REMARKS OF FRED ANDERSON
VICE-PRESIDENT, GOVERNMENT RELATIONS, AT&T (Michigan)

I'd like to thank Congressman Conyers, Chairman Sensenbrenner and Congressman Cannon for taking time from your very busy schedules to attend this very important forum on the impact of competition on the telecommunications industry, and for inviting me to participate today to share AT&T's views on the status of and prospects for local competition in Michigan.

Since 1996, AT&T has been a leader in developing competitive alternatives to the incumbent telephone monopolies for residential and business customers. We now offer residential local phone service in a total of nine states to more than 2.5 million households, and local business service in 31 states. We hope by the end of this year to be in the residential local phone market in as many as 14 to 17 states. Whether we succeed will depend in large part on whether competition policy for the telecommunications sector effectively provides an open marketplace in which new entrants can establish themselves and grow.

We are all familiar with the Federal Telecommunications Act of 1996, which was intended to end almost a century of monopoly control over the local telecommunications market and bring the benefits of competition to consumers. The passage of this comprehensive legislation sought to give residential and business ratepayers a competitive local market for the over 100 years they endured a government mandated local telephone monopoly that denied customers choice. As ratepayers these customers made a significant contribution to the development of the local telephone network. That is why the market opening underpinnings of the Act coupled with strong anti trust enforcement are needed to make sure we eventually reach sustainable competition in the local telephone market. While the long distance industry is intensely competitive -- AT&T has reduced its long distance rates an average of 50 percent since divestiture in 1984 -- competition

for local service is still in its infancy. The 1996 Act applies traditional antitrust principles to the local telecommunications marketplace. For more than 125 years, the local marketplace has been dominated by incumbents that retain the incentive and the ability to use bottleneck control to choke off competition. In recognition of the Bell companies' dominance of the local marketplace, Congress directed the Bells to make their ratepayer-funded facilities available to competitors at cost-based rates.

Where competitors have been able to lease the incumbents' facilities as the 1996 Act envisioned, local competition has begun to succeed. To date, about 10 million consumers nationwide receive local phone service because of the availability of reasonably priced unbundled network elements, or "UNEs." This is particularly true in Michigan, where the Michigan Public Service Commission has set wholesale rates that encourage competitive entry. The FCC's most recent local competition report shows that competitive local exchange carriers ("CLECs") in Michigan serve eighteen percent of all end-user switched access lines -- one of the highest percentages in the nation, well over the national average of eleven percent, and an increase of five percent since the FCC's last report. Competitive telecommunications services are available to 99 percent of Michigan's zip codes. Over two-thirds of Michigan's zip codes have four or more CLECs providing service; customers in ten percent of Michigan's zip codes have a choice of ten or more CLECs.

AT&T started offering residential local phone service in Michigan in February 2002, and thus far we've been very pleased with the response of Michigan consumers to our entry into local service. Within three months of entering the market, more than 100,000 households switched to our service.

This kind of vigorous competition among providers leads to lower prices, better service

and more options for the consumer. In Michigan, less than three months after AT&T entered the residential local market, SBC Michigan reduced its local rates by up to thirty percent, or more than $26 million -- proof that local phone competition is starting to work in Michigan. CompTel, a coalition of local competitors, recently determined that consumers could save up to $ 9.24 billion a year in lower phone bills nationwide if local phone competition was to spread to all customers nationwide.

But local competition has encountered serious setbacks as well. Here in Michigan, SBC has indicated an intent to more than double the rates competitors must pay to use elements of its network, an increase that would kill local competition just as it's getting started. If that happens, it is clear that Michigan consumers will not be able to look to the other Bell companies to compete with SBC because there appears to be an unspoken agreement among the Bells to refrain from competing in each other's territory. Indeed, Richard Notebaert, now chairman of Qwest Communications and formerly with Ameritech, reportedly told Chicago Tribune reporters that it would be *fundamentally wrong* to compete against other Bells, noting that it "might be a good way to turn a quick dollar but that doesn't make it right." AT&T agrees with Representative Conyers, who along with Representative Lofgren noted in a December 2002 letter to the Attorney General that such agreements to carve up market territories run afoul of the antitrust laws.

Carving up markets is not the only business practice pursued by the Bells that is questionable under the antitrust laws. SBC also regularly stymies competition in Michigan by refusing to sell its DSL service to customers who buy voice service from AT&T or another competitive carrier. Customers who wish to switch to AT&T for voice service are told they will have to discontinue receiving DSL service from SBC. Such unlawful tying arrangements -- which have already been investigated and prohibited in several states -- hinder the growth of Michigan's

local telecommunications market.

SBC and the other Bells have incurred tens of millions of dollars of fines each year -- over $2.3 billion since 1996 -- for violations of the provisions of the 1996 Act designed to open local markets to competition. SBC alone already has paid over ten million dollars in fines in 2003 -- including over $700,000 in Michigan -- for failing to adhere to the wholesale performance requirements it promised to meet as part of its merger with Ameritech. Last year, SBC paid over six and a half million dollars in fines just to Michigan. In fact, SBC has paid fines for *27 consecutive months* for failing to meet its wholesale requirements.

To SBC and the other incumbents, however, these penalties are just a cost of doing business. What is needed is the force of the antitrust laws and the stronger penalties available under those laws. Unfortunately, several courts have held that antitrust actions against incumbent local exchange carriers are precluded by the regulatory scheme of the Telecommunications Act of 1996, despite the Telecommunications Act's clear mandate that "nothing in this act or the amendments made by this act shall be construed to modify, impair, or supersede the applicability of any of the antitrust laws." The Supreme Court is considering this issue now, but Congress may need to intervene to confirm that the incumbents' anticompetitive behavior is not exempt from antitrust scrutiny.

As Chairman Sensenbrenner has observed, the Bell companies' bottleneck control over the local exchange network in the telecommunications industry is the kind of matter that is addressed every day by the antitrust laws. Promoting telecommunications competition and preventing the dominant local providers from retaining and extending their monopolies indisputably requires the vigorous application of antitrust oversight and enforcement.

Antitrust policy has always played an important role in opening up telecommunications

markets to competition. The 1984 divestiture of AT&T is the most notable example of this role. With the ongoing challenges facing the new entrants in the local market today, the importance of antitrust has probably never been greater. AT&T stands ready to work with you and your colleagues to ensure that these baseline rules of fair play in the marketplace apply with full force and effect to promote telecommunications competition.

To solve the ongoing struggle in the local exchange market the separation of the wholesale and the retail businesses should be required. Last year Senator Hollings and Senator Stevens introduced such legislation. This kind of fair access would best serve all customers. Lawrence Kenny, IBM Business Consulting Services writing in the April 2, 2003 edition of Telephony Online Update stated "carriers should be contemplating the complete separation of their consumer network business from the sale of those services." Several states including Michigan are also considering this idea.

I look forward to discussing these issues with you, and answering any questions you may have.