immediately. For example, BellSouth could provide this service to states such as Oregon or Minnesota, which are located outside its traditional service area; however, most incumbent carriers have yet to attempt this on a large scale because of cost and marketing concerns. Interconnection agreements, which are legally binding contracts between incumbent and competing carriers regarding costs for network elements, are subject to PSC approval, and the state commissions also may be asked to mediate negotiations between carriers and provide arbitration if requested to do so by the relevant parties.

The Telecommunication Act's 14-Point Checklist:

1. Interconnection between RBOC networks and competitors. Carriers' central offices must be connected to each other.
2. Nondiscriminatory access to network elements on an "unbundled" basis, meaning that competitors must be able to buy only those pieces of the incumbent's network that they need for local service.
3. Nondiscriminatory access to poles, ducts, conduits and rights-of-way owned by Bell. If a utility uses its own equipment, it must charge its own providing entity the same rate that it would charge a competitor.
4. Unbundled local loop transmission from the central office to the customer's premises.
5. Unbundled transport from the trunk side of the local switch. Trunks are lines that run from one central office switch to another, rather than to an end user.
6. Local switching unbundled from transport, local loop transmission, or other services.
7. Nondiscriminatory access to 911, directory assistance, and operator call completion services.
8. White page directory listings for customers of other carriers.
9. Nondiscriminatory access to telephone numbers.
10. Nondiscriminatory access to databases and signaling necessary for call routing and completion.
11. Telephone number portability. Customers must be able to keep their telephone number should they switch vendors.
12. Nondiscriminatory access to services or information to allow the requesting carrier to implement local dialing parity. Customers must not have to dial extra digits.
13. Reciprocal compensation arrangements. Carriers must pay each other for carrying each other's calls.
14. Telecommunications services must be available for resale. ILECs have no provisions of profit built into this ruling.

Universal Service

The past monopoly in the telecommunications industry was based on an elaborate social compact which included public service obligations from the provider. In short, each citizen assumed to have the right to affordable telephone service supplied by a public utility regulated by the state. This universal service agreement was accepted by the public for most of the 20th century for at least two reasons. First, the regime's security appealed to: ratepayers, who trusted the state regulators not to overcharge them; stockholders, who were guaranteed an opportunity to receive a fair return on their investment; and employees, who enjoyed job security. Second, regulators could set business rates higher than cost in order to subsidize residential services, which, in many rural areas, would have been much more expensive without government intervention.

The Act requires that the FCC determine a "minimum package of services," otherwise known as universal service, which will evolve over time as technology advances. After much debate, the FCC set the federal universal service fund (USF, or e-rate) at $1.9 billion. It is used to finance connection to the nation's publicly switched telecommunications network for schools, libraries, the poor and high-cost areas. Each interstate carrier, cell phone and paging company must contribute equitably to this fund. Carriers usually pass on this tax to customers, who pay a 4.7 percent to 5.0 percent fee on their telephone bill. In addition to the federal initiative, most states now have programs enabling everyone to have access to the national telephone network, so that even low-income households can afford basic service. Rural telephone companies often face difficulties paying their USF fees since there has been little technological improvement in many areas in which they provide service. These rural enterprises are allowed to apply for exemptions to interconnection agreements if they have fewer than 50,000 access lines. Competing carriers, which tend only to pursue the most lucrative urban customers, are assumed to have less difficulty contributing to the USF.

The Baby Bells and Long Distance

Fulfilling the requirements of Section 271, the clause of the Act which enumerates the Bell companies' responsibilities which must be fulfilled before they can offer in-region long-distance service, has proved to be an onerous task for RBOCs. As of October 2000, only two companies, Verizon (previously Bell Atlantic) and Southwestern Bell Communications (SBC) have been successful, and only in two states, New York and Texas. Verizon's agreement in New York allows the company to sell long-distance service to the 7 million households it serves in the Empire State. Competing carriers can be relied upon to claim that the Bell companies impede their access to local customers, therefore hindering the incumbent carrier's case for long-distance service. In the case of New York, the United States Department of Justice (DOJ), with which the FCC consults before permission to offer long distance is given, was of the opinion that Bell Atlantic had not completely opened its network. There was particular concern about whether the incumbent carrier was offering competitors sufficient access to its local loops, the wires which connect call-routing switches to homes and businesses. Bell Atlantic, which was rapidly losing its lucrative New York City business customers to rivals such as AT&T and MCI, was found to be late 10 percent of the time in completing these connections. DOJ ruled that the FCC could approve the applications subject to certain conditions, but the FCC instead set up a system of fines which would be levied if Bell Atlantic slowed or reversed its progress in this matter. Until the FCC's approval of Bell Atlantic's application, the federal body had denied applications from RBOCs in states including South Carolina, Oklahoma, Illinois and Louisiana.[7] As a result, some Congressmen voiced their displeasure with the FCC for the lack of results in granting the right to compete. In addition, incumbent providers, especially BellSouth, have been adversely affected by constantly changing standards enforced by both state PSCs and the FCC.

How to Compete: Modes of Entry

The Act spells out three modes of market entry for potential competitors. The first is resale, by which the competitor buys an incumbent's services at wholesale rates, and then sells the same services to consumers at a retail price. Since only the largest telephone companies have built their own networks-- which require sizable capital expenditures-- resale is the most popular form of competition at this time. The second mode entails leasing equipment from the incumbent at cost-based rates. These parts of the ILEC's network are known as unbundled network elements (UNEs) because they are specific parts of the network which, according to the terms of the Act, can be purchased separately. Competitors who choose this method do not have to build a new network, but they do need an interconnection agreement with the incumbent which agrees to lease its network elements. Finally, competitors may opt to build an entirely new network, including the "last mile," or the connection to the user's premises. For example, wireless technologies such as cellular and Personal Communications Service (PCS) are new technologies operating on different networks.[8] Furthermore, cable companies have begun to upgrade their switches in order to provide two-way transmission. Companies may also build alternate switches which bypass local exchanges, but the incumbent must still allow interconnection in order for the competitor's customers to reach the incumbent's customers. As mentioned before, the construction of new networks requires a great deal of confidence on the part of investors, who must expect to recoup their extremely high initial expenditures.

So far, resale has proven to be the most common mode of entry. In June 1999 (the date of the FCC's most recent data), about 2.5 percent of service lines in SLC states were served by resellers, up from 2.1 percent only six months earlier (*see Table 1*). Of those surveyed in a report commissioned by the General Accounting Office (GAO), half of the nation's public service commissions said that resale constituted a major portion of CLEC service to residential customers, while 18 said the same about business customers. Twenty-three states expected the use of resale to increase in both markets.[9] Although it provides an easy entry into the market and a quick way to build a customer base, resale is not particularly profitable. There is not a large enough margin between the wholesale price (set by state commissions in accordance with the Act) and retail prices.

The other two modes of entry have not been embraced by competitors quite as quickly. In December 1998 only 0.2 percent of lines nationwide were being served by carriers leasing UNEs from incumbents. Collocation, direct connection to equipment in an incumbent's central office, has been more popular, with competitors gaining access to incumbents' central office equipment, so there is abundant room for expansion in both these areas. On a national level, only four states reported that competitors were using UNEs as a major source of providing service to business customers, and only two states said the same regarding residential customers.[10] Some CLECs are trying to provide local service by leasing an entire set of UNEs, an option which some states are encouraging. Most CLECs do not have the financial resources to fund an entirely new network, and it is difficult to gauge those which provide service by relying entirely on their own facilities because of a lack of federal reporting requirements. CLECs which operate their own systems are not required to report to regulators, and they do not purchase services on an individual telephone-line basis from incumbents.

In 1992 the FCC began to allow collocation, so that CLECs would be able to install their own central office switch in the same building as the ILEC. Competitors would then have access to the RBOC's lines for beginning and ending calls, enabling them to avoid paying an access fee. The Act also requires the Bell companies to unbundle resale of local calling components. For example, competitors do not have to buy a whole new network; they simply can choose from the services menu a la carte. One

Issues Disputed in Court Following the Passage of the Act:

1. Interconnection costs between incumbent local exchange carriers and competitive local exchange carriers.
2. Discount levels on resale of LEC services.
3. FCC vs. state jurisdiction in setting discount levels between ILECs and CLECs.

State regulators challenged the Act in a federal appeals court, which overturned many of the FCC's rules, charging that the federal entity had overstepped its bounds. However, in January 1999, the Supreme Court affirmed the FCC's authority by ruling that the FCC, and not the states, has the authority to set the rules local telephone companies must use when opening their networks to new competitors.

can also expect competition to be greatly aided by new technology, especially fiber optic cable and advances in cellular phones. Now a few strands of copper suffice to offer telecommunications services, while in the past competitors would have had to lay miles of cable. Innovations in the cost and size of switches and databases also make market entry more affordable.

Local Competition Slow to Evolve

Consumers have not yet experienced the level of local competition they might have expected when the Act was passed in 1996. Legal challenges over the FCC's ability to override state regulations blurred the landscape until a 1999 Supreme Court ruling settled the issue (*see box , previous page*). Disagreements over interconnection terms continue to thwart competition in some areas, while service interruptions which tend to occur after users switch carriers scare off other potential customers. When a customer decides to switch to a competitor, the chosen company submits an order to the ILEC in a specified format. The ILEC is then required to process the request accurately. In some cases, incumbent providers have left customers who desired a new carrier without service for days by failing to complete the transfer at the designated time. Number portability, also mandated by the Act, requires upgrades to older systems as well.[11] Numbers, which are becoming increasingly scarce, are now assigned in blocks of 10,000 to each local exchange carrier. Huge increases in new line requests have necessitated the flurry of new area codes across America. In addition, systems were not originally designed to be accessible to external users, so processing has been slow in some cases. Some CLECs have experienced difficulties negotiating interconnection agreements, the terms and conditions governing relationships between the competitor and the incumbent. Others have struggled to procure adequate collocation space and access to this space. Finally, incumbent providers sometime fail to provide access to operations support systems (OSS, *see box*), which are computer systems and personnel needed to perform critical business functions.[12] All these factors can delay market entry, but market strategies often depend on being able to enter the market quickly in order to develop customer loyalty. In states in which the regional Bell provider is seeking permission to offer long-distance service, state commissions are helping to address OSS issues by hiring consulting firms to test independently the incumbents' systems.

Operations Support Systems (OSS)

The FCC identified OSS as an unbundled network element and determined that, as such, it must be provided by incumbents.

OSS entails:

- Pre-ordering (developing customer profiles necessary for placing accurate orders from new customers)
- Ordering
- Provisioning (taking care of customer requests for service)
- Maintenance and repair
- Billing

As of December 1998, ILECs were still in control of 97 percent of the local phone market nationwide, but the number of lines served by CLECs has increased rapidly, tripling in 1998 alone. Furthermore, by June 2000, CLECs served almost 7 percent of local lines. As expected, CLECs have concentrated on winning over business customers in urban areas, but some are serving other markets, such as residential customers and businesses in smaller cities. They are using all three modes of competition available to them through the passage of the Act: resale, leasing parts of networks, and constructing their own facilities. Both CLECs and the incumbent providers are marketing and selling packages of services for one-stop telecom shopping. These services include local and long-distance service, data services, Internet access, video, wireless and directory assistance. Companies save money by combining marketing and administrative functions for several services.

Call Pricing

The two most important cost variables in the telecom industry are density and distance. High density means low average cost since more households (or businesses) can be served from a single switch. Rural areas are burdened with long loops, which translate into high cost, since fewer people are served by the same switch, which is more expensive to install and operate. One would therefore correctly expect competition to commence where costs are lowest—in the downtown business districts of major cities. Commentators believe that companies desiring to charge actual prices in high-cost areas can expect PSC opposition.[13] Monopoly providers have historically used cross-subsidies to equalize rates between high- and low-density areas. Business rates, higher than real cost, hover around twice the level of residential prices, while rates become geographically averaged. In other words, urban and rural areas pay the same rates, so rural areas are subsidized by both urban residents and businesses. In addition, long-distance calls have historically been priced higher than cost. Previously, long-distance toll calls made up 8 percent of total network costs, yet provided 26 percent of revenues. Since divestiture, long-distance charges have included access fees paid to the local phone company for connection and termination. Now one-third of long-distance revenues come from access fees, although the FCC recently changed the rules regarding these charges.[14] From the perspective of the RBOCs, one-third of revenue comes from business customers, one-third from residential customers, and the remaining one-third from access fees paid by long-distance carriers.[15]

Regarding consumer costs, state public service commissions historically have set pricing structures for services such as local and intrastate toll calls, measured service, pay phones and directory assistance. Pricing usually took the form of rate-of-return before recent switching to price caps. Traditionally returns have been set higher than costs for business service in order to

Rate of return vs. Price caps

Rate of return regulation is calculated by using the percentage of net profit that a regulated company is legally authorized to earn. This method historically has been used by public service commissions in regulating telecom providers.

Price cap regulation is an alternative which has become more popular in the last decade. It sets a maximum price that a telecom company may charge for general services. The cap changes over time and is designed to reduce costs by setting maximum prices which can be charged by a provider of a utility.

keep residential rates low, a social arrangement quietly supported by most Americans for generations. States undertook two innovative policies in the 1980s: price restructuring (*see box, previous page*) and competition in local toll (intraLATA) service. From 1984 to 1987, 17 states made these "short long-distance" calls cheaper, including SLC member state Maryland, which also allowed facilities-based competition.[16]

Local Competition —Reality or a Dream?

According to the previously mentioned GAO report, state and federal regulators are beginning to recognize their changing roles and are becoming more focused on mediation and enforcement and less on traditional tasks such as setting rates. The FCC has recently established a formal expedited process for resolving complaints called the "accelerated docket." In the five states visited by a team of researchers from the GAO, competing carriers reported that better enforcement of rules would aid them in market entry, therefore making competition more than just an idea. By and large, CLECs have developed entrance strategies, while ILECs have responded to their obligations. State and federal regulators currently are working on systems which would provide measurement of ILEC performance in working with CLECs and would assess penalties against those found not to be in compliance.

Competition has not taken off as rapidly as some had expected, but it is likely to develop in the local phone market because CLECs are expanding, using each mode of entry as enumerated in the Act. Legal and regulatory issues also are becoming clearer, and packaging of services will eventually allow providers of services, such as cable television, to compete in the local market as well. Aforementioned technological advances also have led to improvements in the telephone industry and reform of its laws and regulations. However, the latest figures (June 2000) show that CLECs control only 7 percent of the local market and primarily serve business customers. As of December 1998, there were more than 180 million local lines in the United States. FCC reports suggest that 89 percent of these are served by the largest incumbent providers: the four remaining RBOCs, GTE and Sprint. The others are served by smaller incumbents. None of the CLECs serves large number of local lines, in fact many serve fewer than 100,000 customers and bring in less than $100 million in revenue annually. Furthermore, many consumers who use competitive carriers do so only because incumbent carriers have denied them service based on non-payment of bills or a bad credit rating.

