Table 2 ***Competitive Access Providers in California***

Existing

City	MFS	Teleport	ICG	ELI	Linkatel	Fiberlink
Anaheim		X				
Bel Air	X					
Beverly Hills	X	X				
Burbank	X	X				
Century City	X	X				
Compton		X				
Culver City		X	X			
East Los Angeles			X			
El Monte		X				
El Segundo	X	X				
Fremont		X				
Foster City	X	X				
Gardena	X	X				
Glendale		X	X			
Hollywood	X	X				
LA Airport	X	X	X			
Lakewood					X	
Lancaster			X			
Lodi			X			
Los Angeles	X	X	X			
Kearney Mesa	X	X			X	
La Jolla		X			X	
Mission Valley	X	X			X	
Milpitas		X	X			
Oakland		X	X			
Rancho Cordova			X			
Sacramento						X
San Bernadino			X			
San Bruno	X	X				
San Mateo	X	X				
San Diego				X	X	
San Francisco	X	X	X			
San Jose		X				
Santa Clara	X	X	X			X
Sherman Oaks	X	X				
Van Nuys		X				
Woodland Hills		X				

Planned

City	MFS	Teleport	ICG	ELI	Linkatel	Fiberlink
Burlingame	X					
Concord						X
Cupertino	X					
Cypress					X	
Lafayette		X				
La Jolla		X			X	
Menlo Park	X					
Millbrae	X					
Mountain View	X					
Newport Beach					X	
Palo Alto	X	X				
Pleasanton		X				
Redwood City	X					
San Carlos	X					
Santa Ana					X	
San Diego				X		
Santa Monica		X				

Source: ***USTA Reply: FCC Price CAP Review,*** *Prof. Robert Harris, June 11, 1994*

Table 3 Revenue Growth of CAPs Operating in California

(in millions - total revenues nationwide)

CAP	1992 REV	1993 REV (Estimated)	GROWTH
MFS	108.7	135.0	24%
Teleport	60.0	90.0	50%
ICG	17.5	43.0	145%
ELI	5.0	7.0	40%
Linkatel	2.8	5.0	79%
Fiberlink	0.2	0.7	250%
Total Revenue	**194.2**	**280.7**	**45%**

Source: ***Connecticut Research Report on Competitive Telecommunications****, Nov. 1, 1993.*

