

The Weekly Telecom Report, provided by www.pabroadbandnews.com. For more information, please contact John Kennedy at johnk@pabroadbandnews.com.

In this issue, major industry players react to Bush administration's decision not to press for FCC competition regulations as AT&T announced its departure from some local markets. Industry analysts differ on what impact – if any – the move will have on the marketplace. On another front, SBC decides to make a \$6 billion commitment to building its network. VOIP continues to dominate debate in the industry and cable providers are resisting efforts to give consumers choice of channels. President Bush delivers a speech to promote a push for nationwide broadband to boost productivity. In Pennsylvania, Commonwealth Telephone Enterprises hires one of its main competitor's top leaders to serve as its No. 2 executive; Verizon opens a new call center in Scranton and announces improvements to its system in Philadelphia. Both The Allentown Morning Call and The Centre Daily Times look at the impact of competition on the established phone companies. Finally, a House Committee looks at a push to have the Legislative Budget and Finance Committee investigate the level of reporting that the Public Utility Commission requires of local phone companies.

From the Papers

AT&T will stop competing for some customers.

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President Bush promotes nationwide broadband to boost productivity, U.S. economy.

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Verizon upgrades Philadelphia facilities.

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Cable providers resist move to give consumers choice of channels.

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SBC says it may spend \$6 billion over five years to upgrade services. FCC rules on competition cited.

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The Arizona Republic looks at competition for faster, cheaper Internet service. "Broadband vs. dial-up battle heats up," the paper reports.

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VOIP is finally beginning to gather steam in the United States.

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The Centre Daily Times says "Internet phones lighten traffic and wallets." Article contends that "... phone calling using Internet technology has significantly improved and is quickly going mainstream -- threatening to rattle the multibillion-dollar telephone industry and to dramatically reshape personal and business communications."

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Call Center welcomed to downtown Scranton.

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Commonwealth Telephone Enterprises hires one of its main competitor's top leaders to serve as its No. 2 executive.

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PUC Reporting Requirements Studied Under House Resolution

Under a resolution approved by the House Consumer Affairs Committee, the Legislative Budget and Finance Committee will investigate the level of reporting that the Public Utility Commission requires of local phone companies. The full House is expected to approve the resolution before lawmakers break for the summer.

The resolution stems from complaints by some incumbent carriers (ILECs) and competitive carriers (CLECs) that the requirements are burdensome and outdated.

"There are a fair number of complaints from the carriers that their resources can be better spent elsewhere," said one House staff who worked on the resolution. "We want to find out what is really necessary here and go from there."

The resolution notes that significant changes in the telecommunications industry have shifted the Commission's statutory role toward oversight through rulemaking and enforcement rather than regulation of rates and services. "Outdated reporting requirements could be eliminated or reduced without impairing the Public Utility Commission's ability to monitor local exchange carriers."

The resolution goes on to note that the Federal Communications Commissions streamlined its reporting requirements in 2001.

AT&T Withdrawal from States Will Have Little Impact on Services, Industry Analysts Say

Industry experts contend that AT&T had plans to retreat from marketing services in seven states even before the issue of access rates was settled in the courts.

“There’s every indication that AT&T planned to abandon the use of the legacy phone network in these states with or without a change in rules,” said Verizon spokesman Harry J. Mitchell. “It has already launched VoIP service in one of the seven, with more announcements expected.”

Last week, AT&T said that it would stop promoting its home phone service in the seven states because of the end of the regulatory requirement that Verizon and the other incumbent carriers offer network access at discounted prices. The states include Ohio, Missouri, Washington, Tennessee, Louisiana, Arkansas and New Hampshire.

The decision, the company says, came when the Bush Administration failed to intervene in a March 2 federal district court decision that said that the Federal Communications Commission (FCC) had no authority to turn over regulatory responsibility to the states for setting access rates. Consumer groups warned that the AT&T exit was the start of the end of local competition in the telecommunications industry.

But Mitchell said that AT&T’s move out of the market will have little impact. “Flat-rate, call-anywhere packages increasingly are the option of customer choice, with services delivered over multiple networks – landline, VoIP, cable, wireless. The retail price for call-anywhere options are set by marketplace competition, with wireless leading the charge and VoIP reinforcing the trend.”

Mitchell’s statement was reinforced by FCC Chairman Michael K. Powell. Regarding the AT&T move, Powell remarked that the departure of any provider is disappointing. “But competition from wired, wireless and voice-over-Internet providers is accelerating, and it is going to be even better,” he said.