There is good news for proponents of local service competition, however. From 1997 to 1998 the number of access lines served by CLECs more than tripled from 1.8 million to 5.6 million, or from 1 percent to 3 percent. Competition seems to be on the increase in urban business areas, more so than in residential markets. Staff surveyed at 45 of 50 state regulatory commissions said that residential markets were either “not competitive” or experienced no competition at all, while 36 responded that large business markets were at least “somewhat competitive.”[17] Again, business service proves more attractive for providers as a result of pricing and the short average length of the phone line connecting the customer’s premises and the primary facilities. Larger companies tend to concentrate on larger markets with high rates of multiple dwelling units where residents are highly concentrated, such as large apartment complexes. On the other hand, some competing carriers, seeking out customers who have previously been neglected, choose to serve smaller cities. Disagreement exists over whether the current level of competition is disappointing. Among telecommunications consumers, expectations tend to be high. According to a Tampa-based CEO of a competitive carrier, “Consumers are saying we want it today. They forget what happened in long distance: They didn’t see the real benefit of competition for years.”[18] In any case competition is still evolving, and technologies such as wireless and the Internet promise to give the consumer even more options in the future.

Incumbent providers are striving to prove that they are complying with federal guidelines in offering interconnection opportunities to competitors. They point to the ever increasing number of signed interconnection agreements as proof that they are cooperating. By February 1999, three years after the signing of the Act, more than 5,400 such documents had been signed. In Texas, the Public Utilities Commission developed a pre-approved agreement which may be adopted by both parties, simplifying the process by using standardized language.

Enforcement

The GAO reported that staff at 48 of the 50 PSCs confirmed that their role had changed since the passage of the Act. According to the GAO report, a common complaint among competing carriers is the lack of enforcement of laws and regulations by state and federal officials. Penalties are minimal and often are not handed out. Bell companies seem to be responsive to competitors’ complaints when they are seeking long-distance approval, but some competitors worry about the loss of incentive to comply once RBOCs have reached their goal to provide interLATA service. On the other hand, incumbents are concerned about the lack of guidance from the FCC on fulfilling the checklist requirements, commenting that they are not certain about compliance measures. Staff at state regulatory agencies are trying to develop measures to deal with the changing telecommunications environment. Measuring performance proves important in judging the quality of services provided, for example, in developing penalties or rewards for the amount of time required to install a new line or fix a complaint. Competitors insist on such measures as a method of judging compliance with the

Act's requirement to provide the same quality of service to competitors as incumbents provide to their own customers. Of course, ILECs and CLECs disagree over which measures are most relevant, reliable and cost-effective.

Enforcement options do exist. The FCC may, after consultation with the U.S. Department of Justice and the appropriate state commission, deny long-distance applications. Some states can revoke operating licenses from or issue civil penalties to carriers found to be noncompliant. Often state commissions offer firms a carrot in the form of long distance but require them to improve competitors' access to UNEs, etc.

Statistics

In the 1980s competitive access providers started marketing to business customers over their own wired networks. They began to offer services to a broader range of customers in the following decade.[19] Incumbent carriers provided 96 percent of local service revenues in 1998, down from 98 percent in 1997, while competing carriers have been more successful in selling specialized services, such as dedicated lines, than in selling basic switched local service to end users. CLECs, which as of December 1998, had 16 percent of the total fiber optic system capacity that is available to carry calls within local markets, are also installing fiber more quickly than the incumbent providers. New carriers have increased their amount of fiber in place five fold from year-end 1995 to year-end 1998. At the end of June 1999, ILECs were providing 2.5 percent of their lines (4.3 million lines) to competitors. The FCC does not collect data on the number of customer lines CLECs provided solely over their own facilities, but estimates suggest between 3 percent and 4 percent of total nationwide switched access lines as of June 1999, or double the percentage of the previous year.

Competitors' use of leased UNE loops is increasing faster than resale rates, but this mode of entry started at a much lower level. Leased UNE loops increased 180 percent during the period July 1998 through June 1999, compared to a mere 46 percent increase in resale. Between 40 percent and 45 percent of resale lines are connected to residential customers. CLECs are investing in collocation as well, which is reflected in the fact that in 1999 competitors had access to 60 percent of ILEC switching centers, compared to 32 percent in 1998. By the end of 1995, only 13 competing carriers had installed their own switches; however, by 1998 the number had reached about 275. In good news for competitors, 92 percent of the 193 local access transport areas (LATAs) nationwide have at least one facilities-based competitor, and more than 3 million customers have been transferred among carriers.

Lines Provided by Large ILECs to CLECs for Resale in Southern States

			Total Switched Lines (thousands)		Resale Lines (thousands) **		Percent Resale Lines			
State	Total State Lines*	Company	6/99	12/98	6/99	12/98	6/99	12/98	Percent Increase in Total Switched Lines	Percent Increase in Resale Lines
AL	2,465	BellSouth	1,998	1,947	56	39	2.8	2.0	2.6	43.6
AR	1,422	SBC[20]	999	974	24	18	2.4	1.9	2.6	33.3
FL	10,958	BellSouth	6,666	6,487	127	112	1.9	1.7	2.8	13.4
		GTE	2,344	2,297	55	32	2.4	1.4	2.0	72.0
		Subtotal	9,010	8,784	182	144	2.0	1.6	2.6	26.4
GA	5,005	BellSouth	4,286	4,143	122	105	2.9	2.5	3.5	16.2
KY	2,134	BellSouth	1,241	1,207	36	31	2.9	2.6	2.8	16.1
		GTE	559	543	4	2	0.7	0.4	2.9	100.0
		Subtotal	1,800	1,750	40	33	2.2	1.9	2.9	21.2
LA	2,529	BellSouth	2,501	2,418	93	82	3.7	3.4	3.4	13.4
MD	3,636	Bell Atlantic	3,818	3,704	48	27	1.3	0.7	3.1	77.8
MS	1,370	BellSouth	1,336	1,296	53	44	4.0	3.4	3.1	20.5
MO	3,451	SBC	2,604	2,563	60	38	2.3	1.5	1.6	57.9
NC	4,942	BellSouth	2,533	2,452	47	36	1.9	1.5	3.3	30.6
		GTE	353	343	2	1	0.6	0.4	2.9	100.0
		Subtotal	2,886	2,795	49	37	1.7	1.3	3.2	32.4
OK	2,018	SBC	1,664	1,650	48	40	2.9	2.4	0.8	20.0
SC	2,248	BellSouth	1,514	1,471	60	58	4.0	3.9	2.9	3.4
		Sprint	103	99	2	1	1.8	1.3	4.0	100.0
		Subtotal	1,617	1,570	62	59	3.8	3.8	3.0	5.1
TN	3,369	BellSouth	2,749	2,684	42	36	1.5	1.3	2.4	16.7
		Sprint	259	255	2	2	0.9	0.7	1.6	0.0
		Subtotal	3,008	2,939	44	38	1.5	1.3	2.3	15.8
TX	12,617	SBC	9,737	9,604	390	349	4.0	3.6	1.4	11.7
		GTE	2,027	1,968	27	19	1.3	1.0	3.0	42.1
		Sprint	381	369	6	6	1.7	1.5	3.3	0.0
		Subtotal	12,145	11,941	423	374	3.5	3.1	1.7	13.1
VA	4,575	Bell Atlantic	3,598	3,528	46	18	1.3	0.5	2.0	155.6
		GTE	623	591	1	0	0.1	0.0	5.4	n/a
		Sprint	409	401	1	1	0.3	0.2	2.0	0.0
		Subtotal	4,630	4,520	48	19	1.0	0.4	2.4	152.6
WV	987	Bell Atlantic	838	831	1	0	0.2	0.0	0.8	n/a
Total	63,726		55,140	53,825	1,353	1,097	2.5	2.0	2.4	23.3

table 1

*1998 USF loops in thousands. ** Only "total service resale" lines were included.

Source: Federal Communications Commission, *Trends in Telecom Service,* March 2000.

Table 1 shows that resale has increased at a much greater rate than total switched lines. In the six-month period from December 1998 to June 1999, resale increased more than 23 percent in SLC states, while switched lines increased only 2.4 percent. Mississippi leads the SLC with 4 percent of its total switched lines devoted to resale of an incumbent's services, while West Virginia had the lowest percentage of resale lines, a mere 0.2 percent. Georgia experienced the highest percent increase in total switched lines, at 3.5 percent, while Oklahoma and West Virginia tied for the lowest (0.8) percentage increase. Virginia showed an amazing 153 percent increase in resale lines, while Maryland and Missouri also demonstrated impressive growth in this area, with 78 percent and 58 percent increases, respectively. On the other hand, South Carolina's resale lines increased by only 5 percent. Of course, percent increases are affected by starting points, and South Carolina already had a relatively high percentage of resale lines in December 1998.

Another way to measure the entry of competitors into the local service market is by the explosion in the amount of numbering codes issued by state commissions to competing carriers. All local service competitors which own switches must have a numbering code for that switch before beginning operations as a facilities-based CLEC, which must be licensed to operate in the area where the numbering code is in service. A carrier receiving a numbering code assignment in an area does not necessarily have to be offering service in the area; however, if the code is not activated within 18 months, it will no longer be reserved. Codes are issued in blocks of 10,000 numbers.

Local Service Competitors Holding Numbering Codes				
State	**December 1996**	**December 1997**	**December 1998**	**June 1999**
Alabama	1	5	6	6
Arkansas	0	5	6	7
Florida	8	16	26	30
Georgia	4	12	19	18
Kentucky	1	5	7	7
Louisiana	0	5	13	13
Maryland	3	5	8	8
Mississippi	1	3	5	5
Missouri	0	6	11	12
North Carolina	2	8	12	12
Oklahoma	1	5	6	7
South Carolina	0	2	7	7
Tennessee	5	8	9	10
Texas	4	21	34	32
Virginia	0	3	7	8
West Virginia	0	0	1	1
Total State Markets*	30	109	177	183

table 2

* Local service competitors are counted once for each state where they hold numbering codes.

Source: Federal Communications Commission, *Local Competition*, August 1999.

Table 2 demonstrates the explosive growth in the issuance of new numbering codes to competitors in the Southern states. Every state except West Virginia has seen considerable increases in the amount of codes used by new firms, with the largest boom occurring from 1996, the year the Act was passed, to 1997. As expected, Texas and Florida lead the SLC in the number of local service competitors holding numbering codes, with 32 and 30, respectively. The number of CLECs has continued to increase in Florida, however, while it has leveled off in each of the other states, including Texas.

Lines Provided by Large ILECs To CLECs Under UNE Arrangements

State	Total State Lines*	Company	Total Switched Lines (thousands) 6/99	Total Switched Lines (thousands) 12/98	UNE Loops (thousands) 6/99	UNE Loops (thousands) 12/98	Percent UNE 6/99	Percent UNE 12/98	Percent Increase in Total Switched Lines	Percent Increase in UNE Lines
AL	2,465	BellSouth	1,998	1,947	4	2	0.2	0.1	2.6	100.0
AR	1,422	SBC	999	974	5	3	0.5	0.3	2.6	66.7
FL	10,958	BellSouth	6,666	6,487	10	4	0.2	0.1	2.8	150.0
		GTE	2,344	2,297	**	**	***	***	2.0	n/a
		Sprint	2,032[21]	2,032	nr	**	nr	***	n/a	n/a
		Subtotal	11,042	10,816	10	4	0.1	***	2.6[22]	150.0
GA	5,005	BellSouth	4,286	4,143	27	9	0.6	0.2	3.5	200.0
KY	2,134	BellSouth	1,241	1,207	2	1	0.1	0.1	2.8	100.0
		GTE	559	543	**	**	***	***	2.9	n/a
		Subtotal	1,800	1,750	2	1	0.1	0.1	2.9	100.0
LA	2,529	BellSouth	2,501	2,418	3	1	0.1	***	3.4	200.0
MD	3,636	Bell Atlantic	3,818	3,704	3	2	0.1	***	3.1	50.0
MS	1,370	BellSouth	1,336	1,296	2	2	0.2	0.1	3.1	0.0
MO	3,451	SBC	2,604	2,563	3	2	0.1	0.1	1.6	50.0
NC	4,942	BellSouth	2,533	2,452	7	2	0.3	0.1	3.3	250.0
		GTE	353	343	**	**	***	***	2.9	n/a
		Sprint	1,420[23]	1,420	nr	0	nr	***	n/a	n/a
		Subtotal	4,306	4,215	7	2	0.2	***	3.2[24]	250.0
OK	2,018	SBC	1,664	1,650	2	2	0.1	0.1	0.8	0.0
SC	2,248	BellSouth	1,514	1,471	2	1	0.1	***	2.9	100.0
		Sprint	103	99	0	0	0.0	0.0	4.0	0.0
		Subtotal	1,617	1,570	2	1	0.1	***	3.0	100.0
TN	3,369	BellSouth	2,749	2,684	29	21	1.0	0.8	2.4	38.1
		Sprint	259	255	0	0	0.0	0.0	1.6	0.0
		Subtotal	3,008	2,939	29	21	1.0	0.8	2.3	38.1
TX	12,617	SBC	9,737	9,604	20	7	0.2	0.1	1.4	185.7
		GTE	2,027	1,968	19	16	1.0	0.8	3.0	18.8
		Sprint	381	369	0	0	0.0	0.0	3.3	0.0
		Subtotal	12,145	11,941	39	23	0.3	0.2	1.7	69.6
VA	4,575	Bell Atlantic	3,598	3,528	2	1	0.1	***	2.0	100.0
		GTE	623	591	**	0	***	0.0	5.4	n/a
		Sprint	409	401	1	1	0.3	0.1	2.0	0.0
		Subtotal	4,630	4,520	3	2	0.1	***	2.4	50.0
WV	987	Bell Atlantic	838	831	0	0	0.0	0.0	0.8	0.0
Total	63,726		58,592	57,277	141	77	0.2	0.1	2.3	83.1

table 3

* 1998 USF loops in thousands. ** Fewer than 500 lines.*** Less than 0.05 percent.
Source: Federal Communications Commission, *Trends in Telephone Service*, March 2000.

Table 3 indicates the number of CLECs which have chosen to serve markets through leasing unbundled network elements, the least popular mode of entry. As shown in Table 3, Texas, Tennessee and Georgia lead the way in encouraging competitors to utilize UNE loops as a mode of entry into the local telephone service market. Tennessee boasts the largest percentage of UNE loops per total switched lines, with 1 percent, and Georgia ranks second, with 0.6 percent. Texas, with the SLC's largest population, has the most UNE loops, with 39,000. North Carolina secured the largest percentage increase in UNE loops in the six-month period from December 1998 to June 1999, with 250 percent growth in this category. As of June 1999, West Virginia had no UNE loops.

