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*In this issue, a new study takes a hard look at the debate over who, exactly, owns the nation's telephone networks and concludes that future investment in the telecom infrastructure hinges on private ownership. Broadband access to the Internet continues to grow and the FCC rules that AT&T must pay up for calls routed over the Internet in crucial VOIP case. In Pennsylvania, Verizon names two new directors and high-tech grants "may turn PSU into security research center" says The PSU Collegian.*

### **From the Papers**

Forty percent of Internet users have broadband at home.

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Telecoms struggle with impact of Internet calls, says Reuters.

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"Slugfest" brews over phone access fees.

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WiMax to lead broadband wireless market.

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Verizon offers competitors Internet lines.

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## **Classifying Telecom Networks as Public Property Kills Investment Incentive, Study Says**

Treating telecommunications networks established by incumbent carriers (ILECs) as public property discourages investment in new equipment and technology, states a recent study by the Heritage Foundation. The study, by James Gattuso and Norbert Michel, Ph.D., shows that most of today's networks were built not under the old monopoly system, but during the change to an open market system. Continued investment in the network by both the ILECs and their competitors, the CLECs, is dependent on a system that is not shared by all carriers as if it is public property.

“Far from being a legacy of the regulatory past, today's networks are overwhelmingly the product of new investment made long after legal monopolies and guaranteed rates of return were abolished,” the study states. “Indeed, data from Standard & Poor's show that investors have replaced the entire capital structure of U.S. telecoms almost twice over since passage of the Telecommunications Act of 1996.”

The study adds that maintaining and upgrading these networks depends upon a continuation of that private investment.

The study underscores the importance of the March 2 federal court decision that the Federal Communications Commission had no authority to give state regulatory bodies the power to set rates that CLECs pay incumbent carriers for access to their networks.

“Proponents of forced leasing argue that such regulation is in fact necessary to spur competition in telecommunications,” the study states. “Without access to key parts of the existing network, they claim, rivals could not hope to compete against ILECs. They overlook, however, the fact that ILECs have no economic "bottleneck" control over many elements that are subject to FCC leasing rules. Many ILEC competitors, for example, own and operate their own switches.”

Moreover, wireless and Internet voice and data communications are providing more and more competition in the marketplace completely outside and independent of federal and state rules. Rather than fostering competition, any rules that force ILECs to share their equipment discourage competitors entering the market from building their own networks. The resulting investments would not only stiffen competition but spur on a significant player in the economy.

From 1996 through 2002, the ILECs invested nearly \$236 billion in new capital, according to the study. ILECs' spent enough to replace over three-quarters of their existing stock of fixed property (about 77 percent). In addition, the ILECs spent more than enough to replace their stock of fixed capital nearly twice over. In fact, the capital expenditures made by these ILECs--just four companies--amount to nearly 3 percent of all such corporate expenditures in the United States from 1996 to 2002.

Recent federal and state rules, however, will discourage future like investments, not just by the ILECs but as importantly, by the CLECs.

“Instead of increasing government's control of telecommunications networks, the FCC should reduce mandates that discourage such investment,” the study concludes. “For that reason and others, the D.C. Circuit Court of Appeals' decision to overturn the FCC's leasing rules was a step in the right direction. Rather than appeal the court's ruling, policymakers should accept it and set telecommunications on a more market-oriented, and investment-friendly, path.”

### **Solid Growth in Broadband Use in Past Year (Encouraging News for Providers)**

The number of Internet users relying on broadband has jumped 60 percent in the past year, with half of that increase coming since November, a recent survey shows. Moreover, a spokesman for the Pew Internet and American Life Project that conducted the survey, predicted that the momentum for broadband use will keep growing -- good news for providers investing in broadband expansion and new technology.

“What we’re seeing is that when usage reaches a critical mass in certain areas then it really takes off,” said John Horrigan with the Project. “Broadband providers should be very encouraged by the results.”

Overall, the study shows that two in five residential adults now use broadband. The highest penetration was among college educated users, where just over 50 percent use broadband.

The study further found that broadband use rises as length of time using the Internet rises. “We find that if people have been connected and using the Internet for at least five years, then they are beginning to spend more and more time on it,” Horrigan said. “They start to figure that the additional time warrants the extra cost to get the higher speeds.”

Currently, dial-up services typically cost \$22 to \$24 a month. SBC Communications Inc. dropped DSL service to as low as \$27 and Verizon Communications Inc. to \$35.

At the same time, a top Verizon official told attendees at the 2004 Broadband Summit held this week in Washington that the federal government's policy of applying old rules to a new system of digital telecommunications is hamstringing the deployment of broadband.

Tom Tauke, senior vice president of public policy for Verizon, told those attending that "maybe" the current rules "made sense" in the telephone arena, but they should not apply in the U.S. broadband world, when the country ranks 11th in the world in deployment of broadband, behind Korea, Japan and other nations.

Tauke said Verizon is aggressively rolling out wireless services but current wireline rules create disincentives for investment.

## **As Expected, FCC Insists AT&T Pay Access Fees Involving Internet Calls (Reaffirms Its Direction with VOIP)**

The Federal Communications Commission ruled that AT&T must pay incumbents access charges for calls that route over the Internet. The ruling had been expected to go in the incumbents' favor.

At the same time, the Commission noted that it recently adopted a Notice of Proposed Rulemaking concerning IP-enabled services, including Voice over Internet Protocol (VOIP).

“In that proceeding, we sought comment on, among other things, whether access charges should apply to VOIP or other IP-enabled services,” the ruling read. “In this order, we provide clarification about the application of our rules to AT&T’s specific service because of the importance of this issue for the telecommunications industry.”

Regarding AT&T, the FCC found that the calls in question fell under “telecommunications services”, and involved no net protocol conversion. The calls, moreover, rely on incumbent network technology.

“These aren’t calls that originate on the Internet, move across some broadband service, and then are picked up again over the Internet,” explained one Verizon official. “They are rather routed over the Internet but still require local switching.”

Clarifying the ruling, the Commission noted it recently determined that the VOIP service provided by pulver.com’s Free World Dialup is an unregulated information service subject to the Commission’s jurisdiction. The FCC has commenced a comprehensive rulemaking proceeding to address these services generally.

“That proceeding will entail an analysis of the regulatory characterization of a variety of Internet protocol (IP) services, including VOIP, and the applicability of access charges to those services,” the ruling read. “The decision we make in this order with regard to AT&T’s specific service is meant to provide clarity to the industry with respect to the application of interstate access charges pending the outcome of the rulemaking proceeding. Commenters supporting divergent outcomes on AT&T’s petition have asked the Commission for clarification on this issue. This order represents our analysis of one specific type of service under existing law based on the record compiled in this proceeding. It in no way precludes the Commission from adopting a fundamentally different approach when it resolves the IP services rulemaking, or when it resolves the Intercarrier Compensation proceeding.”

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