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Mr. Michael K. Powell
Federal Communications Commission
445 12" St. SW
Washington, DC 20554

Dear Mr. Powell:

I seldom write letters, but the possibility of removing UNE from the local loop causes me and my customers quite a bit of heartbum. I am a telecommunications consultant whose customers are utilities in California, Texas, Michigan and Pennsylvania. These are in less than urban centers, and without local competition, they are solely dependent of the local monopoly telephone company. They have not requested that I write to you. As an individual, I too would like an option in my purchase of communications services.

As a citizen, it is my duty to appraise you of my concems. The enclosed article from ***Business Communications Review*** fairly states the case for avoiding the removal of UNE for several years. I hope you find it of relevance in your deliberations.

Sincerely,

Florian A. Mikulski

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A Year Of Uncertainty

Eric Krapf

Our panel of industry analysts agrees we're entering the most volatile year in two decades.

The market for enterprise long-distance services is in turmoil. WorldCom's future remains uncertain, as is the prognosis for virtually all major carriers. And chances are that the situation won't be resolved before you start negotiating your next contract.

To get some ideas on how to cope with this difficult situation, *BCR* conducted the latest of our email-based "virtual roundtables" on major industry issues. We sought input from half-a-dozen independent analysts/consultants who have their fingers on the pulse of the services market:

- **Jim Blaszak**, partner, law firm of Levine, Blaszak, Block & Boothhy.
- **Dick Kuehn,** president, RAK Associates.
- **Hank Levine,** partner, law firm of Levine, Blaszak, Block & Boothby.
- **Jim Metzler,** vice president, Ashton, Metzler &Associates.
- **Tom** Nolle, president, CIMI Corp.
- **Allan Tumolillo**, chief operating officer, Probe Research.

Members of the group traded emails in mid-November, and excerpts follow. (The complete exchange can he found on the Web at www.bcr.com/bcrmag/2003/01/roundtable.asp).

Issue I: Whither WorldCom?

BCR: We're about six months into the WorldCom bankruptcy. What tangible effects are you seeing in the marketplace? Have WorldCom customers whose contracts expired in the last six months switched carriers? What's been the overall effect on the pricing environment?

Dick Kuehn: My experience is that as contracts come up for renewal, customers are leaving WorldCom. Given how long it takes to negotiate a contract from start to finish, we probably don't yet have a good picture of the overall direction; however, according to WorldCom's monthly filings with the Bankruptcy Court, its revenue drop seems to be accelerating—revenues in July were **$2.464** billion, in July it was **$2.40** billion and in September it was **$2.3** billion.

We're still feeling our way with pricing. Sprint seems to view the situation as an opportunity to increase market share by lowering rates. AT&T, on the other hand, is trying to raise or at least sustain present pricing levels.

However, I think that we are in a "voice price comparison" syndrome. The fact is that there has been little movement in the price of the typical dedicated-to-switched minute. However, I am seeing significant price reductions in frame relay ports, PVCs (permanent virtual circuits) and access. I think those are the areas where we'll see downward movement, while voice pricing stays relatively stagnant

Tom Nolle: We haven't seen a lot of customer switching yet, but most enterprise buyers will start looking at the question of the stability of their IXC in **'03.** There does seem to be an increase in the percentage of buyers who elect month-to-month contracts rather than long-term.

Pricing isn't likely to fall sharply...It's clear that the IXCs are in a profit crunch, and where RBOC (regional **Bell** operating company) entry has been a factor, the RBOCs haven't attempted to differentiate on price.

Overall, it's very unlikely that there will be significant price erosion, because it would destabilize the carriers to offer reductions of any significance.

Jim Blaszak: We have seen clients "adjusting" their commitments to WorldCom. Most are not jumping ship. Indeed, some have said they have seen no service deterioration since WorldCom sought bankruptcy protection. But almost all are concerned that account support could erode and that reductions in capital expenditures will eventually degrade network performance. Of course, WorldCom argues that it would be shortsighted for it to take steps that would risk its biggest asset, its customer base. The counter-argument is that WorldCom's creditors may have a different agenda. Not surprisingly, businesses that had been almost exclusively WorldCom shops are now looking for supplier diversity.