Comparison of Results: SLC vs. USA

Lines Provided by Large ILECs to CLECs for Resale of ILEC Services:	June 1999		December 1998		June 1998		December 1997	
	SLC	USA	SLC	USA	SLC	USA	SLC	USA
Total switched lines* (thousands)	58,592	167,177	57,277	164,614	52,100	161,810	**	159,008
Resold lines (thousands)	1,401	3,354	1,131	2,738	809	2,448	492	1,743
Share of ILEC switched lines	2.4	2.0	2.0	1.7	1.6	1.5	n/a	1.1
Lines provided by large ILECs to CLECs under UNE arrangements**	June 1999		December 1998		June 1998		December 1997	
	SLC	USA	SLC	USA	SLC	USA	SLC	USA
UNE loops (thousands)	141	685	77	361	34	244	***	133
Share of ILEC switched lines	0.2	0.4	0.1	0.2	0.1	0.2	n/a	0.1

table 4

* Since Sprint did not report their number of switched lines in Florida and North Carolina in June 1999, this company's figures were disregarded in those two states.

** Bell Atlantic did not report these figures for Maryland and Virginia, as did BellSouth for Alabama, Arkansas, and Kentucky; and SBC for Missouri, Oklahoma and Texas; as well as Sprint for North Carolina, South Carolina and Tennessee.

*** Only BellSouth in Florida, Georgia and Tennessee, and GTE in Texas, reported use of UNE loops in December 1997.

Table 4 shows how SLC states measure up to the rest of the United States in the areas of resale and UNE loops. Although most Southern states started from a lower base than states in other parts of the country, the SLC as a whole has made impressive gains in recent years. SLC states posted higher percentages of resale lines for each of the measured periods, but the rest of the U.S. has been utilizing UNE loops to a greater extent than SLC states use this mode of entry. During the period from July 1998 to June 1999, SLC states recorded a 12 percent increase in total switched lines, compared to a mere 3 percent increase nationally. During the same period, SLC states posted a 73 percent increase in resale lines, while national figures rested at 37 percent. Furthermore, SLC states more than tripled the number of UNE lines in use (an increase of 314 percent), while national numbers, also impressive, lagged behind somewhat (a 181 percent increase).

Market Share Comparison—CLECs vs. ILECs (As of June 30, 2000)

State	Percentage of Lines Provided to Residential and Small Business Customers		End-User Lines Served by Reporting LECs			
	ILEC	CLEC	ILECs	CLECs	Total	CLEC Share
Alabama	88%	6%	2,380,178	140,901	2,521,079	5.6%
Arkansas	88%	*	1,422,736	*	*	*
Florida	87%	22%	11,121,374	983,047	12,104,421	8.1%
Georgia	85%	24%	4,883,136	348,213	5,231,349	6.7%
Kentucky	86%	*	2,135,858	*	*	*
Louisiana	87%	10%	2,432,846	289,798	2,722,644	10.6%
Maryland	64%	13%	3,760,409	131,272	3,891,681	3.4%
Mississippi	87%	*	1,314,049	*	*	*
Missouri	86%	16%	3,508,475	178,377	3,686,852	4.8%
North Carolina	86%	12%	5,036,347	215,390	5,251,737	4.1%
Oklahoma	86%	*	1,983,984	*	*	*
South Carolina	86%	*	2,173,077	*	*	*
Tennessee	89%	19%	3,314,966	210,489	3,525,455	6.0%
Texas	86%	41%	12,349,899	1,042,606	13,392,505	7.8%
Virginia	67%	40%	4,184,850	285,015	4,469,865	6.4%
West Virginia	77%	*	910,992	*	*	*
Nationwide	79%	36%	178,864,907	12,746,924	191,611,831	6.7%

table 5

Source: Federal Communications Commission, Industry Analysis Division, *Local Telephone Competition: Status as of June 30, 2000.*

Note: Carriers with under 10,000 lines in a state were not required to report.

*Data withheld to maintain firm confidentiality.

Table 5 demonstrates two important points. The first two columns show the percentage of lines provided by incumbent and competitive carriers to residential and small business customers. Incumbent providers still offer the overwhelming majority of their lines to these users, while competitive carriers primarily have targeted larger businesses. As of June 2000, almost 80 percent of incumbent lines served residential and small business customers, while competitors focused mainly on medium and large businesses (64 percent). In the SLC, residences and small businesses constitute 40 percent or more of competitors' business in only Texas and Virginia. Georgia and Florida rank high in this category as well, with 24 percent and 22 percent, respectively. Among the 10 reporting SLC states, competitive carriers in Alabama rank lowest in this category, providing only 6 percent of their service to residences and small businesses.

The last four columns show the number of lines in each state and the percentage served by both CLECs and ILECs. Competitive carriers reported 12.7 million (6.7 percent) of the 192 million nationwide local telephone lines in service to end-users, compared to 8.3 million (4.4 percent) at the end of 1999. This represents a 53 percent increase in CLEC market size from December 1999 to June 2000. Among the reporting SLC states, Louisiana ranks first, with almost 11 percent of its lines maintained by competitive carriers. Competitors in Florida and Texas, with 8.1 percent and 7.8 percent, respectively, also exceeded the national average of 6.7 percent.

SLC State Rankings (as of June 1999)								
State	Total Switched Lines (rank)	Switched Lines Per Capita (rank)	Percent Increase (rank)	Total Resale Lines (rank)	Resale Lines Per Capita (rank)	Percent Increase (rank)	UNE Loops (rank)	Percent Increase (rank)
AL	1,998,000 (10)	0.46 (12)	2.6 (8)	56,000 (8)	.013 (8)	43.6 (4)	4,000 (7)	100.0 (5)
AR	999,000 (15)	0.39 (16)	2.6 (8)	24,000 (15)	.009 (12)	33.3 (6)	5,000 (6)	66.7 (9)
FL	11,042,000 (2)	0.73 (2)	2.6 (8)	206,000 (2)	.014 (6)	26.4 (7)	10,000 (4)	150.0 (4)
GA	4,286,000 (5)	0.55 (7)	3.5 (1)	122,000 (3)	.016 (4)	16.2(11)	27,000 (3)	200.0 (2)
KY	1,800,000 (11)	0.45 (14)	2.9 (7)	40,000 (10)	.010 (10)	21.2 (8)	2,000 (12)	100.0 (5)
LA	2,501,000 (9)	0.57 (5)	3.4 (2)	93,000 (4)	.021 (1)	13.0(13)	3,000 (8)	200.0 (2)
MD	3,818,000 (6)	0.74 (1)	3.1 (4)	48,000 (10)	.009 (12)	77.8 (4)	3,000 (8)	50.0 (10)
MS	1,336,000 (14)	0.48 (10)	3.1 (4)	53,000 (9)	.019 (3)	20.5 (9)	2,000 (12)	0 (14)
MO	2,604,000 (8)	0.48 (10)	1.6 (14)	60,000 (7)	.011 (9)	57.9 (3)	3,000 (8)	50.0 (10)
NC	4,306,000 (4)	0.56 (6)	3.2 (3)	73,000 (5)	.010 (10)	40.4 (5)	7,000 (5)	250.0 (1)
OK	1,664,000 (12)	0.50 (9)	0.8 (15)	48,000 (10)	.014 (6)	20.0(10)	2,000 (12)	0 (14)
SC	1,617,000 (13)	0.42 (15)	3.0 (6)	62,000 (6)	.016 (4)	5.1 (15)	2,000 (12)	100.0 (5)
TN	3,008,000 (7)	0.55 (7)	2.3 (12)	44,000 (13)	.008 (14)	15.8(12)	29,000 (2)	38.1 (12)
TX	12,145,000 (1)	0.61 (4)	1.7 (13)	423,000 (1)	.021 (1)	13.1(14)	39,000 (1)	69.6 (8)
VA	4,630,000 (3)	0.67 (3)	2.4 (11)	48,000 (10)	.007 (15)	152.6(1)	3,000 (8)	50.0 (10)
WV	838,000 (16)	0.46 (12)	0.8 (15)	1,000 (16)	.001 (16)	N/A	0	N/A
SLC Avg.	3,662,000	0.58	2.3	88,000	.014	23.9	8,800	83.1

table 6

Rank–Rank among the 16 SLC states.
Source: Federal Communications Commission, *Trends in Telephone Service,* March 2000.

Table 6 demonstrates how SLC states compared among themselves and makes it clear that larger states such as Texas and Florida rank high in terms of total switched lines, resale lines and UNE loops, but smaller states such as Maryland and Louisiana also perform well when statistics are measured on a per capita basis. Furthermore, rapidly growing Georgia and North Carolina ranked high in almost every category. States which posted low rankings generally suffer from a lack of large metropolitan areas and suburbs with dense concentrations of easily served and less price-conscious inhabitants.

State-by-State Analysis

The following state analyses present the progress of telecommunications deregulation in the 16 SLC states since the mid-1990s, examining issues such as whether the incumbent provider has applied for permission to offer in-state, interLATA long-distance service; how many competitive carriers have gained authorization to operate in each state; the status of local service competition; and how each state ranked relative to other SLC states in categories defined elsewhere in the report.

The process of applying for authorization to offer long-distance service is cumbersome, and it is important to remember that both state and federal agencies have raised the regulatory bar for incumbent providers such as BellSouth, which must complete a number of steps in order to qualify for permission to offer in-state interLATA service. First, the incumbent local service provider (which is listed directly after the name of the state in each section) goes before the state regulatory authority and attempts to prove that it has met the federal guidelines regarding local competition in the state in question.[25] After hearings are held and competitors given the chance to dispute the incumbent carrier's claims, the commission's governing body votes on whether to *recommend* the RBOC's application to the Federal Communications Commission. Incumbents do not have to take this step, but it is understood that the FCC will not grant permission without the state authority's endorsement. Before reaching the FCC, however, the application is reviewed by the Department of Justice's Antitrust Division, whose judgment is also taken into account by the FCC, which has final say over the matter. So far only two carriers, Bell Atlantic (now Verizon) in New York and Southwestern Bell in Texas, have been granted the right to offer interLATA long-distance service in states in which they once held a local service monopoly. Of the 16 SLC states, the Baby Bells have applied to offer long-distance service in all except Maryland, Virginia and West Virginia (all Verizon states); with the incumbent carrier either winning the FCC's endorsement (Texas); failing before the federal commission (Louisiana, Oklahoma and South Carolina); lacking a recommendation from the state regulatory authority (Alabama, Arkansas, Florida, Georgia, Kentucky and North Carolina); or withdrawing its application before action could be taken (Missouri and Tennessee).

Licensing of CLECs and the climate of local competition is discussed next in each state analysis. The number of competitive carriers authorized to operate in each state is also mentioned, followed by the climate of local competition. In addition, each section includes a chart illustrating how many competitive carriers held numbering codes in the state as of June 1999, the time from which the latest federal statistics were available. Numbering codes are important because local service competitors that own telephone switches must acquire such a code for that switch before starting service as a facilities-based CLEC. Competitors which do not have numbering codes are usually resellers.

Finally, the last section of each state discussion ranks the states with regard to their position among the other 15 SLC states. Detailed tables from which the rankings are derived can be found in the *Statistics* section.

Alabama

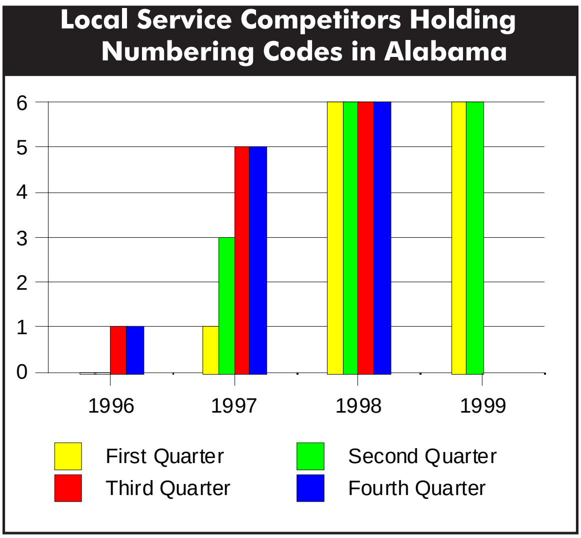
(Primary Incumbent Local Exchange Carrier - BellSouth)

In-state Long Distance

In September 1995 the Alabama Public Service Commission (PSC) approved local telephone competition and adopted a price cap method of pricing. The local Bell company, BellSouth, agreed to cap its basic rates for five years, or until competition began. In June 1997, BellSouth formally asked the PSC to begin the approval process to allow the Baby Bell to compete in Alabama's interLATA long-distance market. According to BellSouth, at that time as many as 55 competitors either had signed interconnection agreements with the incumbent carrier or had been approved by the PSC to operate in the state. Some were already providing service to business customers in Birmingham and Montgomery, offering viable alternatives to BellSouth's local service for the first time. The PSC has yet to rule on the matter, but there is considerable doubt as to whether BellSouth has met the requirements set out in the 14-point checklist.

Competitive Carriers

At the present time, the PSC has authorized over 140 CLECs to operate in Alabama, with many of those offering resale service exclusively. As of June 1999, six local service competitors held numbering codes, offering service in the state's largest urban areas: Birmingham, Huntsville, Mobile and Montgomery. One company, KMC Telecom, has been competing with BellSouth for local service in Huntsville since 1996. In addition, a cable company, Knology, is planning $20 million in improvements to its lines in order to provide



Source: Federal Communications Commission, 1999

Alabama

consumers local and long-distance telephone service in several areas of the state. Other large CLECs operating include AT&T Local, e.Spire Communications, Inc., and ITC.

Rankings

In June 1999 Alabama ranked seventh in the SLC in the percentage (2.8 percent) of its telephone lines that are resale lines and posted the fourth highest percentage increase (43.6 percent) in resale lines from December 1998 to June 1999. While ranking relatively low in switched lines per capita, and in the middle in total resale lines, Alabama did show a 100 percent increase in UNE loops during the same time period.

Arkansas

(Primary Incumbent Local Exchange Carrier - Southwestern Bell)

In-state Long Distance

In 1997 the Legislature passed Arkansas Act 77, the Telecommunications Regulatory Reform Act of 1997, of which the FCC preempted portions which it found not to be in compliance with federal law. Three provisions of Act 77 were found to discriminate against new entrants by erecting barriers to local telephone markets in the state. The first provision regarded an incumbent restricting the resale of its services; the second concerned the PSC's standards of reviewing interconnection agreements; and the third provision exempted rural carriers from some interconnection responsibilities that apply to other carriers.

The 1997 Act also allowed local telephone companies more choice in deciding how they would be regulated. The Act no longer required providers to be governed by the rate-of-return method, which was used in Arkansas for more than 50 years prior to the passage of telecommunications reform.