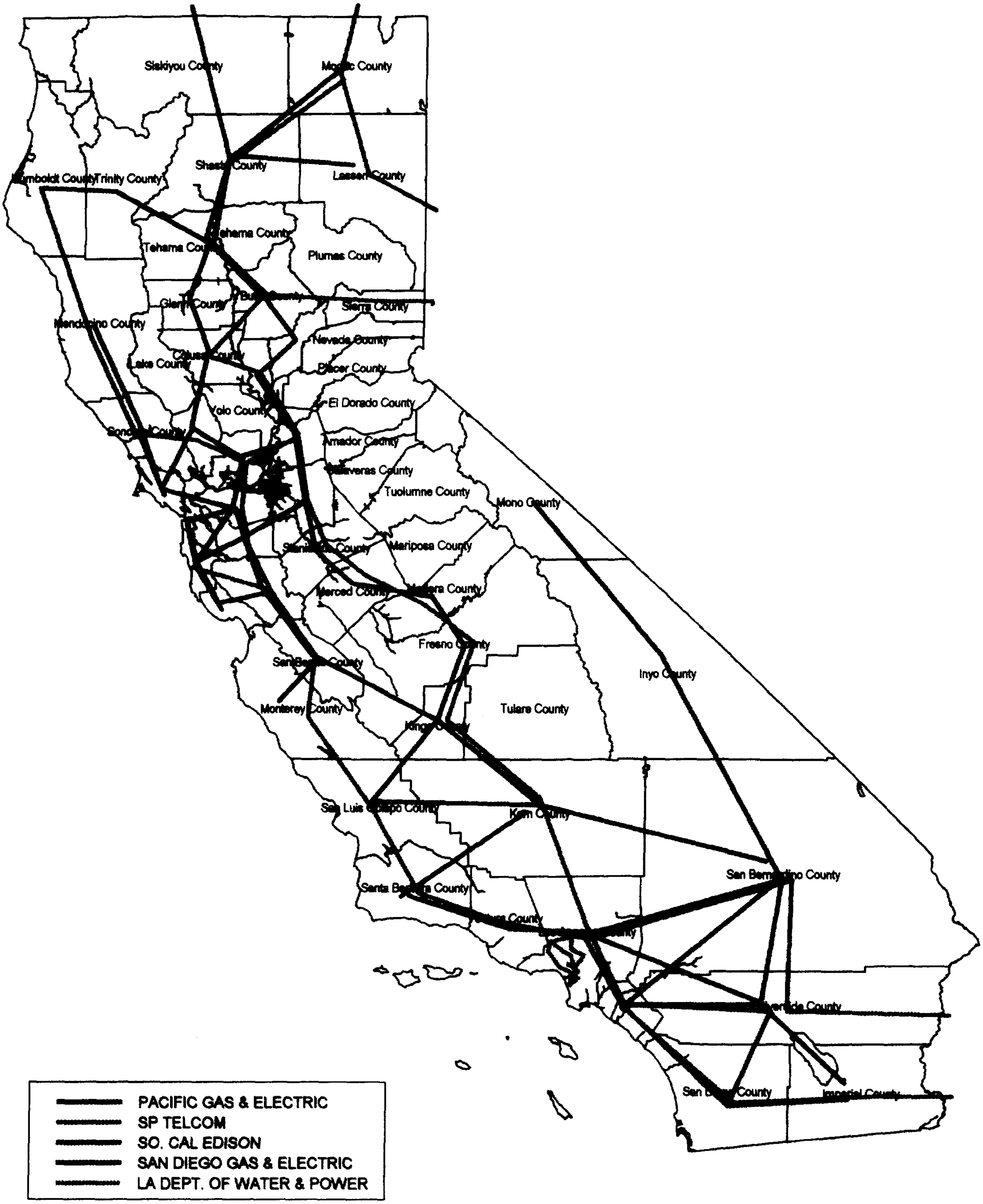
C. Emerging Competition

As CAPs expand the scale and scope of their operations, newer forms of competition are just beginning to address the local exchange market. In California, cable television is being joined by power and water utilities as the next entrants into the competitive fray. Even BART (Bay Area Rapid Transit) is getting into the act.