As for prices in the wake of WorldCom's bankruptcy, I generally agree with Dick Kuehn's remarks. I have not seen new, lower price points for voice service. I have, however, seen carriers extend lower prices to customers whose prices were out of market. And data service prices are going lower.

Eric Krapf is BCR's managing editor:

Allan Tumolillo: One other factor affects WorldCom in particular and the other IXCs more generally, and that is what the SEC will do.

If the SEC lets WorldCom off the hook with a fine, perhaps a substantial one, and WorldCom's agreeing not to violate securities laws in the future, then we will know two things with absolute certainty and precision:

A. WorldCom will be able to accelerate its migration out of bankruptcy and avoid the mess a SEC-originated set of charges would bring. Customers would more likely leave WorldCom if the SEC refused to make a deal.

B. The SEC will allow any kind of fraud—at this point, the fraud amounts to $9 billion in revisions, a complete loss in equities' valuations and a vast reduction in the face value of the debt. If the SEC allows this fraud and the reduction in value subsequently, then we know that any corporation can get away with it. What's a fine? If the fine were, say ***$25*** billion, it might mean something, but a few hundred million-dollar fine is essentially a license to commit massive fraud.

Jim Metzler: Given the relatively short amount of time that has passed since WorldCom's problems became public, I think it is too soon to tell if large numbers of enterprises will jump ship to go to another IXC that is also less than rock-solid financially. That being said, one likely scenario includes the following:

- **As** WorldCom's customers' contracts come up, they'll shift some traffic to other IXCs. Many large customers have contracts with multiple IXCs, so this could be regarded **as** fine-tuning.
- In general, voice prices will not drop, and could inch up some.
- Frame relay prices could drop some.
- However, the more interesting aspect of the frame-relay market is a growing trend for customers to implement Internet-based **VPNs** and either put new traffic on these networks or actually take traffic off their frame relay networks. This could really squeeze the IXCs' revenues and put **as** much pressure on the IXCs **as** the worry about their financial viability.

Nolle: I think Allan makes a good point ahout the honesty of the SEC process if WorldCom is allowed to skate on what is certainly the largest corporate fraud in U.S. history. There's also another issue, related hut separate: Should WorldCom he allowed to re-enter the market rid of its debt load, having lost virtually all investor equity and creditor recourse, and wreak competitive havoc with those players who didn't commit any fraud (or, at least, haven't been caught)?

Chapter 11 **as a** competitive strategy for carrie n would be dangerous, because while it might be employed for a time, it would totally discredit the sector with Wall Street and leave the industry almost without capital resources. That would not only reduce the chances of any market competition, it would stifle innovation, modernization, etc. In the final act, **loss** of capital access might well force the whole industry into the tank, forcing the government to re-establish a regulated monopoly with a guaranteed rate of return.

For WorldCom, though, the problem may he that the SEC can hardly give the company immunity against civil suits and other criminal prosecutions. The SEC is responsible for the securities laws, not for the U.S. code or the criminal codes of each state.

The best thine would be to let these guys get dismembered at–minimal risk to the rest of the market, in my view.

Kuehn: Being diplomatic, I agree with everybody, But:

1.) It is pretty difficult to split contracts that are less than $3 million per year without increasing management cost and decreasing discounts.

2.) While I had not given a lot of thought to the SEC and WorldCom, it's a good point. But I would hate to think the SEC will them "skate" just to appease WorldCom customers. I remember Bill McGowan telling me at the time of the AT&T breakup: "Sure it would hurt customers—but they did break the law.'

3.) I *think* that bankruptcy is a business for some, and if it allows predatory pricing it may well he a plan for **all.** My scenario has one of the RBOCs buying WorldCom. This will put AT&T, and to a degree, Sprint, in play **as** a defensive buy for the other RBOCs.