The Arkansas Public Service Commission (PSC) heard incumbent provider Southwestern Bell's case for offering long-distance service in the first half of 1998 and, on August 28 of the same year, concluded that the incumbent had met only eight of the 14 checklist items. Southwestern Bell is still working with the Commission to resolve issues involving operational support systems, customer complaints, cost studies and performance measures. The incumbent provider claims that the competitors have captured 7 percent of its business; however, the company still serves about 70 percent of Arkansas' phone lines.

On July 25, 2000, Southwestern Bell filed again, submitting a 15,000-page long-distance application to the PSC, which quickly set a procedural schedule to review the application. After reviewing Southwestern Bell's application, PSC staff decided that the incumbent should be allowed to offer long-distance service as long as it meets certain conditions, such as providing a third-party report confirming that the systems used to process orders in neighboring Texas are the same as those used in Arkansas. Hearings before the PSC began in November 2000, and on December 21 the Commission found that Southwestern Bell had satisfied only 11 of the 14 checklist points, failing to offer competitors fair rates and terms.[26]

Competitive Carriers

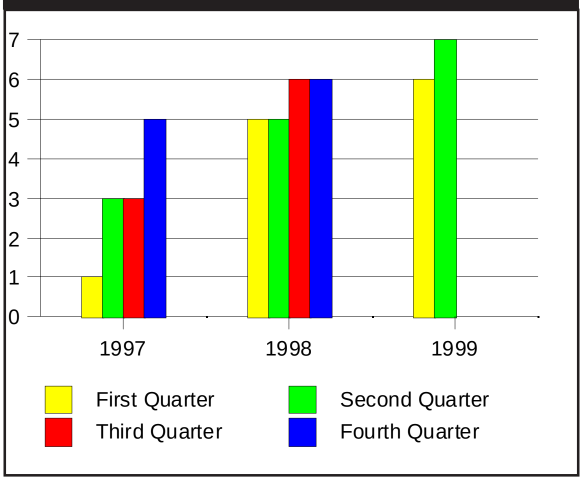
Arkansas has made substantial strides in local phone service. Little Rock-based ALLTEL led the way in offering facility-based business and residential service in the state. Other CLECs include:

WorldCom, AT&T Local, and Connect Communications. As of June 1999, there were six CLECs operating in the Little Rock LATA and one in the Fort Smith LATA.

At the time of the first rejection of its request to provide in-region long distance, Southwestern Bell claimed to have signed over 20 interconnection agreements with competitors. In fact, in 1999 the PSC authorized 24 of the 39 applications from CLECs, bringing the number of authorized competitors to 77, while 30 ILECs operate as well. Most importantly, the PSC helped arbitrate an interconnection agreement between two large carriers, Southwestern Bell and ALLTEL Communications, the latter of which has long battled Southwestern Bell in court over the latter’s willingness to provide access to customers. The two companies agreed in April 1999 on a price for the leasing of Bell’s network and the severity of penalties which would be paid by the incumbent if it failed to promptly switch its customers who desired alternative service to competitors such as ALLTEL. Three other ILECs were granted exemptions from Commission rules so that they could offer prepaid local service to disadvantaged customers. Furthermore, facility-based carriers won approval of intraLATA toll-dialing parity plans, which allow their customers to pre-subscribe to a provider of such services.

ALLTEL began providing local wireline service to its wireless subscribers in September 1999, marking the first time that an established competitor had taken on a Bell company in this manner. The Little Rock-based company had planned to compete in the residential market sooner, but had to delay plans in late 1998 and early 1999, after tests showed problems switching customers from Bell’s network to its own. Southwestern Bell pointed out that it had not hindered its competitors plans in any fashion, citing ALLTEL’s 40 percent share of the business market, in which it has been competing since 1997. Like most other competitive carriers, ALLTEL predominantly serves business customers, but the company also has offered business service in smaller

Local Service Competitors Holding Numbering Codes in Arkansas



Source: Federal Communications Commission, 1999

cities, such as Conway.[27] ALLTEL, however, stopped providing residential service in most of its markets in November 2000, citing high costs. The company has suggested that it will reconsider if Southwestern Bell offers more favorable rates.

Rankings

As shown in the adjacent chart, a total of seven local service competitors held numbering codes in Arkansas in the second quarter of 1999. Arkansas experienced a 33.3 percent increase in resale lines per capita from December 1998 to June 1999, ranking it sixth in the SLC in this category. The state's 5,000 UNE loops also accounted for a number six ranking in this category in that year.

Arkansas Public Service Commission Contact: Mr. Brinton Ramoly, 501/682-5797

Florida

(Primary Incumbent Local Exchange Carrier - BellSouth)

In-state Long Distance

In 1995, a year before the Telecommunications Act of 1996 was implemented, Florida passed Senate Bill 1554, laying the foundations for competitive local exchange carriers and allowing incumbent telecommunications providers to choose between price-cap and rate-of-return regulation. The Florida Public Service Commission (PSC) rejected BellSouth's application to provide in-region, interLATA long distance in November 1997, when it found that BellSouth met only eight of the 14 requirements set out in the Act. BellSouth took issue with the Commission's findings, claiming to have already lost 50,000 lines to competitors and to have spent over $500 million to prepare its systems for competition at the time of its application.

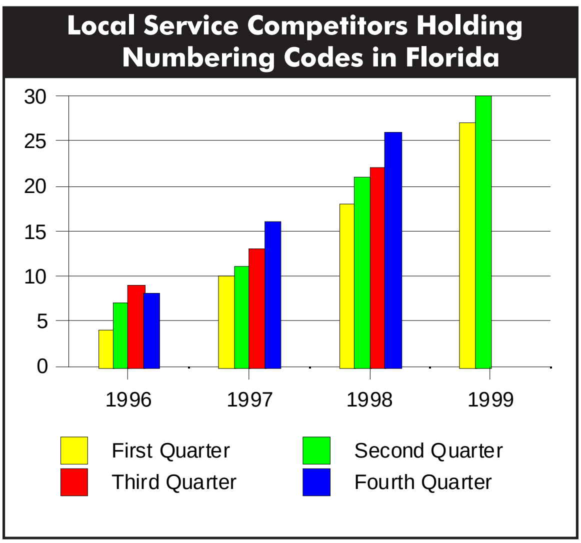
The Commission found that evidence provided by BellSouth did not demonstrate that the company was adequately serving residential subscribers. Furthermore, although Florida's largest incumbent provider had received requests from potential competitors for interconnection and access to its network and had submitted a Statement of Generally Available Terms and Conditions (SGAT), these guidelines had not been approved. BellSouth failed to meet key points of the checklist, including: provision of all facets of interconnection in a timely and efficient manner; providing OSS functions such as pre-ordering and ordering capabilities equal to its own; unbundling local transport for other services; unbundling local switching; providing all directory listings to carriers who request that service; and provision of services available for resale. The state PSC also ruled that since BellSouth's performance standards and measurements did not adequately address issues such as average installation intervals for resale and loops, the measurements and standards could not be used to demonstrate nondiscrimination.

In July 1999, the PSC concluded that BellSouth's network should be tested by an independent party to ensure its openness to competition. The incumbent agreed to pay for the test, which is being conducted by the KPMG consulting firm and is expected to be completed by early 2001. A report issued in September 2000 noted that there are still 13 issues that could delay or block competitors from doing business utilizing BellSouth lines.[28]

Two years after the passage of the Act, BellSouth had lost only 2 percent of its business lines and 0.2 percent of residential lines. The primary incumbent, however, already had lost between 7 percent and 10 percent of its business lines to competitors in the major market of Fort Lauderdale by December 1998.[29] Some have also accused BellSouth of procrastinating when the company is asked to switch its customers to alternative providers. In fact, one competitor, MCI, proved to the PSC in 1998 that BellSouth was not honoring its agreement to provide timely service. MCI was forced to resubmit orders on which mistakes were identified by BellSouth one at a time, causing long delays in finalizing customer orders. On the other hand, the PSC claimed that, during the same year, it received only one justified complaint for every 33,000 BellSouth lines.

Competitive Carriers

There currently are 425 competitive carriers authorized to operate in the state of Florida. Thirty local service competitors hold numbering codes. Customers in larger cities such as Jacksonville, Miami, Orlando and Tampa have numerous competitors from which to choose. CLECs include Covad Communications, Abacus Digital, BlueStar, and Raleigh, North Carolina-based BTI, which in 1999 installed switching equipment in BellSouth offices throughout Jacksonville, where it has invested between \$4 million and \$5 million in telecommunications infrastructure.[30] BTI offers both residential and business service. Another competing provider, Adelphia Business Solutions, completed construction of a regional switch in Jacksonville in early 2000. It has an access line capacity of 150,000 and serves as a hub for local and long-distance, as well as Internet service for the company, which has installed more than 800 miles of fiber optic infrastructure in north Florida's largest city. Adelphia has had expenditures of \$75 million in Jacksonville alone on fiber optic infrastructure. By comparison, BellSouth has spent more than \$116 million on its fiber optics network in the past three years.[31]



Source: Federal Communications Commission, 1999

Rankings

As of June 1999, Florida ranked second in the SLC in total switched lines, with more than 11 million; second in switched lines per capita, with 0.73; and second in total resale lines, with 206,000. It also ranked fourth in the SLC with 10,000 UNE loops, an increase of 150 percent from December 1998.[32] Florida also claimed 30 local service competitors holding numbering codes, the second-highest number in the 16-state region.

Florida Public Service Commision Contacts: Ms. Jackie Gilchrist, 850/413-7019; Ms. Sally Simmons, 850/413-6605

Georgia

(Primary Incumbent Local Exchange Carrier - BellSouth)

In-state Long Distance

The passage of Senate Bill 137 in 1995 opened to competition the long-distance market in Georgia, which is widely believed to be the next state in which BellSouth will choose to aggressively pursue in-region long distance. The incumbent has faced its share of obstacles, however. When BellSouth first submitted an application in 1997, the PSC ruled that BellSouth failed to meet the standards set out in the Act. The Commission first held hearings on BellSouth's application in March 1997, with a second round taking place in July and August of the same year. BellSouth submitted a Statement of Generally Available Terms and Conditions (SGAT) in March 1997, but it was rejected on the basis that certain portions were premature or incomplete. BellSouth filed a revised version in June of 1997. This time the PSC permitted the revised SGAT to take effect, allowing competitors to accept its rates, terms and conditions, but the Commission did not make a decision regarding interLATA long-distance service. The Commission also acted as arbiter between BellSouth and competing carriers MCI, AT&T, and Sprint in 1996 and 1997. The results of arbitration, such as agreements on UNE pricing policy and reciprocal compensation policies, were incorporated into the revised SGAT.

BellSouth is expected to file with the PSC in 2001, but barriers remain. Questions about BellSouth's effort in competing equitably with smaller companies center around the incumbent's capacity to switch large numbers of customers over to competitors. In May 1999 the PSC voted unanimously to order BellSouth to hire an independent firm (KPMG) to test its operational support systems (OSS). KPMG set up two offices in suburban Atlanta to place orders and test the incumbent's response. The test was designed by BellSouth to prove that its software and staff could handle thousands of customer orders for change of service. BellSouth has spent nearly $1 billion on these systems in its nine-state local service region.[33] As of the beginning of September 2000, auditors still had to assess mountains of data gathered during the testing process.[34] According to BellSouth, more than 1.75 million telephone customers have switched their local toll service to traditional long-distance companies, leading to a substantial loss of business in its operating areas.

The outcome of the process in Georgia generally is seen as crucial to future applications in other Southern states. If BellSouth is eventually granted permission to offer long-distance service in Georgia, the company's leadership predicts a smoother transition than that which occurred in New York. During the testing, BellSouth has completed as many as 140,000 mock orders in a day without problems, according to Phil Jacobs, president of BellSouth Georgia.[35]

Georgia

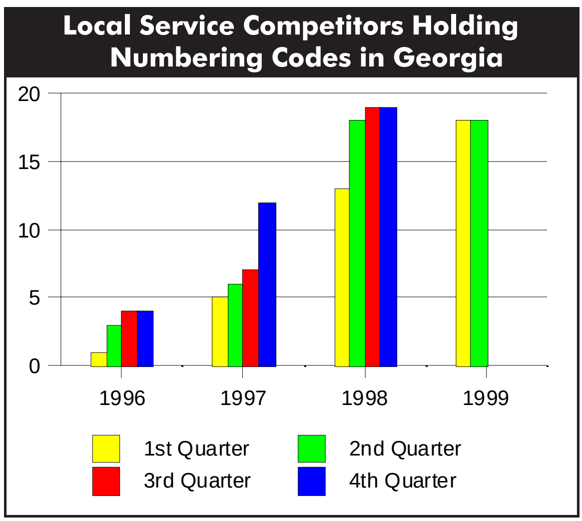
Competitive Carriers

Over 200 companies offer local phone service in Georgia, but according to a survey taken in June 2000, 69 percent of registered state voters think BellSouth still has a monopoly on local service.[36] On the other hand, competition seems to be increasing. As of June 30, 2000, 144,490 customers were receiving CLEC service in the state through 468,194 access lines.[37] Furthermore, a heavily publicized market entry by SBC Communications will make Atlanta one of the first markets in which two regional Bell operating companies will compete against each other. Of course, BellSouth also faces competition from smaller firms, such as NewSouth Telecommunications Corporation, and Allegiance Telecom, the latter having recently developed its electronic interfaces to conform with BellSouth's systems, thus making switching orders between the two companies much quicker and easier.[38] While competitors such as SBC are usually expected to target business customers primarily, statistics show that Georgia's residential customers may be faring better than their counterparts in other states regarding access to competitive carriers. According to a PSC survey conducted in June 2000, 35 of the 90 reporting licensed CLECs provided residential service, while 37 offered business service. However, while CLECs served about four times as many residential as business customers (115,786 versus 28,276, respectively), businesses accounted for 71 percent of the total lines provided.

Rankings

Georgia ranks favorably among SLC states in most categories addressed in Table 6. It posted the largest increase (3.5 percent) in total switched lines from December 1998 to June 1999, ranked third in total resale lines (122,000), and fourth in resale lines per capita (.016). Georgia was also third in UNE loops, with 27,000 and posted the second highest percent increase in this area.

Georgia Public Service Commission Contact:
Mr. Leon Bowles,
404/656-0949



Source: Federal Communications Commission, 1999

Kentucky

(Primary Incumbent Local Exchange Carrier - BellSouth)

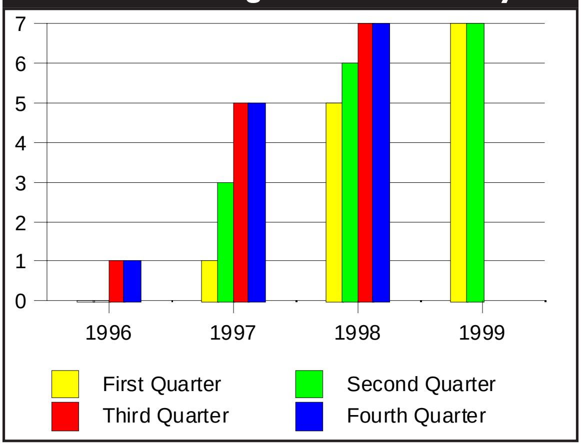
In-state Long Distance

BellSouth asserted that local competition had been established in Kentucky in September 1997, when it went before the state public service commission. The Kentucky Public Service Commission (PSC) addressed BellSouth's claims during two hearings and demonstrations, eventually issuing an advisory opinion that seven of the 14 checklist points appeared to have been met at that time. While BellSouth asked for dismissal of the case, that request was denied on the grounds that it had been initiated not by the incumbent telecommunications provider, but by the PSC itself. Kentucky officials, like many of their Southern counterparts, were monitoring the situations in Florida and Georgia during the second half of 2000.

