



Suite 1000
1120 20th Street, N.W.
Washington, DC 20036
202 457-3810

February 4, 2003

Electronic Filing
Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th St., SW, Room TWB-204
Washington, DC 20554

RE: Notice of Written Ex Parte Communication, in the Matter of
Review of Section 251 Unbundling Obligations of Incumbent Local
Exchange Carriers, CC Docket Nos. 01-338, 96-98 and 98-147

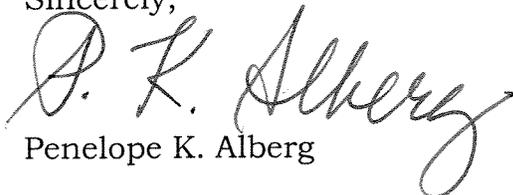
In the Matter of Appropriate Framework for Broadband Access to
the Internet Over Wireline Facilities, CC Docket Nos. 02-33, 95-20,
98-10

Dear Ms. Dortch,

Today, February 4, 2003, the attached letter from Hossein Eslamabolchi,
President, AT&T Laboratories AT&T CTO and AT&T Business CIO was
sent to the Chairman and the Commissioners.

One copy of this Notice is being submitted for each of the referenced
proceedings in accordance with the Commission's rules.

Sincerely,


Penelope K. Alberg



February 4, 2003

The Honorable Michael K. Powell
Chairman
Federal Communications Commission
4445 12th Street, S.W.
Washington, D.C. 20054

Dear Chairman Powell

As the Chief Technology Officer and President of AT&T Labs, I am writing to comment on the concept of intermodal competition. We laud your move to analyze this, and other fundamental issues facing U.S. telecommunications today. My letter supports the future role of intermodal competition as an objective for U.S. telecommunications, but explains the challenges and realities of intermodal technologies, and describes why any move to adopt intermodal as a short-term solution would be wholly detrimental to the development of a healthy telecommunications industry. Intermodal competition simply is not ready to provide thriving broadband and voice services to a national audience in the near future, yet we believe that its promise can be nurtured into reality in the future if critical and essential elements are achieved.

I am writing because AT&T is a leading investor in that future; AT&T has made deep investments in telecommunications technologies and procedures -- developing and advancing a host of inventions and innovations that offer long-term prospects for new technologies that can compete with one another, offer new lines of competition, and provide new innovative services. AT&T Labs, which I lead, is at the center of this technological innovation. AT&T Labs boasts about 6,500 scientists and engineers -- including some of the world's best -- who are helping us discover telecom's future and unleash technology's potential.

I understand that intermodal competition, through competing technologies, has been cited as one of the key rationales for regulatory relief for the Regional Bell Operating companies in the context of the Triennial Review and other FCC proceedings. As a technologist working in this industry, I share the vision of a vibrant telecommunications market, where multiple technologies offer robust intra- and inter-modal competition.

As you know, many forces are at work changing the competitive landscape. The emergence of TCP/IP as the dominant network protocol has given unprecedented power

to devices at the edge of the network – devices in the home, or those owned by firms that operate access networks. The most clear, current examples are:

- Voice over IP; where much, if not all, of the value now associated with voice telephony migrates from the switch to the network's very edge. And, 802.11 – as a wireless form of Ethernet – may extend this capability even further.
- Virtual private networks, which offer value added services based either on network facilities or on equipment located on the customer's site.
- Digital video recorders, which give consumers control over the timing of a television program and free them from centralized network decision-making. With this technology consumers can choose when, how and if to watch programming and advertisements.

Technologies like these at the edge of the network will be the primary demand drivers for new network investments and more robust competition. Yet they do not move us toward resolving the issues associated with the physical connection between the customer and the network.

Indeed, despite the large-scale investments and commitments by AT&T and many other firms worldwide, and despite technology's promise, intermodal competition is not today viable, nor is there a real possibility that this will change in the near future – certainly not in the next three years for some technologies, and even longer for most others. The real limitations of technological maturity, cost and the telecom market place tell us that intermodal competition simply cannot provide the kind of robust competition that will invigorate the voice or broadband markets. Any fact-based analysis, which takes into account the realities of the technologies, marketplace issues, business strategies, and investment capital reveals that the current capabilities of “intermodal” technologies are severely limited and constrained.

Ironically, premature relief for the Bell companies would undercut, not promote, the stated objective of stimulating competition between technologies by denying the viability of emerging competition and thereby stifling new technology development and further disrupting a still-stressed and undercapitalized industry. The current investments in research for alternative technologies will bear fruit only if companies, including AT&T, can build the customer base to justify the long-term investment in research and development for such future technologies as fixed wireless and use of the electric grid to deliver data. Alternatively, acting upon an unsupportable assumption that intermodal competition is a near-term possibility will result in further disruption to an already stressed telecommunications industry and will undermine progress toward a national broadband infrastructure.