Tumolillo: We might be getting ahead of ourselves and speculating on mergers and acquisitions, but here goes: Let's suppose for argument's sake that SBC goes after WorldCom (trust me, I have no clue if they would or wouldn't). Then SBC is "frozen." The deal will take a very long time to get approval and then get closed. That allows ***any*** arrangement of hostile forces to maneuver around SBC and in a non-growth period, SBC may become extremely vulnerable. It couldn't upset the deal, ***so*** its maneuverability when opponents demand more access, more **UNEs** (unbundled network elements), more open platforms, more concessions is sharply limited. It's just not a great environment for megadeals. Piece-part sales may be easier to consummate.

Blaszak: Musing about mergers, acquisitions, SEC fines, etc. is interesting, but the overriding concern for my WorldCom clients is how to position themselves given that no one really knows what the market will look like a year from now. The best approach, in my view, is avoidance of over-commitment, financially or operationally, to one carrier. In the current environment, customers should seek to preserve **as** much flexibility **as** possible. Contractual provisions are important to define the parties' expectations and hopefully establish some enforceable rights and obligations, hut nothing is **as** effective **as** the ability and willingness to move business to get good service and competitive rates. Although some customers may

The best approach for all enterprises: Avoid over-commitment to any one carrier

The RBOCs aren't ready to serve enterprises on a nationwide basis—at least not yet

be too small to support multiple telecom service contracts, even these customers should avoid over-commitment.

Nolle: I agree with Allan (gee, I hate to keep saying that!) on the merger scene. Leaving aside the fact that SBC and Verizon told Wall Street they're not interested, the fact is that the DOJ kind of let it be known in the late **'90s** that they would not entertain a merger between one of the big RBOCs and an IXC. In addition, the "immohility" issue is a key one. A decision to entertain **a** merger is an appointment to sit a year or so in Washington with no market access to much of anything while everybody gets their licks in at you.

I think that BellSouth would benefit from a merger with a healthy IXC (meaning one that isn't under indictment or nearing bankruptcy) because they don't have enough corporate HQ sites in their region to have a reasonable shot at the enterprise market. Whether it would be approved, and whether there would be problems arising at the business level, is another matter.

Issue 2: What About the RBOCs?

BCR: Are any RBOCs a legitimate option as provider of a nationwide enterprise voice or data network today? If so, what will they use to win customers? If not, what do they lack? How do they get what they lack if they don't buy an IXC? How long will that ramp-up take?

Nolle: No. National service for voice would require toll switch on-ramp services in all the major metro areas, at the minimum, and data service would require a service POP (point of presence) in each. None of the RBOCs has that, and none (including Verizon) has any specific schedule to develop it. The issue they face is how to develop these network-presence requirements, given that it's clear that revenue and profit for legacy voice/data are trending down. It's not a matter of buying an IXC; they could buy legacy gear today cheaper than buying an IXC. It's a matter of coming up with a new equipment plant and operating strategy that can earn an ROI better than their current internal rate of return.

We think that MPLS (multiprotocol label switching) represents the only technology that can address near-term service needs and still have revenue credibility beyond 2005. The problem is that MPLS gear from the primary vendors hasn't kept pace with market requirements, so the carriers can't get what they need from major players and don't have enough testing history with the startups to he completely comfortable. When the RBOCs, especially Verizon, have validated an MPLS option, they'll start a national deployment. Until then, they'll confine their enterprise service marketing to smaller geographies (Verizon's "I-95" strategy) that contain their exposure to deployment of new gear.

Kuehn: I think the RBOCs bring a stable name to the offer. But to date they have not shown any interest in going after the large nationwide (or international) customer. They seem content to chase the small business and residence market with a me-too price and "single hill" concept.'

The RBOCs do not understand the sale process in the IXC market. *So,* if they were to go it alone, they would not only have to build a network but a sales/marketing program. If they put the network in place (they must do that in order to sell it), they then have a very long lead-time to sale. For all intents and purposes, 1/36 of the market becomes available each month. With the sale process taking up to a year, they have a huge start-up expense. I still do not think they can get there without buying an IXC.

