

Competitive Service Providers

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Telecommunications service providers offering competitive metro area services have suffered unequally from the ongoing calamitous industry contraction. Pure resellers of incumbent local exchange carrier (ILEC, aka telco) services and fixed wireless carriers have mostly failed. Others survive and are actually growing, such as retailers of services based on telco unbundled network elements (UNEs) and some facilities-based carriers.

Overall the competitive carriers (CLECs) were reported by the FCC to account for 25 million switched access lines as of 12/2002, 13% of the US total, up 26% in the year.

Pure resellers of local telephone services have been squeezed by telcos' wholesale prices that are only 17%-25% lower than telco retail rates, allowing little room for resellers' competitive discount, marketing and customer service costs. According to the FCC, resale accounted for 19% of CLEC lines in 12/2002, down from 43% in 1999. Resellers are unlikely to recover unless telcos were to separate completely their retail and wholesale activities, an outcome that is neither planned nor probable.

In substantially shape are CLECs that assemble services based on telcos' unbundled network elements platform, (UNE-P). UNE-P provides all the components needed for an end-user to get dial tone, including loop, local switching, interoffice transport, tandem switching and entrance facility. Telcos price UNE-P at a wholesale cost that allows the competitive carriers to achieve a higher gross margin than if they were pure resellers. For regulatory purposes UNE-P carriers are considered facilities-based and therefore can collect access fees from LD carriers for calls to or from their customers. FCC rules have required telcos to make UNE-P available for carriers serving small & medium size businesses (SMEs, having up to four lines) and residential users. According to the FCC, UNE loops accounted for 55% of CLEC lines in 12/2002, up from 24% in 1999. The major beneficiaries of

UNE have been the large LD carriers, AT&T and MCI, as they extend into local services.

In 2/2003, the FCC ruled that telcos will no longer be required to unbundle the switching element of UNE-P along with other network elements. While this will have only a moderate effect on the large LD carriers that in many locations have their own switches, it will harm smaller providers that have relied on telcos for this equipment. The FCC also ruled that it would no longer require ILECs to provide line-sharing as an unbundled element. This was unhelpful to operators such as Covad that have used a portion of existing loops to provide DSL services to residential and small business customers.

Major data, enterprise networking, and Internet access competitors include facilities-based carriers such as Time-Warner Telecom, Level 3, AT&T and MCI. Typically these carriers connect buildings within a short distance of their metro-area fiber rings and that house enough users to generate an overall threshold demand for services and bandwidth. These carriers offer data connections starting at 1Mbps, ranging up to 100Mbps, 1Gbps, even 10s of Gbps, both for end-users and for other carriers for resale, as well as city-to-city Ethernet connectivity. Building access is provided through different kinds of boxes, depending on data rates. For example, for Gigabit Ethernet connections a Dense Wave Division Multiplexing (DWDM) box might be used; for 10Mbps – 100Mbps, the carrier might install an Ethernet switch/router or an add-drop multiplexer box.

Cable operators represent an increasingly significant category of facilities-based operators. In addition to mostly residential cable telephony lines (FCC: 3M in 12/2002), operators such as Cox and Time-Warner exploit their local cable infrastructures to provide SME customers with data and enterprise network services. For example, Cox Business Services makes use of about two-thirds of the cable facilities installed for residential services, including rights of way, buildings, switches, distribution equipment, and back-office systems.