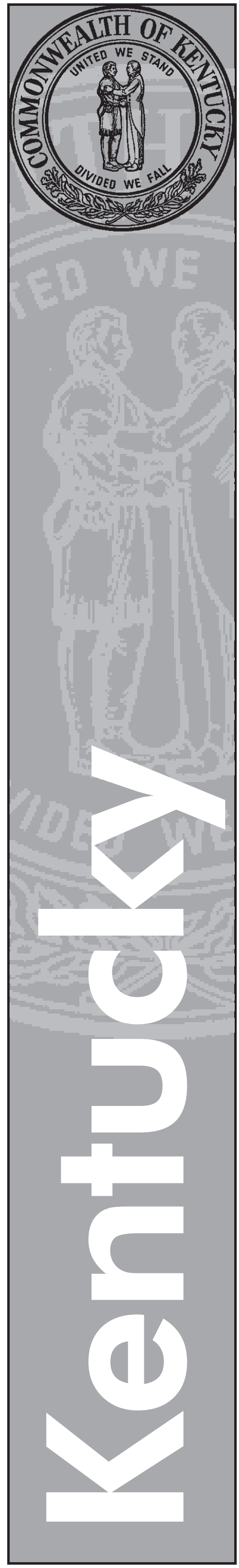
Competitive Carriers

As of June 1999, seven competitive carriers held numbering codes in Kentucky. Competition has been slow to develop, but telephone companies are adding services to broaden their markets. An alliance between Internet giant America Online (AOL) and Talk.com is threatening to shake up local service in the state. AOL is offering a package of options which will allow it to compete with incumbent provider BellSouth, which, in turn is citing the alliance as proof that there is "robust competition" in local service.[39] The AOL package is not yet available in areas served by other incumbent carriers, such as Verizon, which also serve many homes and businesses. As in other Southern states, Kentucky businesses currently have more options than residential customers. More than 450 companies are authorized to operate in Kentucky as competitive local exchange carriers.

Local Service Competitors Holding Numbering Codes in Kentucky



Source: Federal Communications Commission, 1999



Rankings

Local service competition was slow to start in Kentucky, but it has been increasing rapidly of recent. The state experienced a 100 percent increase in UNE loops in the six-month period from December 1998 to June 1999, ranking it fifth in growth among SLC states. A 21 percent increase in resale lines per capita resulted in Kentucky securing eighth place in this category. Kentucky also experienced a 2.9 percent growth in switched lines per capita, ranking seventh in the SLC.

Kentucky Public Service Commission Contact: Ms. Amanda Hale, 502/564-3940, ext. 277

Louisiana

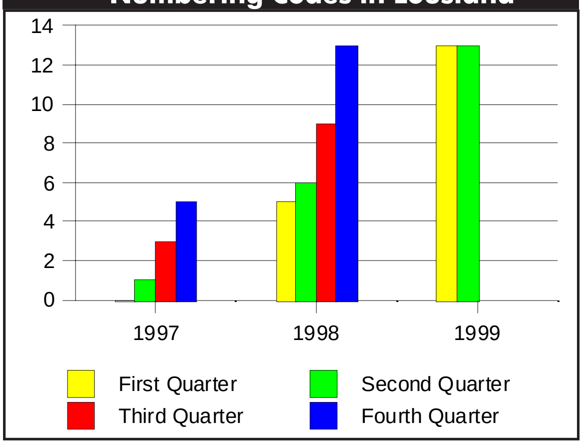
(Primary Incumbent Local Exchange Carrier - BellSouth)

In-state Long Distance

Louisiana, along with South Carolina, was one of the first states in which BellSouth attempted to secure permission to offer in-state, interLATA long-distance service. The company twice submitted applications, in 1997 and 1998, to the Louisiana Public Service Commission (PSC) and won approval both times. The state PSC granted BellSouth's request by a split decision of 3-2, even after both the Commission's staff and an administrative law judge recommended denying the application. Upon review by the U.S. Department of Justice and the Federal Communications Commission, however, the requests were denied. The FCC found BellSouth to be in compliance with only six of the 14 checklist items. The federal body ruled that the Louisiana market was not fully and irreversibly open to competition, basing its reasoning mainly on BellSouth's failure to provide to competing carriers access to operations support systems' functions and failure to offer contract service arrangements for resale at a wholesale discount.

The FCC found that BellSouth's application too closely mirrored that of South Carolina, where the company had filed shortly before, and that the company had not had sufficient time to correct region-wide deficiencies before submitting its request. Since BellSouth operates its system region-wide and fell short in South Carolina, the Commission ruled that the corporation could not possibly have made enough progress in such a brief period of time. First, the Atlanta-based company failed to prove that it provided competing carriers nondiscriminatory access to its OSS, leaving competitors at a disadvantage when attempting to serve potential and existing customers. Second, BellSouth did not meet the

Local Service Competitors Holding Numbering Codes in Lousiana



Source: Federal Communications Commission, 1999

Louisiana

competitive checklist's requirements based on its failure to offer individually tailored customer contracts to competitors at a wholesale discount, as required by the Act. After the second denial, however, BellSouth claimed to have improved its OSS to the point that the company was processing 93 percent of competitor orders with no mistakes.[40]

Competitive Carriers

More than 90 competitive carriers, including approximately 15 facilities-based carriers, currently are licensed in Louisiana, with consumer choice at its highest in the New Orleans, Baton Rouge, Lafayette and Shreveport metropolitan areas. As of June 1999, 13 competitive carriers held numbering codes. Many CLECs have been targeting customers who have been denied service by BellSouth because of delinquent payments.

Rankings

Louisiana has secured very impressive rankings among SLC states. As of June 1999, its .021 resale lines per capita ranked the state first in that category, while its 200 percent increase in unbundled network element loops from December 1998 to June 1999 was the second highest in the South. Louisiana also ranked fourth in total resale lines, with 93,000, and fifth in switched lines per capita, at 0.57.

Louisiana Public Service Commission Contact: Mr. Buddy Stricker, 225/342-4416

Maryland

(Primary Incumbent Local Exchange Carrier - Verizon)

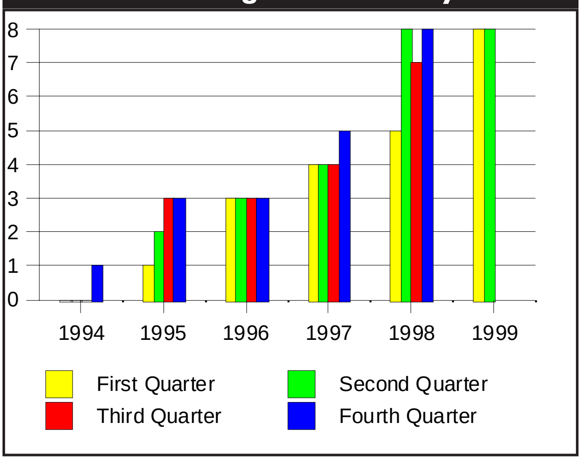
In-state Long Distance

Verizon, the predominant local provider in Maryland, has not yet applied for permission to offer long-distance service in the state. Verizon, formed when the previous incumbent provider, Bell Atlantic, merged with GTE, was the first of the RBOCs to be allowed to offer such service when the FCC granted the company permission to serve residents and businesses in New York state. The incumbent provider, however, does consider regulatory approval to offer long distance in Maryland a top priority, and the company is expected to apply for approval in spring 2001.[41] As in many states, competing carriers have complained about the incumbent provider's willingness or ability to switch customers to a new service provider.[42]

Competitive Carriers

Maryland experienced local competition earlier than most of the other SLC states, with one company winning the right to a numbering code as early as 1994. As of June 1999, eight companies held numbering codes in Maryland. Over 110 competitive carriers currently are authorized to operate in the state, which has four LATAs, including one originating in Washington, D.C. Customers in suburban Washington and in Baltimore have a wide choice of local competitors, and Verizon, which currently serves 2.8 million customers in Maryland, is facing challenges from competitors such as Teligent, WinStar and WorldCom, all of which are offering local service. At this juncture, most competitive carriers continue to focus on business service.

Local Service Competitors Holding Numbering Codes in Maryland



Source: Federal Communications Commission, 1999

Rankings

In June 1999, Maryland ranked first in the SLC in switched lines per capita, with 0.74, a 3.1 percent increase from December 1998. On the other hand, the state ranked relatively low in resale lines per capita (10th) and in the middle in UNE loops (eighth).

Maryland Public Service Commission Contact: Mr. Steve Molnar, 410/767-8054

Mississippi

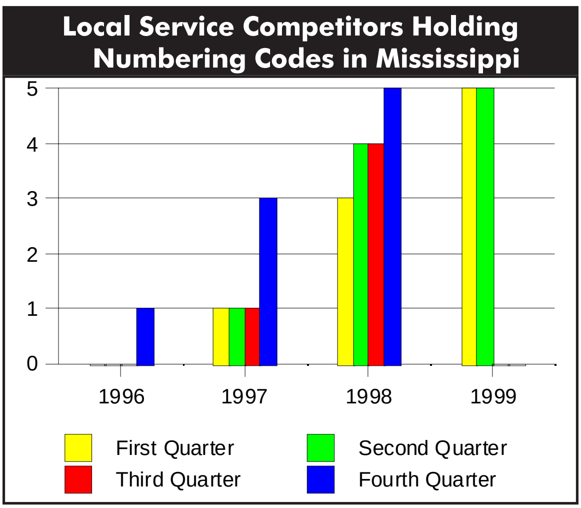
(Primary Incumbent Local Exchange Carrier - BellSouth)

In-state Long Distance

As in other states in which it is the primary local carrier, BellSouth has not received permission to offer interLATA long distance in Mississippi. In November 1998, the Mississippi Public Service Commission (PSC), finding that “BellSouth’s entry into the interLATA market in Mississippi is consistent with the public interest, convenience, and necessity,” certified BellSouth to provide interLATA long-distance service within the state.[43] However, the application was never submitted to federal authorities. At the time of the decision, BellSouth claimed to have lost more than 600,000 lines to local competitors in its nine-state region. It is expected that BellSouth will wait for the outcome of pending cases in Florida and Georgia before submitting another application in Mississippi.

Competitive Carriers

Local competition is strongest in the Jackson and Gulf Coast areas, where five competing carriers held numbering codes as of June 1999. In September 2000, almost 80 competitive carriers were authorized to operate in Mississippi. Leading facilities-based competitive carriers include e.Spire Communications, and Brooks Fiber, a subsidiary of WorldCom. While there has been considerable activity among competitors in the business market, residential customers have not been given much opportunity to choose new providers. However, some competitors, such as Virginia-based Talk.com, are focusing on residential as well as business customers in an effort to win business from BellSouth.[44] On the other hand, many competitors for residential customers offer only pre-paid service.



Source: Federal Communications Commission, 1999

Mississippi is home to WorldCom, a major player in the telecommunications industry. Clinton-based WorldCom, BellSouth and other telecommunications companies employ over 7,000 workers in the Jackson metro area, according to research performed by the Mississippi Department of Economic and Community Development in 1999.[45]

Rankings

Among SLC states, Mississippi ranked high in two categories based on data from June 1999. The state posted a 3.1 percent increase in total switched lines from December 1998 to June 1999, ranking it fourth in the 16-state region. Furthermore, Mississippi ranked third in resale lines per capita that year, with 0.19.

Mississippi Public Service Commission Contact: Mr. Randy Tew, 601/961-5489

Missouri

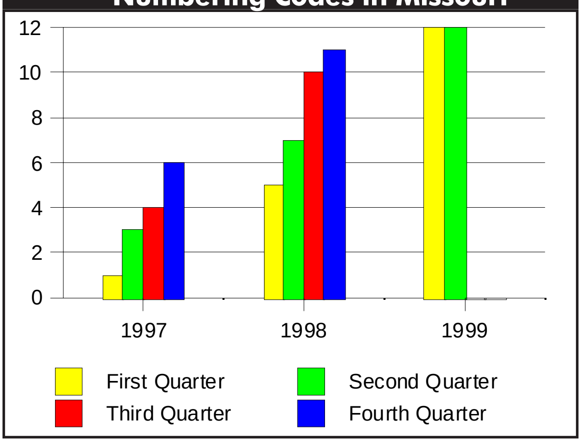
(Primary Incumbent Local Exchange Carrier - Southwestern Bell)

In-state Long Distance

Southwestern Bell first petitioned for permission to offer interLATA long-distance service in Missouri in late 1998, when the company claimed that competitors had taken 35,000 lines, or about 1.4 percent of its lines statewide.[46] The Missouri Public Service Commission (PSC) held hearings in early 1999 to reach a decision on whether to certify the incumbent carrier to provide long-distance service. Before the hearings began, one PSC economist opined that Southwestern Bell had met only six of the 14 checklist points.[17] The application met with disapproval from competitors such as Kansas City-based Birch Telecom, which claimed that Southwestern Bell "made it exceedingly difficult to provide customers with high-quality reliable phone service."[48] Competitors such as Birch have complained that they must pay nearly five times as much to collocate their equipment in Bell switching centers in Missouri as they pay in Texas.[49]

After withdrawing its application in 1999 when the Commission appeared unlikely to approve it, Southwestern Bell resubmitted its petition in June 2000, filing 33,000 pages of documents with the PSC. The company maintains that it has addressed the problems found by regulators, and mentions the Texas experience as evidence that its Missouri operational support systems, which are the same systems that have been independently tested in Texas, are capable of handling competition. The PSC's staff has recommended that the performance data collected by Southwestern Bell be independently measured for accuracy, and staff were working with Ernst and Young toward this goal during the second half of 2000.