BCR: What I'm hearing in this roundtable is:

- The IXCs are in financial trouble.
- The RBOCs can't deliver enterprise services on a nationwide basis, and aren't likely to attain this capability very soon.
- The RBOCs probably won't and/or can't acquire any IXCs.

So where does **this** leave enterprise customers? Sounds like a year or two out, we could be in a situation where nobody's really in a position to serve them. **Is** there some sort of train wreck ahead that enterprises need to be womed about?

Tom Nolle: **Your** three points are right, but it's a timing question. The IXCs are in financial trouble, hut they're not going to crash in 2003. The RBOCs can't do the enterprise thing in 2002, hut by the end of 2003 at least one will be deploying national data/voice enterprise services.

Is the enterprise customer at risk to the instability? Sure, but so were the enterprises in California during their power crunch (and they may be again next summer). This brings out a key point: Industry at large is dependent on enlightened regulations for public utility operations, and that includes telecom, whether we assume "deregulation" or "competition" in the space.

Jim Blaszak: Let's not panic. I expect that we will endure a period in which the market is not as competitive **as** it has been for the last decade or ***so.*** But I also expect that condition to he temporaty. The market will again become intensely competitive. Remember, it's a declining-cost industry, particularly with respect to the "enterprise" customer slice of the market.

I expect RBOC entry into the long-distance market, perhaps on a regional basis, perhaps on a national basis. The **RBOCs** have been very successful in winning residential and small-business customers when authorized to provide in-region, interLATA services. Of course, they'll need to develop systems and resources to win and support "enterprise" customers. And they will. (By the way, I've completed a data-transport contract with an RBOC that, given its size, is far superior to that which long-distance carriers generally agree.)

The long-distance carriers will have no choice but to compete. Competition drives prices to the relevant cost level and produces reasonable terms and conditions when both parties are well informed. I am not concerned that the "industry" will be unable to serve enterprise customers in the foreseeable future.

Hank Levine: Yes, the IXCs are in financial trouble, although it varies by degree.

Yes, the RBOCs are in no position at the moment to deliver enterprise services on a nationwide basis, although, as evidenced by Verizon's recent announcement, they are taking a few hahy steps [Editor's note: see ***BCR,*** December 2002, pp. 12–13]. The truth is that the RBOCs don't have a clue right now about how to support enterprise customers outside their home regions, much less outside the U.S. For **2003** and perhaps much of **2004,** they'll be focusing on picking off single-line customers and the like with service "packages" that combine local, LD and DSL on one hill. And they'll trot out other stuff a little at a time.

RBOCs acquiring IXCs is a bit tougher—a lot has to do with the price. It is very much in the RBOCs' interest to say they aren't hungry until we notice them mopping up the cheesecake.

But I don't think that this adds up to a situation in which in a year or two out there's a train wreck and no one to serve the enterprise market. More likely, we are in for a couple of years of great uncertainty, greater than we've had at any time since **1983.** AT&T will survive and likely thrive. WorldCom will emerge independent or owned by someone else. Sprint will...well, Sprint will be Sprint—every big user's favorite bridesmaid, no one's bride. Maybe one of them, or two, get acquired; maybe not. Either way the RBOCs (except for Qwest, which is hopeless) stumble and trip over their feet and slowly begin to offer nationwide/global services that enterprise customers find attractive and the IXCs trot along. Not pretty, but hardly a train wreck.

Tumolillo: Tbe RBOCs certainly have a financial problem ahead of them that must be addressed. They are losing lines to mobile and **UNE-P,** and so they are taking steps to try and shore that up via regulatory maneuvers and urging a consolidation of the mobile industry. Those steps might possibly (only "possibly") hold off further erosion, or at least slow it down. IXC entry may bring back some of those UNE-P customers.

The financial markets, as always, are important here, and how they move may ultimately dictate winners and losers. One scenario has the economy coming back strongly, with enterprise spending rising robustly sometime in 2003 on equipment and IT. In that scenario, demand for bandwidth services, VPNs, etc., will rise and carriers will meet that market.

