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Public Utility Commission of Texas

January 15, 2003

Honorable Members of the Seventy-Eighth Texas Legislature:

We are pleased to submit our 2003 Report on the Scope of Competition in Telecommunications Markets, as required by Section 52.006 of the Public Utility Regulatory Act (PURA).

Since the previous report on telecommunications in January 2001, the Commission has continued to make significant progress in managing the transition to competitive local telecommunications markets during difficult economic times. New providers have entered the market, some competitive providers have left the market or struggled to remain, and the market share held by competitive providers increased to a point, but appears to have begun to level out or decline. Over roughly the same time period, since SBC's entry into the Texas long distance market, "the big three" long distance providers (AT&T, WorldCom, Sprint), have gone from 77% market share in 2000 to 59% in 2002. This report examines the existing condition of competition in the local, long distance, and broadband telecommunications market at both a national and state level.


In the last Scope Report, the Commission reported that competitive providers were capturing more customers in the larger metropolitan and suburban areas, but the Commission noted that competition in rural areas was limited. That situation has changed. As of June 2002, CLECs serve 16 percent of the local customers in rural and urban areas and 13 percent in suburban areas.

It is not clear that such competition is sustainable. The ability of CLECs to sustain themselves in the local telecommunications market is uncertain due partly to pending actions at the FCC concerning the continuous availability of access to the ILECs' networks. The ILECs still serve 85 percent of the local market and own the underlying facilities and therefore may still possess market power.

Chapter 7 highlights some of the emerging issues in the telecommunications market, and provides an analysis of the debate surrounding these issues. With regard to the wholesale provision of the incumbents' network to CLECs, any changes that limit access to that network should be scrutinized to avoid adding further uncertainty to the competitive market. With regard to the retail market, this Commission believes regulatory oversight of rates, quality of service, and other customer protections are critical elements to sustain a competitive landscape. The report concludes with a Commission recommendation for the Legislature to consider in the 78th legislative session.

We look forward to continuing to work with you on this and other policy objectives. If you need additional information about any issues addressed in the report, please call on us.

Sincerely,


Rebecca Klein
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Brett A. Perlman
Commissioner


Julie Caruthers Parsley
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