

**The Weekly Telecom report provided by
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In this issue, AT&T bolts the residential market and the media go wild with the story. Analysts are split, however, on what impact, if any, the company's decision will have on competition. A Senate Committee OKs legislation shielding Web calls from rules. In NY, a federal judge rules that state utility commissions can have very little control over Net phone companies - a win for Vonage. Verizon announces its own VOIP plans and AT&T rolls out its "3G" plan. Sprint makes gains on its rivals while AT&T and MCI are eyed for possible takeover bid, according to industry analysts, and SBC expands Wi-Fi coverage.

From The Papers

Verizon Communications has stepped up its battle against cable operators with plans to debut a broadband-over-fiber service later this summer.

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SBC expands Wi-Fi coverage.

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AT&T Wireless "3G" debut.

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Profitable AT&T Wireless adds subscribers.

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Consumers trust phone companies to give best VOIP service.

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Senate panel OKs shielding Web calls from rules.

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State utility commissions can have very little control over Net phone companies, a New York federal judge wrote in an order that hands another victory to Vonage and similar upstarts.

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AT&T, MCI are eyed for takeover.

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Other carriers expect to pick up where AT&T leaves off ... and then some

Even though Verizon and most other incumbent carriers are saying that they will not make any extraordinary market pushes now that AT&T has announced it won't seek additional residential customers, many expect that most prospective residential customers will go to a recognized name for their service. One regional carrier, Qwest Communications, did announce it will start taking out full page advertisements in local papers in an effort to lure AT&T customers.

More significantly, the recent AT&T news makes the carrier increasingly ripe for a takeover, industry analysts say. If it occurs, one of the three largest incumbent carriers, Verizon, SBC Communications and BellSouth, will be the mostly likely buyer. The simple reason is they have the resources.

Officially, the companies either declined to comment, or said that at this time they have no plans to acquire AT&T. That could change, however, as the fall-out from AT&T's announcement concerning residential customers continues to settle.

Some industry analysts predicted that AT&T could lose its share of residential business very quickly. Even before the announcement concerning residential customers AT&T has been losing a net of four to five million long-distance customers each year. At the same time, a telecommunications analyst with UBS, John Hodulik, predicts that AT&T will lose 60 percent of its local phone customers in the next 12 months.

“AT&T could become so pared down that its acquisition price would become low enough to attract new bidders,” Hodulik told the New York Times.

Competition not affected by AT&T announcement, industry analysts say

The recent AT&T announcement that it will no longer seek additional residential customers will have little short or long-term impact on competition in the telecommunications industry, experts say. Wireless and cable/modem technologies are offering plenty of competition to Verizon and other traditional incumbent carriers.

“Competition is very much alive in the telecommunications market,” said one Verizon official. “AT&T's retreat from the market doesn't change the fact that we have to constantly be on our toes to keep up with changes in the market place.”

Internet-based service alone, which can be carried by wireless and cable, continues to grow at an accelerating rate. At the end of last year, only 138,000 Internet phone lines were in use. But a recent survey shows that an additional 20,000 are now added each month.

Time Warner Cable and Cablevision Systems Inc., for instance, have begun to roll out phone service in some markets, creating a powerful triple threat for consumers who want to buy their cable television, high-speed Internet and telephone from a single company. Unlike the Internet start-ups and AT&T, the cable companies are offering phone service that looks and feels more like traditional phone service, with installation and maintenance performed by trained technicians.

Cable companies also promise superior quality because calls never go out on the public Internet. Instead, they travel over the cable companies' private data networks until they are handed off to other telecommunications companies.

The sudden interest in Internet-based phone technology is spurred in part by the growth of high-speed Internet connections. According to a recent study by the Federal Communications Commission, approximately 25 percent of all U.S. homes now have a high-speed Internet connection, giving companies the critical mass they need to market their services to millions of homes.

The growth of Internet-based services and other advances in telecommunications technology have led Verizon and other incumbents to introduce their own new services. Verizon just announced a nationwide voice over the Internet (VOIP) plan. The carriers are also investing heavily in wireless.

Verizon Makes Big Splash in VOIP Market

Verizon announced last week that it is entering the voice over the Internet (VOIP) market, employing the rapidly emerging telecommunications technology in a big way. Unlike other carriers that have rolled-out Internet phone packages in certain markets, Verizon's new service is nationwide.

Subscribers to the new service, called VoiceWing, can choose a phone number from a list of area codes in 139 markets in 33 states, and the District of Columbia. The new subscribers can make calls over any broadband Internet connection and manage their calls from any computer with Internet access.

“We recognize that along with cost savings, customers want the enhanced features that new technologies bring,” said Bob Ingalls, president of Verizon’s Retail Markets group. “Our wide range of features makes managing calls simple and convenient.”

Other telecommunications companies have introduced their own Internet-based voice package, but focus mainly on either business or residential customers. Under the Verizon plan, customers who sign up for the service and are also broadband subscribers will pay only \$34.95 a month for unlimited local and long-distance calls within in the United States. By comparison, unlimited local and long-distance calls over traditional lines cost \$59.95.

VOIP has the potential to change the entire telecommunications industry, experts say. The technology, and so the quality of the calls, is expected to keep improving, offering customers a lower cost alternative to traditional calls. Moreover, federal and state regulatory bodies have thus far taken a light approach in regulating VOIP. Most state regulators are looking to the Federal Telecommunications Commission (FCC) to develop rules to govern Internet-based calls. The FCC, in fact, just ended a public comment period regarding VOIP, and is expected to unveil proposed rules in the next few months. Verizon and other telecommunications providers have indicated that the less regulation of Internet-based calls the better.

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