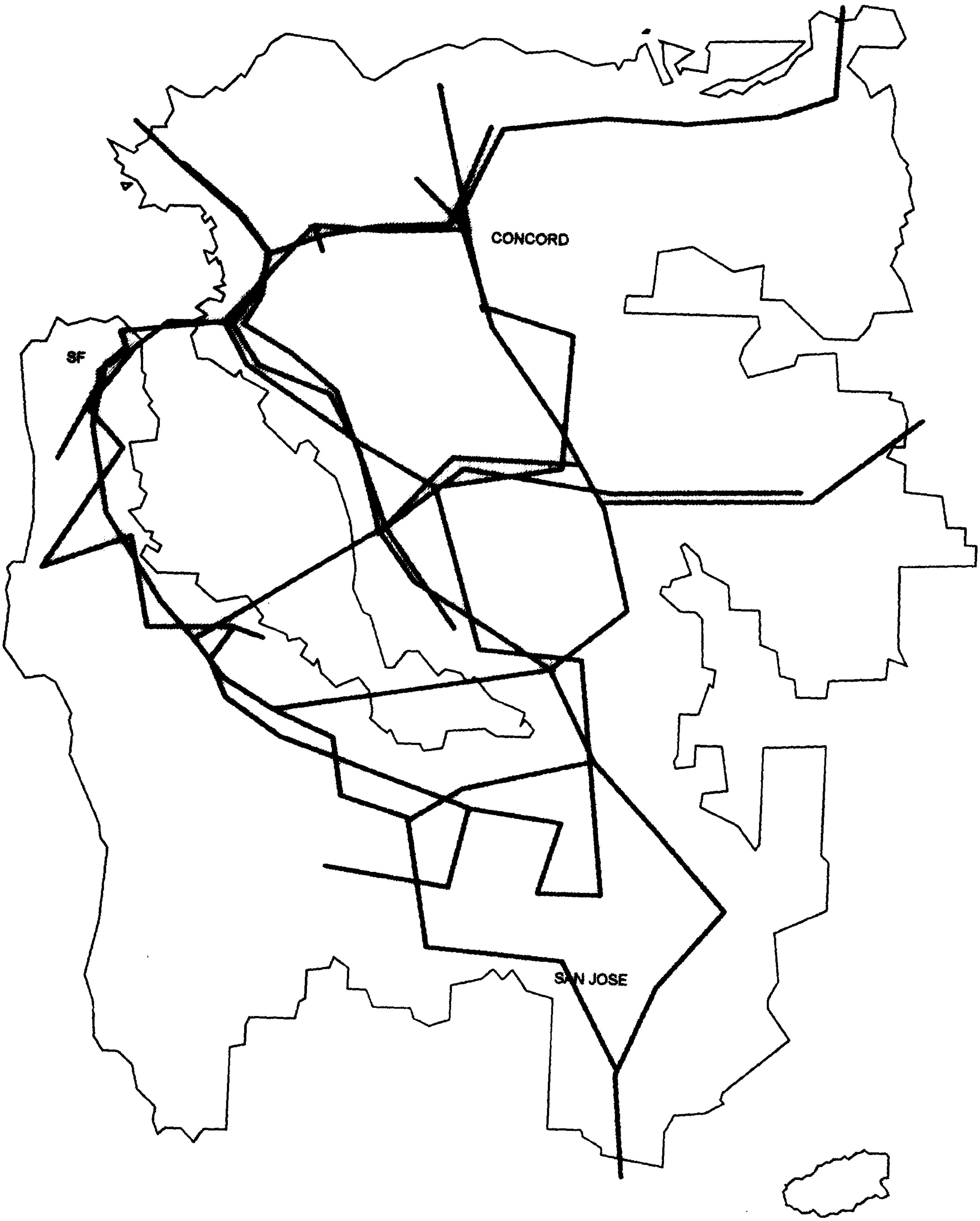
Thirty-nine of California's 58 counties are served by cable companies that already provide competitive access services of some kind in the United States, directly or through affiliates. About one third of them are served by cable companies that are allied with US West, NYNEX, Bell Canada, or other North American telcos. In the San Francisco Bay Area, TCI, one of the owners of Teleport, has surrounded the bay with its cable franchises, and is in the process of fiber-linking these communities. The synergy is obvious. In southern California, particularly in San Diego, Time Warner has signaled its intention of entering the CAP business. Time Warner, owner of 14 cable franchises in California, applied in the spring of last year for authority to provide inter and intraLATA high speed digital private line telecommunications. The application for interLATA was later withdrawn - the reason? Because the MFJ prohibits LECs from engaging in the interLATA business, and after the filing of their original request, Time Warner entered into a partnership with US West. Though the request for interLATA was withdrawn, the request for intraLATA was granted. Pacific Bell is now competing with another RBOC in its own backyard.

California's gas and electric utilities, most notably Pacific Gas and Electric and Southern California Edison, have built fiber facilities and are leasing excess capacity to CAPS and other telecommunications providers. BART has teamed up with MFS Network Technologies to build a system-wide network including voice, data, and SONET capabilities. The Los Angeles Department of Water and Power has built a fiber network. The concept of a telecommunications provider is becoming much more broad, much less distinct, and bringing with it a new competitive dynamic which must be recognized as a harbinger of how the market will evolve over the next decade.