Another scenario is that the financial markets tilt in favor of wireless operators. If the mobile operators' valuations rise, especially AT&T Wireless, T-Mobile and Sprint PCS, then the pressures on the RBOCs to spin out Cingular and Verizon Wireless will become intense. But spinning out wireless creates a strong local competitor and the telco local market business loses all growth potential. A local telco without wireless is in a no-growth position overall as customers recede.

A third scenario is in the wings. If the U.S. economy falters—i.e., consumers stop consuming — then we face a telecom dilemma. Every carrier suffers in this scenario, but the RBOCs get hit hard. Growth, already down, may go sharply down. Wall Street may really take down their valuations. It is ***not*** inconceivable that an RBOC could enter bankruptcy in **2003** if the U.S. economy really enters a recession. In that case, we don't see huge valuations heading to AT&T or Sprint or the other remaining RBOCs. I think the financial community takes all of telecom down further, along with IT companies. Recovery would not set in until **2004** for the telecom industry.

In the enterprise-resurgent scenario, enterprise customers are well served. In the wireless scenario, enterprise customers face a muddle with a weakened carrier industry. In the "catastrophe" scenario, enterprise customers seriously retrench and a number of other carriers collapse. At this time I put the probabilities at **50** percent, **25** percent and **25** percent, respectively.

Kuehn: I agree with Tom and **Hank.** I do not see a "train wreck" unless we wreck the train. At some point, enterprise management has to realize that we can't drive down carrier prices as we have done for the past 10 years in voice and are now doing in data; we can't continue cutting internal support staff and expect the same level of support of 10 years ago. At the same time, the carrier market only knows one way to sell—lower price. It is too late to sell the "blue sky" of how well we will support you or how "accurate" our hilling is. In the words of Pogo, "We have met the enemy and they is us."

Iuue 3: Services

BCR: Are we seeing any changes or evolution in the mix of services that enterprise customers buy from their IXCs? **Is** there a migration to IP for any application?

Metzler: I am seeing some non-trivial deployment of Internet-based VPNs, in part as a supplement to the existing frame-relay networks.

Nolle: The only real change is the limited introduction of additional IP features in things like frame relay. The migration to IP is inhibited by the fact that the only real "benefit" presented to the buyer is lower cost. That's hardly something the incumbent carrier wants to push, and if carried into a major competitive theme, just kills everyone's revenue stream

What's needed to develop service extensions or innovations is linking to a new revenue stream

Kuehn: I see some migration to voice over frame, but primarily for international. I doubt you can justify all the work when you are paying below

[redacted]

The won't be pretty, but it won't be a train wreck

Most “best-case” scenarios depend on a rebound in enterprise spending

3 cents per minute for domestic use. The application must he justified (i.e., tying the field and the customer closer to headquarters, telecommuting).

I also see some movement of frame to IP, and it’s cost-driven. But I am seeing the primary carrier TI connections being hacked up by slower-speed DSL for backup.

The surprising piece is the quantity of hours and dollars being spent on remote access. That seems to he growing at a rate that is amazing.

Iuue 4: Emerging (From Bankruptcy) Carriers

BCR: What if anything is the likely impact of lower-tier providers, such as Williams/WilTel, Global Crossing and others, emerging from bankruptcy? Will this touch off a new price war? Should enterprises consider these carriers as potential suppliers?

Tumolillo: The new WilTel and Global Crossing may he debt free hut they are by no means out of the woods. Many business “strategies” employed by these firms included price competition and unbridled spending on infrastructure. The latter strategy is not open to WilTel and Global Crossing; it presupposes a market for their debt or equity securities. Yes, they are free of debt, hut we suspect that financial markets will be cool to them.

As for the former strategy, price competition, I see no way that this will make them whole. If anything, they have to be price followers, not price leaders. If all they do is underbid AT&T or the RBOCs, then they will most likely collapse again, except the bounce won’t he as loud, as they have a smaller distance to fall. The current market demands profitability.

A more likely strategy, at least for WilTel, would he to become a serious partner for a larger entity, like an RBOC. As the telcos migrate to national service, they can provide a base load of traffic and revenue to companies like WilTel. This may limit the upside, hut it shaves the downside.