Local Service Competitors Holding Numbering Codes in Missouri



Source: Federal Communications Commission, 1999

Competitive Carriers

Local service competition has been growing steadily in Missouri. According to the state PSC's 1999 Annual Report, competitive carriers served about 84,000 access lines in Missouri. This represented 2.5 percent of the state's total access lines. In 1999 the Commission approved 66 interconnection agreements.[50] More recent figures show that competitors have almost reached the 10 percent mark; Southwestern Bell now reports that competitors serve 287,000 access lines. According to the same report, 16 competitors operate their own equipment, and 22 smaller carriers resell Bell services.[51] PSC staff dispute these figures, however, claiming that, as of July 2000, competitors controlled 154,000 access lines and served 4 percent of Missouri's population. Southwestern Bell believes that while the bulk of competitors are targeting business customers, they are not ignoring rural customers, as evidenced by the fact that competitors serve customers from 90 percent of Bell's wiring centers in Missouri. Of Missouri's 72 licensed CLECs, 47 offer residential as well as business service, and 25 offer prepaid service.[52] Competitive carriers held 12 numbering codes across the state in June 1999, and 32 CLECs are facilities-based.

Rankings

Missouri ranked in the middle in most categories, but did secure the third position in percent increase in resale lines per capita, with an almost 58 percent increase from December 1998 to June 1999.

Missouri Public Service Commission Contact: Mr. Bill Voight, 573/751-4227

North Carolina

(Primary Incumbent Local Exchange Carrier - BellSouth)

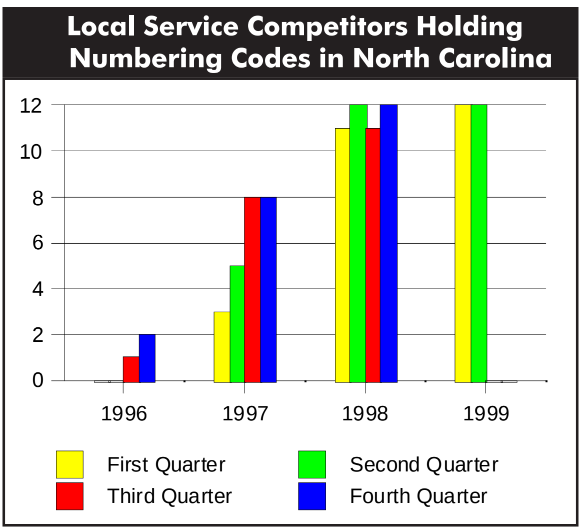
In-state Long Distance

BellSouth serves roughly half of North Carolina's local telephone market, with larger firms such as Verizon and Sprint, as well as smaller entities such as BTI, controlling the rest. This section will focus on BellSouth, since its status as a Baby Bell company forces it to comply with the Act's 14-point checklist. Other ILECs such as Verizon (in this case, formerly GTE) and Sprint, which is not affiliated with Bell, are not bound by the same requirements. In addition to large sections of rural North Carolina, BellSouth serves major metropolitan areas such as Raleigh, Greensboro, Winston-Salem and Charlotte.

BellSouth, which expected to gain as much as one quarter of the state's long-distance market, submitted to the North Carolina Utilities Commission a bid to offer in-state long distance in August 1997. Hearings took place for two weeks and included testimony that overall telephone prices could decrease by 25 percent if BellSouth were allowed to enter the market.[53] However, in January 1998, the Commission decided against allowing BellSouth into the in-state long-distance market, ruling that the main incumbent provider had met only 12 of the Act's 14 points. The Commission, by a 5-2 vote, ruled that the company failed to show that competitors were afforded equal access to its local network.[54] On the other hand, the Commission's staff recommended that BellSouth's application be accepted, and the Commission concluded that BellSouth's entry into the market would serve the public interest.

Competitive Carriers

Competitive carriers have entered the North Carolina market aggressively, but business customers still have more options than their residential counterparts. In mid-1999, competitors controlled about 80,000 of the 2.5 million phone lines in BellSouth's North Carolina territory. Of the 85 providers certified to operate in the state at that time, only 14 were active.[55]



Local Service Competitors Holding Numbering Codes in North Carolina

Source: Federal Communications Commission, 1999

As in other states, debate has centered on whether the RBOC discounts its wholesale rates enough to allow competitors into its market. In the summer of 1998, 12 competing providers filed a petition with the Utilities Commission asking BellSouth to develop a plan with them to simplify the process of opening local markets.[56] These and other competitors found it difficult to lease unbundled network elements from the incumbent provider, and competing firms complained about BellSouth's customer support system.

As of September 2000, there were approximately 120 firms licensed to provide local service. Of these, 12 held numbering codes as of June 1999. Companies leading the way in local service in North Carolina include ALLTEL, which began offering business service in Charlotte in summer 1998, and has since expanded into the Research Triangle, Greensboro and Winston-Salem areas; and Raleigh-based BTI, which has been competing with local exchange carriers in North Carolina since the mid-1980s. ALLTEL, which has focused on residential as well as business customers, managed to capture about 3 percent of the local market in one year, but it has since ceased offering residential service.[57] BTI has concentrated on business customers but has signed up a limited number of households in North Raleigh.[58] Unlike BellSouth, however, neither of these companies has had to honor a commitment to offer service to low-income households.

Rankings

North Carolina ranks high among the SLC states in almost every telecommunications category. As of June 1999, the state was fourth in total switched lines, with over 4 million; sixth in switched lines per capita, with roughly one for every two inhabitants; third in percent increase of total switched lines, with 3.2 percent; fifth in total resale lines, with 73,000; and first in percent increase in UNE loops from December 1998 to June 1999. North Carolina posted an impressive 250 percent increase in this category.

North Carolina Utilites Commission Contact: Mr. Buck Moye, 919/733-2810

Oklahoma

(Primary Incumbent Local Exchange Carrier - Southwestern Bell)

In-state Long Distance

Southwestern Bell, Oklahoma's predominant local service provider, has submitted applications to the state's Corporation Commission (OCC) three times. By a 2-1 vote, the Commission first ruled in April 1997 that the Bell company had met requirements for becoming a long-distance provider in Oklahoma. This was only the second such application filed by a Bell operating company anywhere in the United States, the first being Ameritech's attempt in Michigan earlier in 1997. To demonstrate the economic importance of competition in Oklahoma, in 1997 Southwestern Bell commissioned a study which indicated that the company's entry into the long-distance market would lead to more than 10,000 new jobs and $712 million in gross state product by 2006.[59] However, Southwestern Bell's bid was rejected by the FCC in June of 1997. The FCC determined that Southwestern Bell failed to either demonstrate that it competed against other local phone companies for business and residential customers or show that no local competitors had requested access to its network. The federal commission found that Brooks Fiber Properties, Inc., at that time the only other company providing residential service in Oklahoma, offered this service to only four employees' homes, and then only to test its switches. The FCC also found that Southwestern Bell had in fact received interconnection requests from potential competitors; therefore, the company failed both parts of the test. The FCC did not address during these hearings the company's compliance with the competitive checklist or whether its entry was consistent with the public interest.

A motion was filed to reopen Southwestern Bell's case in February 1998, but the incumbent withdrew its application in June of that year after a judge issued a preliminary recommendation that the company had met only eight of the 14 checklist points. Competitors testified that Southwestern Bell mishandled service orders, refused to honor interconnection agreements, and threatened legal action designed to frighten customers from switching to CLECs.[60] In 1999 commissioners gave the company permission to reopen its case.

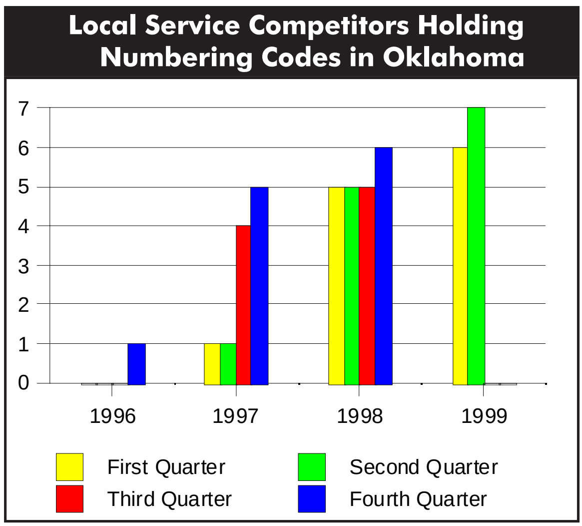
The incumbent provider reopened the case in June 2000, when it filed new affidavits with the Corporation Commission. The company is seeking to prove that it has complied with the six remaining competitive requirements, including local number portability, interconnection, unbundled local loop transmission, and nondiscriminatory access to network elements. Hearings convened in September 2000, and competitors challenged the incumbent's ability to transfer service to other companies. One large competitor, WorldCom, requested that the Corporation Commission conduct third-party testing of the incumbent's electronic ordering systems and operations support systems. This process has been conducted in Georgia on BellSouth's systems, as well as in Texas, where Southwestern Bell eventually won approval to offer long-distance service.[61]

In late September 2000, the OCC unanimously ruled that Southwestern Bell had sufficiently opened its local markets to competition. The recommendation includes conditions and performance monitoring in the future by the Commission, which adopted a series of performance measures and testing procedures used by the Texas Public Utilities Commission during Southwestern Bell's filing process in that state.[62] SBC formally filed with the FCC on October 26, 2000, while the Corporation Commission supported SBC's bid by submitting further documentation to the federal authorities. The FCC is set to issue a ruling on the application by late January 2001.

Competitive Carriers

Southwestern Bell controls 1.6 million local access lines in Oklahoma, while competitors control a total of 320,000. According to the incumbent provider, more than 1.3 million telephone numbers have been assigned to competitors in the state, and competitive carriers have logged more than 600 million minutes of use since January 1997.[63] Facilities-based competitors include Birch Telecom, which is targeting small businesses, and St. Louis-based Everest Communications, which will begin offering telecommunications packages in spring 2001. Birch operates 182,000 access lines in states served by Southwestern Bell, including SLC members Missouri, Oklahoma and Texas.[64]

As of September 2000, approximately 100 competitive carriers were licensed to operate in Oklahoma. In June 1999, seven of these companies held numbering codes. After a slow start, local competition took off in 1997, when four companies were granted numbering codes (*see chart*). Consumers in Oklahoma City and Tulsa currently have more choice in selecting telecommunications providers than their rural counterparts.



Source: Federal Communications Commission, 1999

Rankings

Oklahoma has relatively few switched lines and has seen little competition in leasing UNE loops. However, the state did rank sixth in resale lines per capita in June 1999, with .014 lines per individual.

Oklahoma Corporation Commission Contact: Mr. Elijah Abinah, 405/522-1155

South Carolina

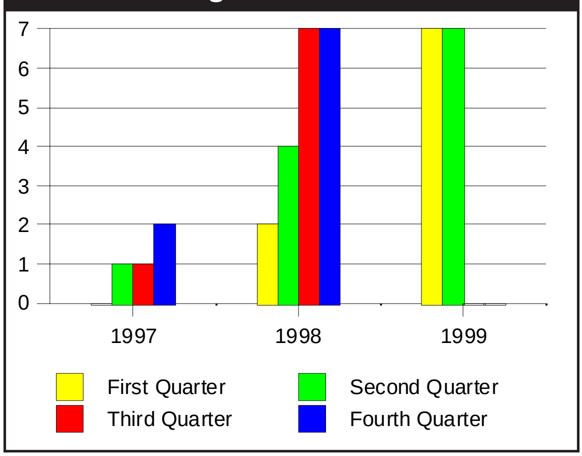
(Primary Incumbent Local Exchange Carrier - BellSouth)

In-state Long Distance

BellSouth applied for entry into South Carolina's long-distance market in 1997, when the state's Public Service Commission (PSC) voted 7-0 to grant it permission to offer interLATA service. The Commission's approval made South Carolina the first state in BellSouth's nine-state service territory to approve such an application. A study conducted at that time concluded that BellSouth's entry into this market would generate 12,900 new jobs and add $1.2 billion to the state's economy over a 10-year period.[65] The PSC agreed with BellSouth's assessment that no potential competitors were taking reasonable steps toward implementation of business plans for facilities-based local service, and that no such service existed at that time. In a unique twist, more than 300 political, business and civic leaders publicly supported BellSouth's application.[66]

However, BellSouth's application did not fare so well with federal authorities. Upon review of the document in November 1997, the U.S. Department of Justice recommended rejection of the company's petition, and the FCC followed suit with a 5-0 vote for rejection of the application in December of the same year. The federal commission found problems with one checklist point which would come back to haunt BellSouth repeatedly - nondiscriminatory access to operations support systems (OSS). As in other states, the FCC ruled that BellSouth's South Carolina operation did not offer competitors equivalent OSS service. Furthermore, BellSouth also was faulted for not providing competitors equal access to unbundled network elements, or portions of its network. The FCC concluded that BellSouth failed to demonstrate compliance with the competitive checklist, but it did mention that BellSouth had made progress in opening its market.[67] As of October 2000, the South Carolina PSC was monitoring the third-party testing which was taking place in Georgia and Florida.

Local Service Competitors Holding Numbering Codes in South Carolina



Source: Federal Communications Commission, 1999

Competitive Carriers

BellSouth controls more than 1.2 million lines in South Carolina. Major facilities-based competitors in the state include Greenville-based NewSouth, Intermedia Communications and ACSI, with the latter providing local business service in larger metropolitan areas, such as Charleston, Columbia and Greenville. A new entrant, Adelphia Business Solutions, began serving business, education and government clients in May 1999 and invested $7.2 million to build a 102-mile fiber-optic network in Columbia. Adelphia, which has completed an interconnection agreement with BellSouth, has installed more than 3,000 business lines throughout the state capital and its suburbs.[68] More than 150 companies are licensed to operate as competing local exchange carriers in South Carolina, and, as of June 1999, seven of them held numbering codes. Competition for residential service remains limited, however.

Rankings

In June 1999 South Carolina ranked high among SLC states in resale lines per capita, a category in which its .016 figure secured fourth place. Its 62,000 total resale lines were the sixth most among the 16 SLC states, but South Carolina ranked next to last in switched lines per capita, with 0.42 lines per individual.