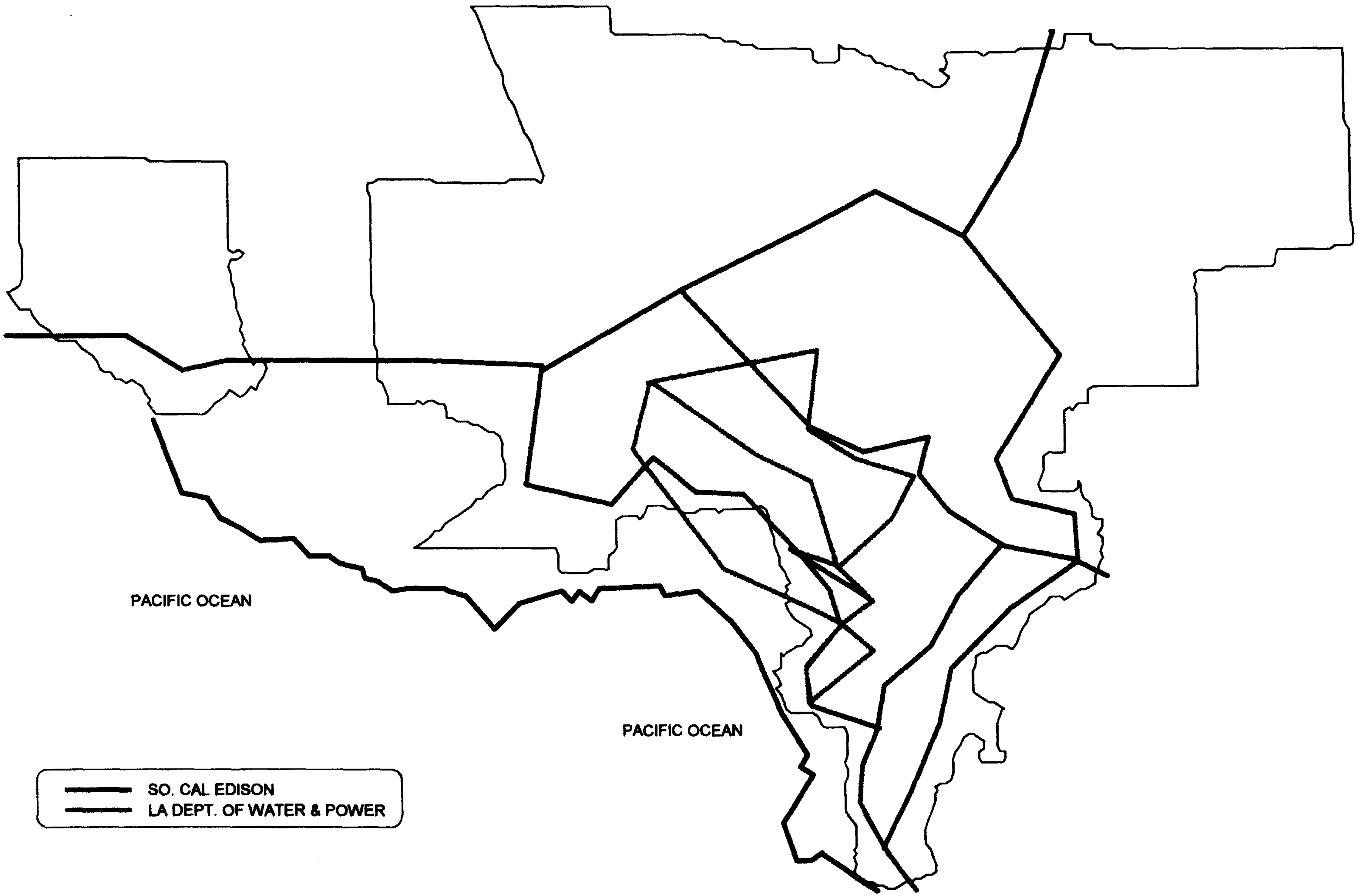
EMERGING COMPETITION - FIBER ROUTES



BAY AREA
PG&E, BART, AND TCI CORRIDOR



LOS ANGELES BACKBONE FIBER ROUTES



Conclusion

CAPs have grown both in scale and in scope, entering new areas with products and services, some of which didn't exist even two years ago. They have made significant penetration into the core business markets in California, where the revenue and traffic concentrations are the highest, effectively targeting the lucrative, high revenue/low cost areas. They continue to build out their networks, deploying more fiber, lighting more buildings, and signing up customers with competitive impunity. The LECs are subject to a much greater degree of regulation than the CAPs, with their prices subject to much more scrutiny and oversight.

In its Price Cap Order of October 4, 1990, the Commission said that it intended to "design a regulatory system...that mirrors the efficiency incentives found in competitive markets." (para. 33) Such a regulatory system would: (1) Identify, according to sound economic criteria, what telecommunications markets are competitive; and (2) within those markets, apply the same streamlined regulation to all providers. The Commission does not lack experience designing such a system. It is precisely the approach the Commission took to the long distance business in Docket 90-132. Far too much has changed in the access business since 1990 for the Commission to consider "regulation as usual." We do not contend that 100% of our markets are 100% competitive. But neither do we seek streamlined regulation in 100% of our markets. The current system of asymmetrical regulation does not "mirror the efficiency incentives found in competitive markets." It promotes inefficiency and needlessly penalizes consumers.

More in depth analysis and discussion of the points in this paper can be found in:

- **The Enduring Myth of the Local Bottleneck,** Peter W. Huber, filed in *CC Docket 94-1* with letter from William Adler, March 15, 1994.
- **Economic Benefits of LEC Price Cap Reforms,** Prof. Robert Harris, filed with USTA's comments in *94-1*, May 9, 1994.
- **Comments on the USTA Pricing Flexibility Proposal**, Richard Schmalensee and William Taylor, also filed with USTA's comments in *94-1*, May 9, 1994.