It would he an adventuresome telecom/IT manager that bet the network marbles on one of these ex-bankrupt companies. As back-up providers, that may make some sense.

In that vein, I would like to raise an issue that may seem extraneous at this juncture, hut seems relevant to this analyst. After 9/11, the largest enterprises cannot take the risk of a single access provider connecting to a single node like a telco CO. Diversity in access routes and POPs is required. This may open up opportunities for a WilTel *et al.*

Kuehn: But those carriers do not have ubiquitous coverage, *so* they do not appear to he major players with my clients. They definitely have a place, for very specific applications, hut I see them as niche players

Nolle: It’s doubtful there will he a price war because there’d he no winners. Margins on services are too low. In addition, it’s a myth that technology efficiencies alone can make a carrier a price leader. Cost of sales and operations today is two-thirds of a carrier’s total service cost. For the emerging players, lacking either credible sales presence or mature operating practices, these costs are more likely to he higher than the incumbents’.

In the heyday of “emerging carriers,” we saw players offering to discount frame/ATM by 60 percent versus incumbent pricing, and they had no success. The past does teach something!

Hank Levine: The second-tier carriers—with the possible exception of Broadwing, which didn’t go bankrupt—are of relatively little interest to enterprise customers, except for particular niches or as the other side of small deals entered into to keep the primary providers honest and average prices down. No nationwide footprint; no full suite of services; weak account support. As I said, Broadwing shows some signs of being able to break out of this; we’ll see.

Iuue 5: Best Case/Worst Cars

BCR: What are the best- and worst-case scenarios for what will happen in the enterprise long-distance services market over the next 12–24 months?

Tumolillo: The best-case scenario is something along the following lines:

- First, the enterprise sector comes hack with renewed spending on IT and communications.
- Second, the **RBOCs** are not able to overturn UNE-P rules and still face local competition.
- Third, AT&T and Sprint get a sales bounce on the enterprise side.
- However, fourth, consumer interexchange will nevertheless be a quagmire, with RBOC entry leading to erosion of Sprint, AT&T and WorldCom (MCI) on the consumer side.
- Fifth, [CEO Michael] Capellas is able to transform WorldCom from a corrupt organization into a “good citizen” and keep it intact.
- Sixth, capacity gets mopped up, even if slowly, through consolidation and renewed traffic growth.
- Seventh, wireless Internet applications serve a useful set of business functions, and businesses push in that direction.
- Eighth, the consumer sector does not collapse; consumers continue to spend merrily, which will push enterprises into spending, as well as increasing purchases of “enablers” like digital cameras, PCs, etc. These generate downstream traffic for carriers.
- Ninth, there are no terrorist attacks in the U.S. and if we are at war with Iraq, it doesn’t collapse into a quagmire and weapons of mass destruction are not used.
- Tenth, somewhere along the line, some carriers get the business model “right” and can find a way to bill for some of the traffic.

The worst case:

- First, the consumer sector collapses under the weight of crushing debt, and the housing market “bubble” **starts** to lose air.

■ Second, enterprises delay spending increases, perhaps out to **2004,** for new gear, IT stuff and communications.

■ Third, terrorism or the war with Iraq goes very badly, creating a crisis in confidence.

Fourth, the **RBOCs** get their way and this pushes AT&T and Sprint into **a** comer with big share losses.

■ Fifth, even with regulatory success, the *eco*nomic malaise leads to a collapse of one of the RBOCs, which casts **a** pall over the financial markets and telecom.

■ Sixth, Europe's and Japan's economies go into a deep slump.

■ Seventh, oil prices skyrocket due to turmoil in the Middle East/Iraq.

■ Eighth, carrier overcapacity does not get sopped up.

■ Ninth, **less** consumer purchasing of enablers slows down the march to broadband.

