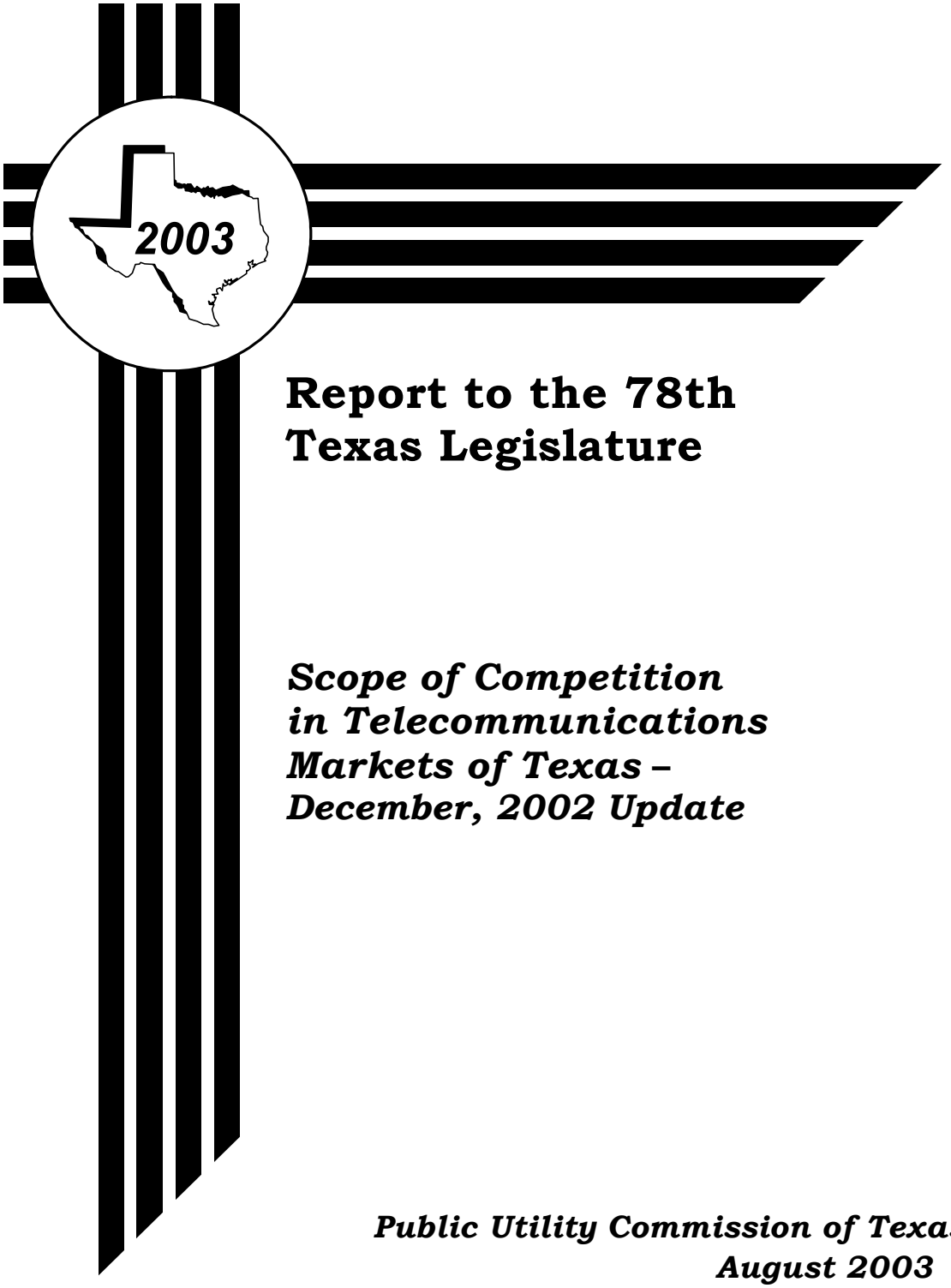

Report to the 78th Texas Legislature

Scope of Competition in Telecommunications Markets of Texas – December, 2002 Update