AT&T has made significant investments in researching access technologies, and continues to explore every opportunity for intermodal competition. We know from this work that the list of “possible” access technologies is long, yet each of those which we view as “practical” to address the needs of business and consumer customers has unique

challenges that conspire to delay deployment for broadband, and competitive access uses in the near term, at least. For instance:

- Several of the technologies available rely on or operate over the Bell networks, and therefore cannot be truly considered as “intermodal competition”.
- Cable companies, as another example, are avoiding expensive new investments in circuit switched telephone services and waiting for development of cheaper VOIP technology. At the same time, cable VOIP is receding as a potential telephony competitor because of shortfalls in vertical features and reliability. As for investment capacity, most cable networks are debt laden and have significant capital investment requirements for maintaining and improving existing plant and operations, migrating to high-definition TV and fending off DBS. Cable’s viability as a large-scale local competitor to the local Bell as a voice provider remains years away, certainly not in the next five-to-seven years.
- As for wireless intermodal competition, the Bell owned cellular companies have not made a major push to compete directly with the Bells themselves for residential wireline services. In addition to business, cost, technology, tower siting, rights-of-way, and spectrum constraints, there are service quality and cost characteristics that prevent other wireless services from becoming a mass market alternative to the home phone. AT&T itself encountered a host of hurdles when attempting to develop a fixed wireless competition trial.
- The electric grid is not a viable alternative for a variety of reasons including the existence of transformers throughout neighborhoods that block the transmission of high frequencies so crucial to broadband data transmission. Furthermore, because most electric grids are monopoly owned, an electric grid broadband provider may have problems obtaining affordable access to the monopoly network grid. There are no proven providers of telephony or data via the electric grid today. Even if the technology does eventually prove out, some states limit or prevent municipality owned power utilities from offering telephony (even wholesale). Finally, the economics of power line communications is significantly less attractive in the United States than it is in Europe where trials are taking place. Due to infrastructure differences between Europe and the United States, European trials are typically able to deploy service to as many as 200+ homes “after the transformer.” By contrast, deployment in the United States would be limited to a very low number of homes, typically less than 10.

Should the Commission decide to put its faith in the intermodal competition strategy, regardless of these realities, the RBOCs would be provided, once more, with a massively tilted playing field. It is simply not possible for these new, promising, but distant technologies, even installed by the best of suppliers, to compete in today’s marketplace.

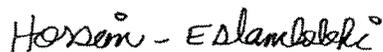
While we from a technology standpoint are exploring all new technologies, public policy in my view ought to focus on whether the new technologies can provide sufficient competitive checks to assure that customers get good service at competitive

prices *now*. In this respect it is incontrovertible that no intermodal technologies come even close to meeting this test. The earliest Bell System documents, for instance, exploring the competitive threat posed by cable date back to the 1960s. Fixed wireless is much more recent, but has been on the drawing boards for almost 10 years. Yet none of these technologies are even worth mentioning as effective constraints on monopoly behavior. Where the RBOCs have been successful in convincing the FCC that they face competition, such as special access, they continue to exert market power and have, in fact, been increasing prices for those so-called competitive services across the board. It seems particularly imprudent, given that example, to deregulate other areas when the evidence is so clear that neither intermodal competition nor anything else is protecting customers *now* from the abuse of market power.

With the substantial assets required, and absent deployable technologies in the near term that can provide both a compelling service proposition and low-enough competitive investment exposure to meet customer willingness-to-pay levels, there is high risk to any further development of competition. Patience is needed to give these technologies time to mature; and for the development of compelling service propositions that can enable the kind of competition that you are looking for intermodal competition to provide. Decisions to deregulate the RBOCs now would effectively shut down competition, before the alternative technologies could “take hold”.

We would welcome the opportunity to explore the barriers confronting these technologies with you and the Commission’s experts. In particular, if you or they believe that there exist capable cost effective technologies that I have not discussed, or believe AT&T is incorrect in its evaluation of the technologies that I have discussed, such a sharing of views would be especially useful. We believe that we share a common objective of providing a variety of choices to our nation’s citizens—and we are fully committed to a future of competition between providers and technologies. But, it is clear that our vision cannot be fulfilled by the capabilities of the technologies currently available to us. Patience, research, capital, and marketplace acceptance are critical ingredients. Any attempts to curtail the emergence of those ingredients would harm our nation’s competitive telecommunications industry, limit choices to consumers, and impact our country’s competitive global position.

Sincerely,



Hossein Eslambolchi
President, AT&T Laboratories
AT&T CTO & AT&T Business CIO

cc: Hon. K.Q. Abernathy
Hon. J.S. Adelstein
Hon. J. J. Copps
Hon. K.J. Martin

W. Maher, Chief, Wireline Competition Bureau