South Carolina Public Service Commission Contact: Mr. Gary Walsh, 803/896-5133

Tennessee

(Primary Incumbent Local Exchange Carrier - BellSouth)

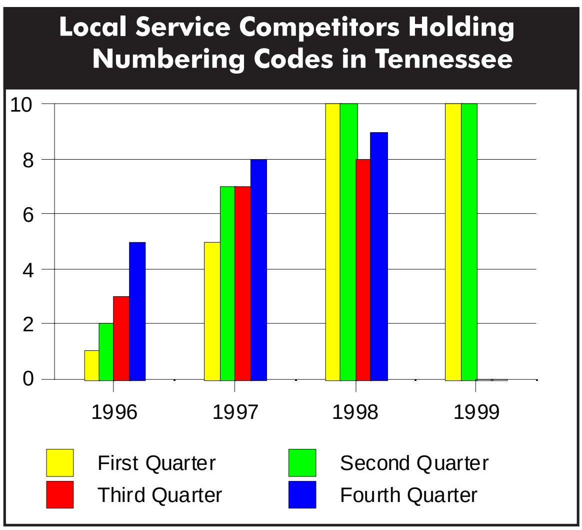
In-state Long Distance

The General Assembly passed the Tennessee Telecommunications Act in 1995, laying the groundwork for telephone competition in the state. As a catalyst for deregulation, the 1995 Act repealed an earnings cap that set BellSouth's rate of return on investment. In December 1997 BellSouth asked the Tennessee Regulatory Authority (TRA) to agree that the company had met the federal Act's competition standards. At the time, BellSouth claimed that its entry into Tennessee's interLATA long-distance market would generate more than 23,000 new jobs and boost the state's economy by $2.2 billion by 2006.[69]

BellSouth, however, after providing additional information in July 1998, withdrew its application in April 1999, and decided to postpone the process until a later date. After extensive hearings, the company wanted more time to make its case for permission to offer interLATA service. As of November 1999, BellSouth claimed to have lost more than 171,000 lines to competitors in Tennessee.[70]

Competitive Carriers

As of September 2000, the TRA had authorized 474 competitive carriers to operate in Tennessee. Of those carriers, 77 are facilities-based. Local service competition is concentrated in the major metropolitan areas of Memphis, Nashville, Knoxville and Chattanooga. According to the TRA, BellSouth operated about 2.7 million telephone lines at the end of June 2000. Of those lines, roughly 700,000 served businesses. On the other hand, CLECs served just 187,000 business lines, and the TRA estimates that CLECs have won only 6 percent to 7 percent of the incumbent provider's overall business.[71] As of June 1999, 10 competing carriers held numbering codes in Tennessee.



Local Service Competitors Holding Numbering Codes in Tennessee

Source: Federal Communications Commission, 1999

Larger telecom competitors include US LEC, which provides service to Knoxville's McGhee Tyson Airport and parts of the University of Tennessee: AT&T Local; and BTI, which has been providing long-distance service in Knoxville since 1983.[72] In the Chattanooga area, where local competitors such as Adelphia and KMC Telecom have invested more than $50 million in new equipment and infrastructure, the Electric Power Board (EPB) entered the local phone market in March 2000.[73] The Electric Power Board is expected to compete for residential as well as business customers, while some CLECs, such as NewSouth and TriVergent, are focusing solely on small businesses.

Rankings

In 1999 Tennessee ranked seventh in the SLC in both total switched lines and switched lines per capita, with 3 million and 0.55, respectively. The state also ranked second in total UNE loops, with 29,000 as of June 1999.

Tennessee Regulatory Authority Contact: Mr. C.D. Mundy, 615/741-2904 ext. 165

Texas

(Primary Incumbent Local Exchange Carrier - Southwestern Bell)

In-state Long Distance

In 1995 the Legislature revised the Public Utility Regulatory Act to open the monopoly in local exchange service to competition. The revisions preceded the federal Act by one year and created a structure which permits deregulation based on the speed of the development of competition.

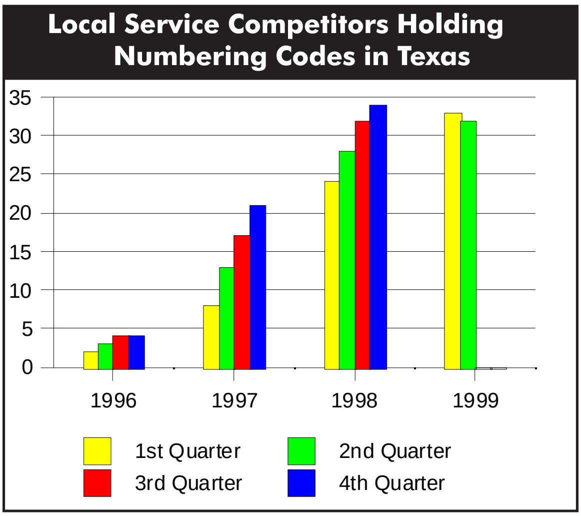
As of January 2001, Texas remained the only SLC state, and one of only two states in the nation, in which the incumbent telecommunications provider (in this case, Southwestern Bell) had been permitted by the FCC to offer in-state, interLATA long-distance service. Southwestern Bell, Texas' main local service provider, first filed with the Texas Public Utilities Commission (PUC) in March 1998, when the PUC determined that the incumbent provider had not yet succeeded in opening the local telephone service market to competition.[74] In April 1999 the PUC voted to conditionally recommend that Southwestern Bell be allowed to enter the state's long-distance market and ordered the company to test its operations support systems. Finally, in December 1999 the PUC unanimously endorsed Southwestern Bell's application. SBC, Southwestern Bell's parent company, then filed in February 2000 with the FCC. While the PUC supported its application, the U.S. Department of Justice (DOJ) voiced two concerns over the application, indicating that SBC's provisioning of unbundled local loops for high-speed data services and the company's performance in moving its customers to competitors without disrupting service did not meet regulatory requirements. As in other states, testing of operations support systems (OSS) remained problematic.

SBC succeeded in proving that it met the criteria for providing access to OSS outlined in the 14-point checklist, demonstrating that it offered two alternatives for providing non-discriminatory access to its high-speed networks and showing that it switched customers to competitors with a success rate of 99 percent. This figure was higher than Bell Atlantic's rate in New York, which the FCC had previously found to be compliant. SBC filed additional evidence in April 2000 in order to address concerns raised by the Department of Justice and competitors over the company's original application. The FCC then reopened the case to allow the submission of new information. The DOJ agreed that SBC was in compliance and passed its recommendation on to the FCC, which also found that the company had taken the appropriate steps to open the Texas market to competition.

Southwestern Bell began providing long-distance service in Texas in July 2000, offering a top residential rate of nine cents a minute, substantially lower than competitors' standard plans. The company is expected to challenge Verizon in that provider's Texas territories as well. Southwestern Bell's plan is similar to that which Bell Atlantic (now Verizon) offered immediately after it won regulatory approval to offer interLATA long distance in New York. Bell Atlantic offered a flat 10-cent rate and succeeded in signing up more than 400,000 customers within three months, but some analysts believe that the company could have gained more market share with a more innovative pricing scheme.

Competitive Carriers

According to SBC statistics, competitors operate more than 1.8 million local phone lines in Texas. Southwestern Bell has signed more than 260 interconnection agreements with competitors, and approximately 60 companies are providing facilities-based local service. An additional 125 providers offer local service through resale. Southwestern Bell also claims to have processed 4 million service orders from competitors in Texas since January 1998, and to have provided 58,000 unbundled loops.[75] As of June 1999, 32 competitors held numbering codes in Texas, and as of August 2000, more than 400 competitive carriers were licensed to operate in the state. Bell claimed that, as of November 1999, competitors controlled 22 percent of business lines in the incumbent provider's territory, but only 4 percent of residential lines.[76]



Source: Federal Communications Commission, 1999

Local service competition has not always proceeded smoothly. The PUC has reported that complaints about local and long-distance service have almost doubled each year since the passage of the 1996 Act. From August 1998 to August 1999, the PUC was inundated with 14,167 such complaints, up from the previous year's 9,626.[77]

Options have been expanding for consumers in areas such as Austin, where competition has increased considerably. Time Warner Telecom, whose Austin clients include Bergstrom International Airport, has installed two switches in the capital city, the first of the company's 23 cities where it has installed a second switch. As of November 1999, at least six companies had switches in Austin, while eight competitors had built their own fiber-optic networks. Most competitors focus on areas with heavy commercial concentration, such as downtown, and the city's Northwest high-tech district. Southwestern Bell claimed that, in November 1999, competitors in Austin served over 105,000 business lines, or 28.5 percent of the total business market. Most competitors in the Austin market, such as Teligent, Birch, and Dallas-based Caprock Communications, prefer to seek out business customers.[78] Other, larger competitors, such as AT&T also have focused on local service. By the end of 2000, AT&T officials hope to sign up more than 650,000 local subscribers in Texas, with at least 20 percent residing in the Dallas - Fort Worth area.[79]

While major urban markets such as Dallas - Fort Worth, Houston, San Antonio and Austin have experienced substantial local service competition, especially in their business markets, smaller cities such as Brownsville, Waco and Wichita Falls have not been excluded. Even some small towns such as McKinney, located just north of Dallas, are enjoying local service competition. Sage Telecom, based in McKinney and selling local service in the area since August 1998, is bucking the trend of primarily concentrating on large businesses by targeting small-town families and enterprises. Sage bases its business on bundling network elements, which allows it to collect access fees when customers of other companies call its subscribers, something that resellers are not allowed to do. Sage also reaps the benefits of lower advertising costs. Like many Texas competing carriers, Sage complained to the PUC that Southwestern Bell was not cooperating adequately with the upstart company during the customer-switching process, but Sage concedes that Bell was trying to comply with regulations.[80]

Rankings

As the SLC state with the largest population, Texas ranked high in each category except percent increase in switched lines and resale lines per capita, categories in which Texas had already excelled. Texas secured first place in total switched lines, with over 12 million; total resale lines, with 423,000; resale lines per capita, with .021; and UNE loops, with 39,000. Texas also ranked fourth in switched lines per capita, with 0.61.

Texas Public Utilities Commission Contact: Mr. Gordon Van Sickle, 512/936-7000

Virginia

(Primary Incumbent Local Exchange Carrier - Verizon)

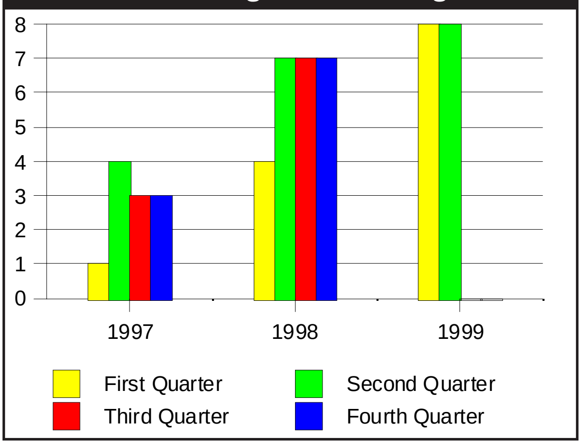
In-state Long Distance

Virginia's local markets are served primarily by Verizon, but neither Verizon nor its predecessor Bell Atlantic has filed an application to provide interLATA long distance in the commonwealth. However, as a precautionary measure, in October 1999 Bell Atlantic requested that the Virginia State Corporation Commission (SCC) hire KPMG to test the company's operating systems.

Competitive Carriers

After a slow start, competition in local telephone service has recently taken off in Virginia. While only 4 percent of Virginia's 4.9 million telephone lines (as of June 2000) are controlled by competing carriers, and 90 percent of those lines belong to business customers, there has been phenomenal growth. As recently as early 1998, competitors served only 15,000 lines, but by June 2000, that number had increased to 209,000 lines.[81] Bell Atlantic's successor, Verizon, currently has 50 percent to 60 percent of Virginia's business local phone market, but the SCC has authorized over 140 companies to provide competing service in the state. Major competitors include Richmond-based Cavalier Telephone, which was serving 7,000 lines in the state as of January 2000; Net2000, US LEC, and Adelphia Communications. MediaOne, a cable giant, began offering local service in November 1998 and is concentrating solely on the residential market, while other companies, such as US LEC, are targeting larger businesses. Both Cavalier and MediaOne belong to the ranks of facilities-based competitors, providing service over their own networks.

Local Service Competitors Holding Numbering Codes in Virginia



Source: Federal Communications Commission, 1999

Some competing carriers have filed complaints with the SCC about delays caused by Bell Atlantic's operating systems, but others have praised the incumbent for its willingness to cooperate with CLECs. Local competition has been most vibrant in densely populated areas such as suburban

Washington, D.C., Richmond and Norfolk. As of June 1999, eight competing carriers held numbering codes in Virginia.

Rankings

Virginia ranked first among SLC states in percent increase in resale lines from December 1998 to June 1999, with a 153 percent increase. The commonwealth also posted the third most total switched lines per capita (4.6 million), as well as the third highest ratio of switched lines per capita (0.67) over this period.

Virginia State Corporation Commission Contact: Ms. Pam Butler, 804/371-9420

West Virginia

(Primary Incumbent Local Exchange Carrier - Verizon)

In-state Long Distance

Incumbent provider Verizon has not yet applied to offer in-state interLATA long-distance service in West Virginia. The West Virginia Public Service Commission did approve predecessor Bell Atlantic's statement of generally available terms and conditions (SGAT) in April 1999, after the incumbent had made numerous changes, but the SGAT was allowed to expire. According to the PSC, Verizon is expected to wait for approval in other, more populous states before applying for permission to offer long-distance service in West Virginia.

Competitive Carriers

Local telephone service competition has been slow to develop in West Virginia, mainly because of the state's lack of large metropolitan areas. Competing carriers have proved to be less likely to enter smaller markets, and West Virginia's largely rural population does not offer competitors the financial incentives available elsewhere. The PSC certified 77 competing carriers in 1999, but not all are operating at this time. In June 1999 one competitor held a numbering code.

Competition does exist in the Charleston area, where ComScape Telecommunications began offering service to businesses in 1997. Another firm, Fibernet, targets business customers as well.[82] Additionally, in April 2000 CTSI, which provides service to both residential and small-business customers, began serving the Charleston and Huntington areas. The company, which focused on smaller cities such as those in West Virginia, installed digital switching and interconnecting equipment in downtown Charleston in spring 2000.[83] However, in December 2000 CTSI announced that it was selling its Charleston operation.

Rankings

Due to a lack of concentrated industry, West Virginia ranks low in each category, but does offer more switched lines per capita than four SLC states.

West Virginia Public Service Commission Contact: Mr. Dannie Walker, 304/340-0454

Conclusion

Consumer expectations for the immediate success of local telephone service competition were set impossibly high. To varying degrees, incumbents, competitors and customers all failed to realize the complexity of the approval process, anticipate the difficulties inherent in crafting and signing interconnection agreements, or foresee the legal challenges to the Act. Furthermore, the Federal Communications Commission and, to a lesser extent, state public service commissions set high standards for approval to offer in-state long-distance service. Frustration increased as years of untangling regulations took their toll on an impatient public and Congress, and only recently has the situation begun to change.

While many Southern states got off to a slow start in the telecommunications competition arena, the situation is improving, albeit incrementally. Since incumbent local service providers in two states are already offering long-distance service in those states as well, consumers may reasonably expect this to occur in other states. SLC states with a good chance of increased long-distance competition include Florida and Georgia, where independent testing was being conducted in the second half of 2000, and Oklahoma, where the Corporation Commission has approved Southwestern Bell's application. Furthermore, one SLC state, Texas, already is enjoying increased competition in its long-distance market as a result of Southwestern Bell's successful application to offer in-region service in that state.

Although competition in local telephone service has not reached the levels of long-distance service, much progress has been made. Competitors continue to enter the market through the modes of entry which are available to them: resale, leasing UNE loops, and building their own networks. Cooperation among incumbent providers, competitive carriers, and state and federal regulatory commissions should continue to improve, and consumers may expect competition in the telecommunications industry to flourish in the near future.