Public Utility Commission of Texas
August 2003

ACKNOWLEDGEMENTS:

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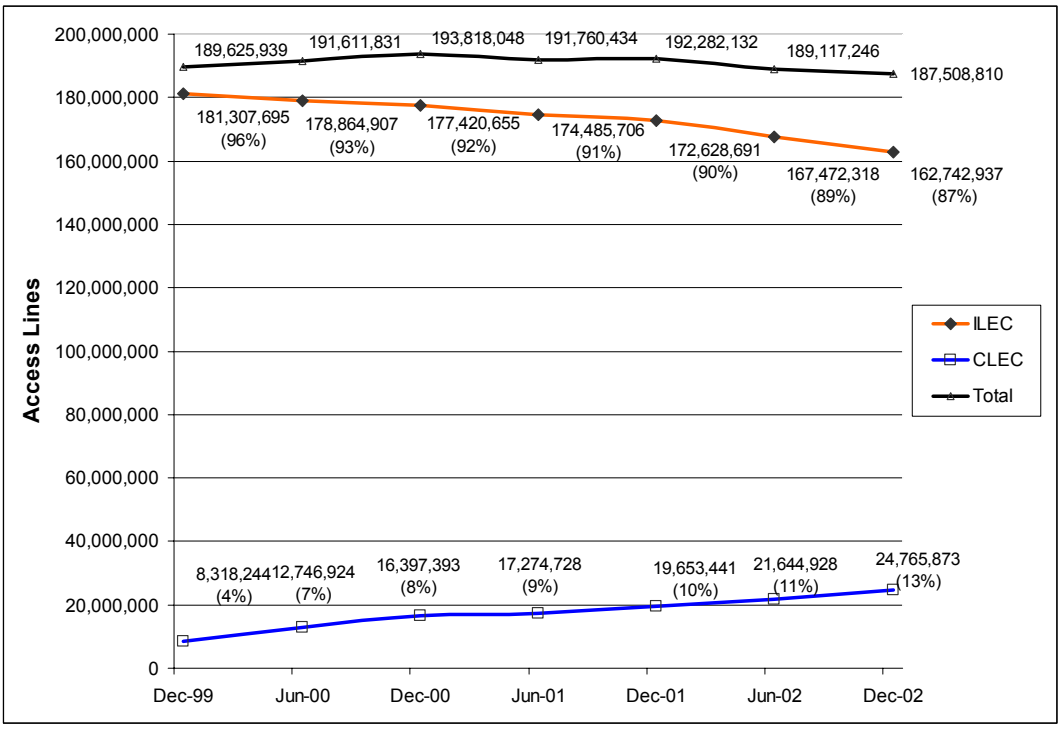
I. National Telecommunications Industry Trends

Despite the struggling economy, local telecommunications competition continues to develop, but at a slower rate of growth. Wireless demand remains high, and some consumers have begun to substitute wireless phones for traditional landline phones. Consumers have benefited significantly from strong competition in the long-distance market. Broadband internet demand has also grown. Taken together, these trends indicate that the telecommunications industry is undergoing significant competitive transition that will bring more choices to consumers.

A. Local Telephone Competition

As shown in Figure 1, the total number of access lines has continued to decline since December of 2000. During the same period, the CLECs' share of those access lines has increased steadily. As of December 2002, CLECs had approximately 24.7 million local lines nationwide, representing 13% of the total market.

