Wireline Telecommunications Carrier Industry Overview

This paper provides an overview of the wireline carriers that will be an essential part of 511 service provision. Wireline industry landscape, business motivations and their possible impact on 511 service provision will be addressed. Wireline and landline are used interchangeably in the industry and in this paper.

<u>Market Segments</u> – The traditional, landline telephone companies are widely varying in size, focus and motivation. The major segments of the industry are:

- *Local Exchange Carriers (LECs)* – these companies carry traffic within an FCC defined “local access and transport area” (LATA). While occuring in some areas as early as 1983, the Telecommunications Act of 1996 aimed at creating competition within local areas on a national basis.

  - *Incumbent Local Exchange Carriers (ILECs)* – the original monopoly carriers in each LATA. There are essentially two types of ILECs:
    - large carriers such as Verizon, SBC, Qwest, and BellSouth that have evolved from the original “Baby Bells”
    - smaller regional companies or cooperatives

    Generally, each state will have many ILECs, with one or two having most of the subscribers.
  - *Competitive Local Exchange Carriers (CLECs)* – carriers that compete with ILECs by either reselling the ILECs capacity or building their own facilities to serve customers. While hundreds of companies are either providing or planning to provide competitive local phone service, the major players are long distance carriers, cable companies, and resellers. Internet-based carriers, such as Net2Phone, also provide competitive local service in some cases.

- *Long Distance Carriers* – defined as Interexchange carriers (IXCs), these companies are authorized by the FCC to provide interstate communications services and by a state to provide inter-LATA services within a state. Major long distance carriers are AT&T, MCI and Sprint. Competitors to the major carriers include companies that offer “10-10-xxx” access or pre-paid phone cards, Internet-based carriers, such as IXTC, that use the internet to route calls, and in increasing numbers, ILECs that have had their local areas deemed to be competitive by state regulators.

- *Pay Phone Carriers* – Though down 15% in the past three years, there are roughly 1.9 million pay phones in the United States. Roughly 75% of those phones are operated by the major ILECs. The rest are operated by roughly 2000 different companies. The Telecommunications Act of 1996 deregulated the cost of using a payphone and sought to encourage competition. However, the expansion in wireless phone usage has led to a decline in the number of pay phones and their usage.

(over)

Market Trends – Several major trends are occurring in the wireline phone business:

- Consolidation of major ILECS – major mergers of recent years has left just 4 major ILECs.

- Competition for local service – regulators are encouraging competitors to the ILECs. While it has been slow to emerge, CLECs are beginning to have success, particularly serving businesses. More competition than exists today can be expected.

- ILECS want to offer long distance to their customers – to do so, they must show state regulators that viable local service competition exists in their area, thus ILECs are in essence promoting the establishment of CLECs.

- Carriers are making huge capital investments in broadband technology and converting to internet-protocol based equipment and technology, occupying significant resources and, in many cases, debt. This investment overload has carriers looking to reduce, or offset, capital investment costs in any way possible.

- ILECs that operate under regulatory controls are obligated to make a modest profit on each service they offer – they cannot cross subsidize services.

Implications to 511 – Wireline carriers are in the process of revolutionary changes in all aspects of their business, which will make 511 deployment a challenge:

- 511 is a relatively minor issue to most carriers when compared to other "problems" and "opportunities" – getting their interest will be a challenge.

- ILECs will desire a consistent approach to 511 across their service area, which could span 10-15 states.

- Can expect to see more LECs with market share being diffused; means we will have to work with more carriers to deploy 511.

- The underlying cost structure of telecommunications is changing dramatically. The cost structure of today may be reduced significantly in the near future, which could make 511 service provision more affordable.

Wireline Carrier Trends Implications on 511:

- 511 a minor issue to carriers
- Major carriers will desire consistent approach across operating areas
- Greater carrier competition likely means more carriers to coordination with
- Cost structure of carriers is changing dramatically, possibly for the better