Glossary

14 Point-Checklist	Conditions enumerated in Section 271 of **the Act** which must be met in order for an incumbent provider to gain FCC approval to offer in-region long distance.
CLEC	Competitive Local Exchange Carrier. Newer start-up or competing phone company that seeks a share of the local phone market from **ILEC**s.
Collocation	Direct connection to a telephone company's central office equipment.
ILEC	Incumbent Local Exchange Carrier. The established local phone Company, which is often also an **RBOC**.
Incumbent provider	See **ILEC**.
Interconnection agreement	Contract establishing a business relationship between incumbent and competitive carriers. Issues may include resale prices or use of equipment. State utility commissions may arbitrate in these matters.
LATA	Local Access and Transport Area. Areas established in 1982 in which a local carrier may offer local or "short long-distance"(**intraLATA**) calls. Calls from one of these areas to another are considered **interLATA**, or long-distance.
Number portability	Requirement by the FCC stating that customers who switch providers must be able to retain their telephone numbers. This does not apply to customers who change their place of residence.
OSS	Operational Support Systems. The systems' local phone systems use to take and fulfill orders for phone service, repairs and billing. The speed and accuracy with which these systems are used are major points of contention between competitors and the regional Bell companies.
RBOC	Regional Bell Operating Companies. A large regional local phone company that was once part of the Bell monopoly, such as BellSouth, SBC, or Verizon. Also known as one of the Baby Bell companies. GTE, for example, was an **ILEC** in some parts of the South, but never an **RBOC**.

Resale	Sale of a service (such as use of telephone lines) from one provider to a competitor, who then repackages the service and resells it to the public.
SGAT	Statement of Generally Available Terms and Conditions. If no competitive carriers request **interconnection agreements** with an **incumbent**, the incumbent provider may publish an SGAT, which, if approved by the state commission, provides sufficient evidence of the incumbent's willingness to compete fairly and therefore be allowed to offer in-state long distance.
Switches	The machines and computers by which telephone traffic is directed.
Telecommunications Act of 1996 (The Act)	Federal legislation signed into law by President Clinton in February 1996 with the intention of opening the local telephone service market to competition.
UNE	Unbundled Network Elements. The various pieces of a local phone network that have been priced separately instead of as a single service. This allows competitors to purchase some or all the pieces for use in conjunction with their own equipment to offer competitive local telephone service.

Endnotes

[1] Verizon was formed by the merger of Bell Atlantic and GTE in July 2000. This report refers to Bell Atlantic and GTE when these companies are mentioned prior to the time of the merger.

[2] Most of the information in this section was gleaned from Bonnett, Thomas W. *Telewars in the States.* Washington, D.C.: Council of Governors' Policy Advisors, 1996; and Czerwinski, Stanley J. *Telecommunications: Development of Competition in Local Telephone Markets.* Report to the Subcommittee on Antitrust, Banking Rights and Competition, Committee on the Judiciary, U.S. Senate. Washington D.C.: United States General Accounting Office, 2000.

[3] The seven original RBOCs (regional Bell operating companies) were BellSouth, Bell Atlantic, Ameritech, US WEST, New York New England Telephone (NYNEX), Southwestern Bell, and Pacific Telesis. Due to mergers, only four (SBC, BellSouth, Bell Atlantic, which merged with GTE to become Verizon, and QWEST) remain.

[4] Dodd, Annabell Z. *The Essential Guide to Telecommunications.* Upper Saddle River, NJ: Prentice Hall, 2000, 122.

[5] Bonnett, *Telewars in the States*, 79.

[6] GTE, which was an ILEC but not an RBOC before its merger with Bell Atlantic, did not have to fulfill the 14-point requirements and gained one million customers within a year of the signing of the Act.

[7] BellSouth, which was at a disadvantage at the beginning of the process as the ground rules continually changed, has had particular difficulties gaining approval, but its future in the long-distance market appears more promising, with hearings taking place in Florida and Georgia.

[8] Sprint pioneered PCS, which uses digital technology, higher radio frequencies and smaller cell sites than cellular technologies.

[9] Czerwinski, 18.

[10] *Ibid.*, 19.

[11] Of note, number portability is mandated only when customers switch carriers, not when they move.

[12] For more information on OSS, see Czerwinski, 23.

[13] Bonnett, Thomas W. *The Twenty-One Most Frequently Asked Questions*. Washington, D.C.: Council of Governors' Policy Advisors, 1997, 25.

[14] A plan adopted on June 1, 2000 by the FCC eliminates monthly minimum use charges now collected by long-distance providers.

[15] Dodd, 98.

[16] "Short long-distance" or local toll calls are made within a local access and transport area (LATA), but beyond a customer's free local service area. These also are called intraLATA calls. Facilities-based competition is possible when a provider builds its own network (composed of lines, switches, etc.) for delivery of telecom services.

[17] Czerwinski, 17.

[18] Horn, Patricia. "South Florida's BellSouth Fights for Business as Monopolies Dissolve." *Fort Lauderdale Sun-Sentinel*, Fort Lauderdale, Florida, February 1, 1998.

[19] The following statistics are derived from *Trends in Telephone Service*, a March 2000 report issued by the Industry Analysis Division, Common Carrier Bureau of the Federal Communications Commission: Washington, D.C.

[20] SBC Communications is the parent company of Southwestern Bell.

[21] Sprint did not report due to confidentiality privileges. The subtotal assumes the same number of lines.

[22] Not counting Sprint's lines.

[23] See note 21.

[24] See note 22.

[25] An incumbent carrier also may claim that no competitor has approached it with a desire to offer competing local service.

[26] Tomich, Jeffrey. "Southwest Bell Fails to Attain Open Line for State Long-distance." *Arkansas Democrat-Gazette*, Little Rock, Arkansas, December 22, 2000.

[27] Tomich, Jeremy. "SW Bell Seeks Regulators' OK." *Arkansas Democrat-Gazette*, Little Rock, Arkansas, July 25, 2000.

[28] "BellSouth Competitors File Complaints." *Palm Beach Post*, Palm Beach, Florida, October 12, 2000.

[29] Poppe, David. "Telephone Competition Growing at Slow Pace: Monopolies Continue to Dominate in Florida." *The Miami Herald*, December 9, 1998.

[30] Marden, William. "Alternative Telephone Services Define Territories in Jacksonville." *Jacksonville Business Journal*, Jacksonville, Florida, August 9, 1999.

[31] Schoolcraft, Lisa R. "Adelphia Has BellSouth's Number." *Jacksonville Business Journal*, Jacksonville, Florida, January 24, 2000.

[32] Only BellSouth UNE loops were taken into account in Florida, since GTE and Sprint did not provide numbers.

[33] Kanell, Michael E. "BellSouth Continues Uphill Battle In Quest to Offer Long-Distance." *Atlanta Journal-Constitution*, April 19, 2000.

[34] Kanell, Michael E. "BellSouth Again Delays Plea For Long-Distance." *Atlanta Journal-Constitution,* August 31, 2000.

[35] *Ibid.*

[36] Jones, Walter C. "Survey Shows Most Georgia Residents are Unaware of Phone-Service Choices." *The Augusta Chronicle,* Augusta, Georgia, June 9, 2000. The survey, conducted for Georgians Calling for Competition, has a margin of error of 4.08 percent.

[37] Georgia Public Service Commission. *Summary of 5778-U Data Request 2.* June 30, 2000.

[38] "BellSouth, Allegiance Telecom Advance Competition in Atlanta, Miami." *Phoneplus Magazine*, from the Internet site *www.phoneplusmag.com/hotnews/08h2310237.html*, accessed on August 28, 2000.

[39] "AOL, Talk.com Try to Win Over BellSouth Customers." *Lexington Herald-Leader*, Lexington, Kentucky, August 8, 2000.

[40] " BellSouth Reacts to FCC Decision on Louisiana Long-Distance Petition." BellSouth Press Release, October 13, 1998.

[41] Guidera, Mark. "In Maryland, Key Challenges Await." *Baltimore Sun*, July 1, 2000.

[42] Hughlett, Roger. "Carriers Taking on Local Bell." *Baltimore Business Journal*, November 15, 1999.

[43] Mississippi Public Service Commission *Re: Consideration of the Provision of In-region InterLATA Services By BellSouth Telecommunications, Inc. Pursuant to Section 271 of TA 96* Docket No. 97-AD-0321.

[44] Schoenberger, Robert. "Phone Service Competition Heats Up." *The Clarion-Ledger*, Jackson, Mississippi, March 30, 2000.

[45] Stevens, Nancy. "Industry Has Major Role in State." *The Clarion-Ledger,* Jackson, Mississippi, May 7, 2000.

[46] Stroud, Jerri. "SW Bell Gives PSC a Thorny Issue." *St. Louis Post-Dispatch*, November 22, 1998.

[47] Stroud, Jerri. "Phone Rivalry Fails to Appear." *St. Louis Post-Dispatch*, February 7, 1999.

[48] *Ibid.*

[49] Stroud, Jerri. "SBC Renews Long-Distance Effort Here." *St. Louis Post-Dispatch*, June 29, 2000.

[50] Missouri Public Service Commission. Annual Report, 1999.

[51] Sickinger, Ted. "SWB Again Seeks to Provide Long-Distance in Missouri." *Kansas City Star*, Kansas City, Missouri, June 30, 2000.

[52] Companies which provide DSL service exclusively are not counted as CLECs in Missouri.

[53] Marshall, Kyle. "BellSouth Hearing Begins." *The News & Observer*, Raleigh, North Carolina, September 23, 1997.

[54] Kane, Dan. "Board Won't Allow BellSouth Entry in Long-Distance Market." *The News & Observer*, Raleigh, North Carolina, January 15, 1998.

[55] Schill, Karin. "Want Our Service? Huh? Huh?" *The News & Observer*, Raleigh, North Carolina, July 3, 1999.

[56] Buggs, Shannon. "BellSouth's Rivals File Petition." *The News & Observer*, Raleigh, North Carolina, July 21, 1998.

[57] Schill, Karin. "ALLTEL Headed for Homes." *The News & Observer*, Raleigh, North Carolina, August 3, 1999.

[58] Schill, Karin. "ALLTEL Challenging BellSouth." *The News & Observer*, Raleigh, North Carolina, February 9, 2000.

[59] "Southwestern Bell Long-Distance Entry in Oklahoma Would Create More Than 10,000 New Jobs By 2006." Southwestern Bell press release, from the Internet site *www.swbell.com/About/NewsCen...wRelease/0,1018,19970211-01,00.html*, February 11, 1997.

[60] Stewart, D.R. "Bell Renews Long-distance Permit Effort." *Tulsa World*, June 10, 2000.

[61] Stewart, D.R. "WorldCom Pushes Testing of Bell Compliance." *Tulsa World*, August 19, 2000.

[62] "SW Bell Gets Long-Distance Call." *Tulsa World*, September 29, 2000.

[63] Price, Marie. "SWB Makes Updated Long-distance Filing." *The Journal Record*, Oklahoma City, Oklahoma, June 12, 2000.

[64] Stewart, D.R. "Telecom Provider Arrives." *Tulsa World*, August 17, 2000.

[65] "South Carolina Public Service Commission Agrees that BellSouth Should Be Allowed Into Long-Distance Market." BellSouth press release, July 24, 1997. Accessed from *www.bellsouthcorp.com/proactive/documents/render/10620.vtml* on May 17, 2000. The study was conducted by WEFA, an economic forecasting organization.

[66] Meadows, Andrew. "S.C. Officials Answer BellSouth's Call." *The State*, Columbia, South Carolina, November 26, 1997.

[67] Much of the information in this section was taken from the Florida Public Service Commission's December 24, 1997 memorandum on BellSouth's South Carolina Section 271 application. The

memorandum is available on the Internet at: *www.psc.state.fl.us/pai/271/socarolina.html*.

[68] L'Heureux, Dave. "Adelphia Increasing Reach in S.C." *The State*, Columbia, South Carolina, January 28, 2000.

[69] "BellSouth is Ready to Bring Real Competition to Tennessee Long-Distance Market." BellSouth press release, December 12, 1997. Accessed from *www.bellsouthcorp.com/proactive/documents/render/13762.vtml* on May 17, 2000. The study was conducted by WEFA, an economic forecasting organization.

[70] Brister, Kathy. "Calling Up the Competition; Businesses Turn to CLECs for Communications Services." *Knoxville News-Sentinel*, November 11, 1999.

[71] Brass, Larisa. "Local Phone-Service Firms Size Up Competition." *Knoxville News-Sentinel*, August 10, 2000.

[72] *Ibid*.

[73] Flessner, Dave. "EPB Joins Local Phone Business." *The Times & Free Press*, Chattanooga, Tennessee, March 15, 2000.

[74] Verizon is the incumbent provider of local service in some Texas markets, such as the Dallas suburbs of Plano and Irving.

[75] These figures are taken from press releases from SBC, which were accessed at *www.sbc.com*, and the Texas Public Utility Commission.

[76] Hight, Bruce. "Southwestern Bell Confronts More Rivals in Austin, Texas Market." *Austin American-Statesman*, November 14, 1999.

[77] Ahles, Andrea. "Deregulation was Meant to Give Local Customers More Options." *Fort Worth Star-Telegram*, February 8, 2000.

[78] *Ibid*.

[79] Files, Jennifer. "Problems Mount With AT &T's Service in Texas." *The Dallas Morning News*, January 18, 2000.

[80] Files, Jennifer. "McKinney, Texas-based Phone Company Targets Small-town Subscribers." *The Dallas Morning News*, October 19, 1998.

[81] Edwards, Greg. "Michigan Entrepreneur Offers Telephone Competition in Richmond." *Richmond Times-Dispatch*, January 10, 2000.

[82] Balow, Jim. "Competition for Local Phone Service Growing Slowly." *The Charleston Gazette*, Charleston, West Virginia, February 21, 2000.

[83] Balow, Jim. "New Phone Competition CTSI Enters Local Telephone Market." *The Charleston Gazette*, Charleston, West Virginia, April 12, 2000.

Notes

Other SLC Special Series Reports

The Aging Inmate Population

Global Linkages: The Impact of the East Asian Economic Downturn on the South

Bankruptcy Filings in the South and State Sovereign Immunity

Language Diversity and Southern Schools: The Growing Challenge

Sentencing Reform in Southern States: A Review of Truth in Sentencing and Three-Strikes Measures

The Future of Southern Ports: Megaships and Megachanges on the Horizon

Making a Safe Haven: A Review of School Safety Status, Perceptions and Practices in the South

Female Offenders: Special Needs and Southern State Challenges

Drawing the Map: Redistricting in the South

More Than a Song and Dance: The Economic Impact of the Arts in the Southern Legislative Conference States

For these publications and other information on the Southern Legislative Conference of The Council of State Governments, please call 404/266-1271 or visit the SLC Website at http://www.slcatlanta.org