

**The Weekly Telecom Report provided by
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In this issue ... nine phone companies propose a plan to overhaul the fees phone companies pay each other to connect calls but some worry that the plan could cause a spike in local phone rates. Vonage, VoIP Inc. and AT&T continue their ambitious growth plans for Internet phone service. Industry experts are now worried that requirements to allow for wiretapping of Internet phone calls could drive up costs significantly and stifle competition. In New Jersey, AT&T's "phone plan retreat" will hurt small business, contend some observers. Experts talk up WiMax as consumers have more and more options for telecom services. In D.C., FCC Chairman Powell draws some heat for broadband policy. MCI announces that it back part of Qwest's call to deregulate. Closer to home, Commonwealth Telephone Enterprises, based in Dallas, Pa. announces plans to deliver faster Internet service "at no increase in pricing." Verizon challenges the state PUC over wholesale rate orders with a legal challenge. Verizon also announces significant investments in Northeast Philadelphia and the New Castle area.

From The Papers

Commonwealth Telephone Enterprises announces that it has launched two enhanced 1.5 megabits per second DSL at no increase in pricing. Access continues to grow in rural Pa.

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Long-distance bills likely would fall and local phone rates rise under a sweeping industry-backed proposal to federal regulators to overhaul the fees phone companies pay each other to connect calls.

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Federal Communications Commission Chairman Michael K. Powell is under pressure to change key elements in an effort to help the companies that compete with the Baby Bells.

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VoIP, Inc. continues national deployment of eGlobalphone service.

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The Washington Times edit board says FCC's Powell "punts on broadband."

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The Star-Ledger posts a Q&A on telecom issues, starting with a look at potential of WiMax.

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AT&T's phone plan retreat hangs up on small business, says The Star-Ledger.

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Internet phone-calling is back, and attractive.

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MCI backs part of Qwest's call to deregulate

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Consumer choice explodes in California.

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Wiretapping of VOIP calls could drive up costs and stifle innovation, contend some industry observers.

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Verizon Complaint Filing: Wholesale Rate Orders Violate Federal Law/Constitutions

The recent wholesale rate order by the Pennsylvania Public Utility Commission (PUC) and two prior PUC rate orders violate the 1996 federal Telecommunications Act, according to a complaint filed by Verizon last week in federal court. The complaint seeks declaratory and injunctive relief from the United States District Court for the Eastern District of Pennsylvania.

The PUC's orders dictate the price that Verizon and other incumbent carriers in Pennsylvania must charge for access to a combination of their network elements, the UNE-P. A July 16, 2004 PUC order set those rates, as did orders issued on December 11, 2003 and November 4, 2002.

The complaint states that the PUC's rate setting order not only violates the 1996 federal act, but also the U.S. and Pennsylvania Constitutions by setting rates that fail to cover Verizon's costs, and accordingly do not provide just compensation for the taking of Verizon's property effected by the 1996 act.

Meanwhile, the Federal Communications Commission (FCC) has frozen the wholesale rates the competitive carriers (CLECs) must pay Verizon and other incumbent carriers for UNE-P access, while it crafts new regulations governing access to local networks. Earlier rules whereby the FCC gave state regulatory bodies the authority to set rates were effectively shot down in March in federal court. The PUC, however, argues that it still has the authority to set rates under its 1999 Global Order, a broad policy outlining its regulatory approach to local phone competition in Pennsylvania.

Among other things, the complaint states that the PUC violated the 1996 federal law and FCC regulations in its calculation of Verizon's nonrecurring rates. Nonrecurring rates recover the costs associated with the one-time activities necessary to process and provision requests for the initiation, change or disconnection of UNEs, and various services provided by Verizon to CLECs. "These one-time costs generally are incurred at the time of ordering and provisioning," the complaint explains. "Nonrecurring rates are charged only once, at the time of the service giving rise to the cost, as opposed to recurring rates, which are charged monthly."

The complaint goes on to state that the PUC rejected a Verizon model for calculating nonrecurring costs and instead adopted an AT&T model, which “generates fantastical rates that do not being to permit Verizon to recover the out-of-pocket costs of providing nonrecurring UNE services, even assuming the most efficient technology currently available...”

Wholesale Prices Charged by Incumbent Carriers Frozen by Federal Regulators

In a move that some industry experts say could further stifle competition in the telecommunications marketplace, the Federal Communications Commission (FCC) has frozen the wholesale price rates that incumbents charge competitive carriers (CLECs) for local network access. At the same time, the Commission issued a notice of proposed rulemaking to craft new guidelines covering access to a combination of unbundled networks (UNE-P).

The Commission imposed a six-month deadline for crafting the new rules. If the FCC fails to meet its deadline, then Verizon and the other incumbent carriers are permitted to increase their rates.

In a statement commenting on the Commission’s latest move regarding phone competition, FCC Chairman Michael K. Powell wrote that he is not a fan of UNE-P as the vehicle for parking our aspirations for vigorous voice competition. “It is a synthetic form of competition that would never have proved sustainable, or have provided long-lasting consumer benefits,” the Powell statement said.

The Commission, along with state regulatory bodies, has been in legal limbo since a federal court ruled in March of this year that the FCC had exceeded its authority in delegating wholesale rate responsibility to state regulatory bodies. The court ruling, which was implemented in mid-June, effectively marked the end of reduced wholesale rates that the CLECs pay the incumbents for access. Nevertheless, some states, including Pennsylvania, have argued that they still have regulatory control over the rates.

Verizon and other incumbent carriers have long maintained that the rates set by the state regulatory bodies are in many instances actually below the cost for the carriers to provide access. They further stress that UNE-P availability is unnecessary to foster competition given the explosion of wireless, cable and additional emerging industries, which can not only provide consumers and business broadband access by voice service as well.

In its August 20 order, the FCC stated that it is putting forth a comprehensive twelve-month plan consisting of two phases: the first phase requires the incumbents to continue providing access to unbundled networks under the same terms and conditions they are currently providing over the next six months; the second six-month period would see the implementation of the Commission's new rules governing UNE-P access – if it is able craft those rules in time.

Verizon Invests \$2.9 Million to Better Serve Northeast Philadelphia Customers; Opens Additional Internet Express Lanes in New Castle Area

Verizon customers in Philadelphia's Northeast section now have improved communications as the result of a \$2.9 million investment the company has made in two of its local call-switching centers. Verizon installed new equipment, including advanced power systems that enable the company to provide critical telecommunications services in the event of a commercial power disruption, such as those that occurred last year during Hurricane Isabel and the Northeast blackout.

The equipment also allows Verizon to more efficiently monitor power systems and diagnose potential network power problems, thus increasing reliability in the Verizon network. The company completed work at both locations in the past month.

In related news, more consumers and businesses in the New Castle area can enjoy the benefits of high-speed Internet access now that Verizon Online has expanded its availability in portions of Lawrence County.

Verizon Online DSL is now available to more than 1,220 additional customers as the result of the company's most recent expansion and upgrade of its local telecommunications network. The additional DSL-capable lines are available in areas along portions of Eastbrook, Pulaski, Harlansburg and Old Youngstown Roads. Verizon has invested \$8.5 billion in its network across the commonwealth over the last 10 years.

Currently, Verizon Online is offering its basic consumer DSL service for \$29.95 per month when purchased in combination with Verizon Freedom or another Verizon local or long-distance bundle.

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