Nolle: Best-Case: Verizon will launch its MPLS-based, enterprise services program in **a** big way, nationwide, around April. AT&T and the rest of the IXCs similarly move to replace existing frame/cell cores with an MPLS core. Services that are hybrids of frame and **IP** will emerge, which will combine with Ethernet access offerings to create a new range of Layer 2/3 combinations. Some offerings will he "tactical VPNs"—they can he enabled for days or even hours over flexible access pipes. DSL deployment will begin **in** Q3 and ramp up quickly, and new consumer content services, based on the same MPLS core, will increase carrier profits and accelerate the deployment. Legacy service prices will be largely stable, hut the new IP-based tactical services will offer pricing advantages for temporary bandwidth requirements.

Worst-case: Verizon and the other RBOCs won't be able to validate MPLS in their long-distance networks, and ***so*** deployment of national services will **stall.** The IXCs respond by putting their modernizations on hold. The FCC and Congress will, as usual, diddle on DSL, and there will be no significant expansion in the rate of deployment. Carriers will gradually recommit to ATM by default, and as DSL mass grows there will he no efficient IP core to exploit the potential consumer services, starving the carriers for new cash. The IXCs will fail one by one, the RBOCs will **start** to sink and the government will step in and re-regulate, making the national network a joint responsibility of the U.S. Postal Service and the Department of Homeland Security.

Kuehn: The best case: WorldCom is purchased from bankruptcy basically intact by **an** RBOC. Then AT&T is purchased by another RBOC as a defensive move. Sprint—who knows? The industry continues at present pricing levels with competitive downward movement (particularly in frame and IP). In any event, service support and billing problems continue. Within the RBOC territory, the "last mile" becomes **a** provisioning problem that divestiture was designed to prevent, and we now are faced with bundled pricing (including local service) that makes comparisons more difficult and implementation of **a** canier change even broader and more threatening.

In the worst case: WorldCom emerges from bankruptcy less its debt and interest costs, and attempts to regain market share through predatory pricing. Instead of support service and billing problems staying the same, they get worse as the other carriers join the price war.

The RBOCs decide to build their own network, which essentially blocks them from the enterprise market (except those basically in territory) and restricts them to residences and small businesses within their territory. This may not he so bad, because my sense is that the big IXCs do not want to serve this market anyway. To the extent that they are wholesale suppliers to the RBOCs, this may he a better economic model for everybody.

Metzler: The best case might well he that things do not get much worse.

The worst-case scenario could have a number of ugly components, including:

■ A steady increase in pricing.

■ The steady erosion of customer support, resulting in longer lead times, more missed installation dates, longer outages.

■ The reluctance on the part of the service providers to aggressively advocate more feature-rich services (i.e., IP-enabled frame relay) because it reduces their revenues. The exception to this is when the service provider is in a direct competitive situation.

■ Enterprises capping their frame-relay networks (and hence their spend with the service providers) and aggressively moving traffic over to Internet-based VPNs. This shift would increase the stress being felt by the IXCs and accelerate the downward spiral..

Note: If prices inch up as I think they will, this will put personal/professional stress on IT managers. In particular, over the last number of years, IT managers have been able to re-negotiate lower prices on a regular basis, and receive "credit" for these lower prices from their managers. If prices do indeed increase, it is likely that at least some of these IT managers will be held in lower esteem by their managers.

Levine: The best-case scenario is that enterprise spending recovers. WorldCom emerges from bankruptcy, leaner, but largely intact and determined to recapture market share through improved customer support and better systems as well **as** aggressive pricing. The RBOCs lose the fight to kill UNE-P hut, nevertheless, slowly roll out enterprise services across the country. Sprint becomes healthier, and AT&T stays healthy, gets a little less arrogant and a little more womed about the competition and **starts** to rebuild (rather than further gut) its account support.

Service support and billing problems will continue—and that's the best-case scenario

Competition is the best way to promote service quality and reasonable prices

The worst-case scenario is that enterprise spending stays depressed. WorldCom loses too much business between now and 3403 to do anything but get sold for parts at scrap-heap prices. UNE-P is killed and the RBOCs still don't invest in new or improved services. Sprint stays sick and, maybe, follows WorldCom and Qwest down the tubes. AT&T's attitude towards customers "evolves" to the point where we pine for IBM in the '60s or Computer Associates in the '90s.