Just a week prior to the AT&T announcement, Powell announced that the FCC will work to adopt a final order on local phone competition rules as soon as possible.

“My fellow Commissioners and I will promptly turn to writing a set of sound rules that ensure access to incumbent networks where competition is truly impaired,” said Powell. “I am committed to developing competition rules that comply with the court’s mandate and are faithful to the statutory objectives of the Telecommunications Act. Moreover, the Commission is prepared to consider interim, transitional protections to bridge the gap that exists in the period preceding adoption of our final rules.”

“Fair and sustainable competition is our goal and I am fully confident that consumers will reap the benefits,” said Powell. “Facilities-based competition brings the innovation and value that consumers demand. These new rules will also encourage increased investment in infrastructure that will continue to drive down prices for advanced services. In this interim period, I also strongly encourage carriers to find common ground through negotiation. Commercial agreements remain the best way for all parties to control their destiny.”

Department of Justice Diving Into Internet Piracy Battles

Attorney General John Ashcroft has launched an ambitious effort to crack down on digital piracy and protect the interests of copyright holders. The initiative is led by Ashcroft's deputy chief of staff, David Israelite, who chairs a newly formed task force on intellectual property issues.

The high-level task force, which includes a dozen influential DOJ and Federal Bureau of Investigation officials, will draft plans to revamp federal law enforcement's approach to IP matters, including widespread file sharing over peer-to-peer networks.

Task force members will consider whether the Justice Department should take the lead role in going after online file swappers - individuals who share copyrighted material across the Internet. Tactics being considered include ramping up criminal prosecutions and filing civil lawsuits similar to those now being brought by the recording industry. Not surprisingly, industry groups, many of which have spent millions to deter online file swapping, have applauded the DOJ task force. But critics complain that the Justice Department may be overstepping its appropriate role by championing the interests of a powerful industry that some think can take care of itself.

Israelite said the increasing volume of intellectual property crime over the Internet and its impact on the American economy demands a government response.

"We view IP theft as a threat to our national security," Israelite said. "As we move into the future, our economy is going to be increasingly dependent on our ability to protect IP. If theft increases at the rate we see long term, you're looking at a scenario for economic disaster."

The new focus on Internet file sharing comes as a number of senior Justice Department officials have left government and joined the ranks of influential music and entertainment lobbies. Last December, Bradley Buckles, director of the federal Bureau of Alcohol, Tobacco, Firearms and Explosives, signed on with the Recording Industry Association of America as head of the anti-piracy unit. Former DOJ Public Affairs Director Barbara Comstock, now a lobbyist with Blank Rome Government Relations, registered as a lobbyist for the RIAA in April.

Also in April, John Malcolm, a top Criminal Division official, took over anti-piracy efforts for the Motion Picture Association of America.

"Peer-to-peer piracy is a huge problem, and it's getting worse," Malcolm said. "Nobody can bring resources to bear like the federal government. We're doing what we can to assist them."

Since September, the RIAA has sued nearly 3,000 individuals for illegally distributing files on the Internet over peer-to-peer networks.

But so far the Justice Department has stopped short of pursuing individuals who download content for personal use and focused instead on those who release proprietary software, music, video games, and movies onto the Internet in the first place.

Even as the DOJ's task force gets off the ground, Congress is contemplating two bipartisan bills that would draft the Justice Department even further into the fight over online piracy.

A Senate bill sponsored by Orrin Hatch, R-Utah, and Patrick Leahy, D-Vt., would empower the Justice Department to bring civil lawsuits against online file swappers. Monetary damages would flow to the copyright holders.

Read the Fine Print on Cablevision's "Free Phone Service" Announcement, Industry Experts Say

Last week's announcement that Cablevision Systems Corp. would offer free phone service to customers who also buy television and Internet access was greeted with skepticism by some in the industry.

"Like Cablevision's offer, cable by-and-large operates its pricing on promotional deals," said a Verizon official. "And its buyer beware when it comes to those deals."

The company, the nation's sixth largest cable provider with about 3 million customers in the New York region alone, will charge \$90 a month for a package of TV, broadband Internet and unlimited local and long-distance calling.

Cablevision's stock actually fell on the news, dropping 82 cents a share to \$21.18 in late-day trading.

For its part, later this summer Verizon will be rolling out an affiliation with DirecTV in the mid-Atlantic area under which customers can get discounts by combining the Freedom Plan with Verizon Online DSL and DirecTV.

"Our prices, which in general beat cable prices for the same bundles, have been running \$5 to \$20 a month lower than cable in the markets we now serve and partner with DirecTV," the Verizon official noted.

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