Issue 6: Loose Ends

BCR: To close things off, I want to throw the floor open to any final comments.

Nolle: The real issue for the enterprise buyer is not so much the price of legacy services or the specific names *of* the competitors who will offer them, but rather how the nature *of* services will change. As data becomes more populist—more part *of* the consumer market—the carriers will be less willing or even able to accommodate large enterprises, because that market segment will be getting, in relative revenue terms, smaller. Enterprises should evaluate consumer-model services to replace traditional private networks.

The view that the future IP services will, somehow, be enveloped in an Internet business model that generates about one-tenth of the revenue that public networking earns today is clearly unrealistic. IP services will be framed in many ways, and making individual IP services accessible to applications within an internal LAN-based network will be essential to the new business models. In addition, the expansion of "consumer data" will ultimately undermine the concept of "enterprise networking" as a function, just as the expansion ***of*** PCs undermined the role of the datacenter.

Tumolillo: In the enterprise sector we will have two tests:

- Can the RBOCs, once in national interexchange, compete with the more nimble players, and if **so,** will this propel them to be more market driven and less reliant on regulation?
- Will the smaller companies that emerge from

lenge to AT&T, the RBOCs, Sprint and others that did not go into bankruptcy?

The outcome ***of*** these tests will present us with a new landscape in the interexchange/backbone sector. These outcomes are dependent on things somewhat outside of telecom itself—i.e., not on MPLS advances or IP or whether some new version of DWDM (dense wave-division multiplexing) makes a big difference—but rather, on the general state ***of*** the economy, whether we are at war, terrorism and that dreary stuff.

Blaszak: The outcome *of* regulatory battles and the WorldCom bankruptcy will have an enormous impact on the extent of competition in the enterprise long-distance market. The only hope for widespread, effective competition in the local exchange and access service market is continued availability—for quite a few years—of UNEs at rates low enough to give new entrants an opportunity to compete with local exchange carriers. UNE availability is important because facilities-based competition is a long, long way off. (I suspect that capital will not flow very readily to CLECs, including the local operations of AT&T and WorldCom, even assuming that WorldCom emerges relatively intact from bankruptcy.)

Without competition in the local services market, exchange carriers will be able to cannibalize the long-distance carriers' market without substantial fear that they will lose market share to the long-distance carriers. The result, of course, would be smaller long-distance carriers, and whether they'd have the resources to adequately serve enterprise customers is an open issue. Smaller long-distance carriers, however, seemingly would be more dependent on enterprise customer business, and thus, I would hope, more responsive to their enterprise customers than currently is the case.

The surviving long-distance carriers better be more responsive to their enterprise customers, because, sooner or later, large local exchange carriers will compete for enterprise customer business. That's happening to a very limited extent today. The more interesting question is whether local carriers will compete on a national basis or focus on marketing to enterprise clients headquartered within the carriers' regions.

If WorldCom emerges intact from bankruptcy, that will be good news for enterprise customers. If an RBOC were to buy WorldCom, perhaps as a defensive move, that also could be good for enterprises. The worst outcome would be sale of WorldCom's assets, an unlikely outcome, I suspect.

Enterprise customers should support policies and pursue procurement strategies that promote as much viable competition as possible. Without effective competition, enterprise customers will become unhappy over service quality, availability

Companies Mentioned In *This Article*

AT&T (www.att.com)
BellSouth (www.bellsouth.com)
Broadwing (www.broadwing.com)
Cingular (www.cingular.com)
Global Crossing (www.globalcrossing.com)
Qwest (www.qwest.com)
SBC (www.sbc.com)
Sprint (www.sprint.com)
T-Mobile (www.tmobile.com)
Verizon (www.verizon.com)
WilTel (www.williamscommunications.com)
WorldCom (www.worldcom.com)

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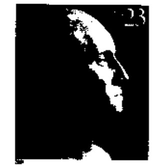
46 Robin Hood Lane
Chatham, N. J. 07928



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