Figure 1 — Nationwide Growth of Access Lines



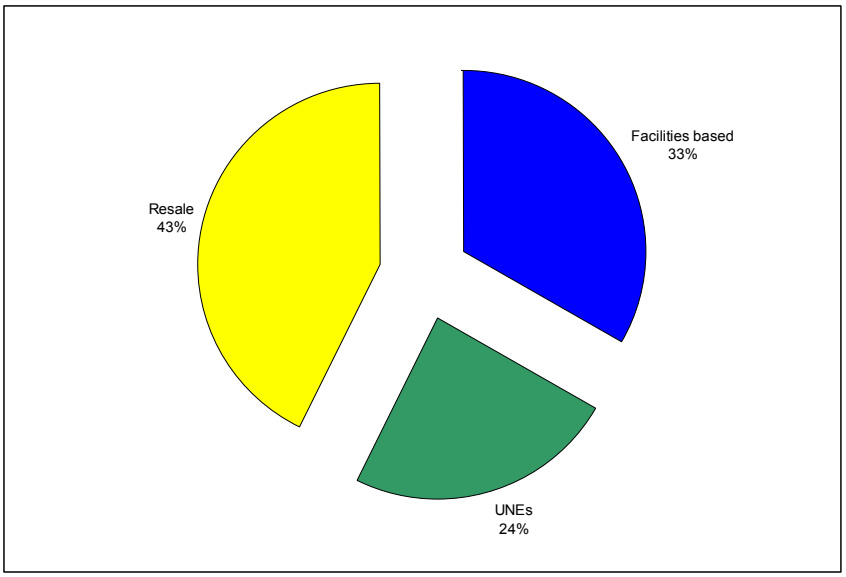
SOURCE: *Local Telephone Competition Reports,* FCC (Aug. 2000, May 2001, July 2002, Dec. 2002, June, 2003).

Section 251 of the Federal Telecommunications Act (FTA) envisioned three basic modes of entry by CLECs: (1) facilities-based; (2) unbundled network elements (UNEs);[1]

[1] The leasing of UNEs typically occurs in one of two fashions, via UNEs (also known as UNE-Loop or UNE-L, which is the lease of one or more of the network components required for the provision of

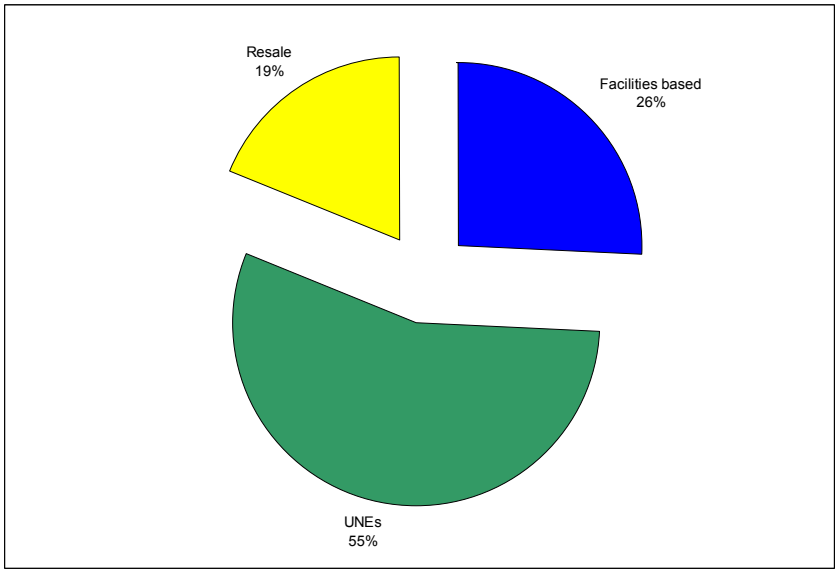
and (3) resale. As shown in Figures 2 and 3, the CLECs' primary entry vehicle has changed from total service resale in December 1999 to use of unbundled network elements (UNEs) in December 2002.

Figure 2 — CLEC National Entry Strategy as of December 1999



SOURCE: *Local Telephone Competition Report* at Table 3, FCC (August 2000).

Figure 3 — CLEC National Entry Strategy as of December 2002



SOURCE: *Local Telephone Competition Report* at Table 3, FCC (June 2003).

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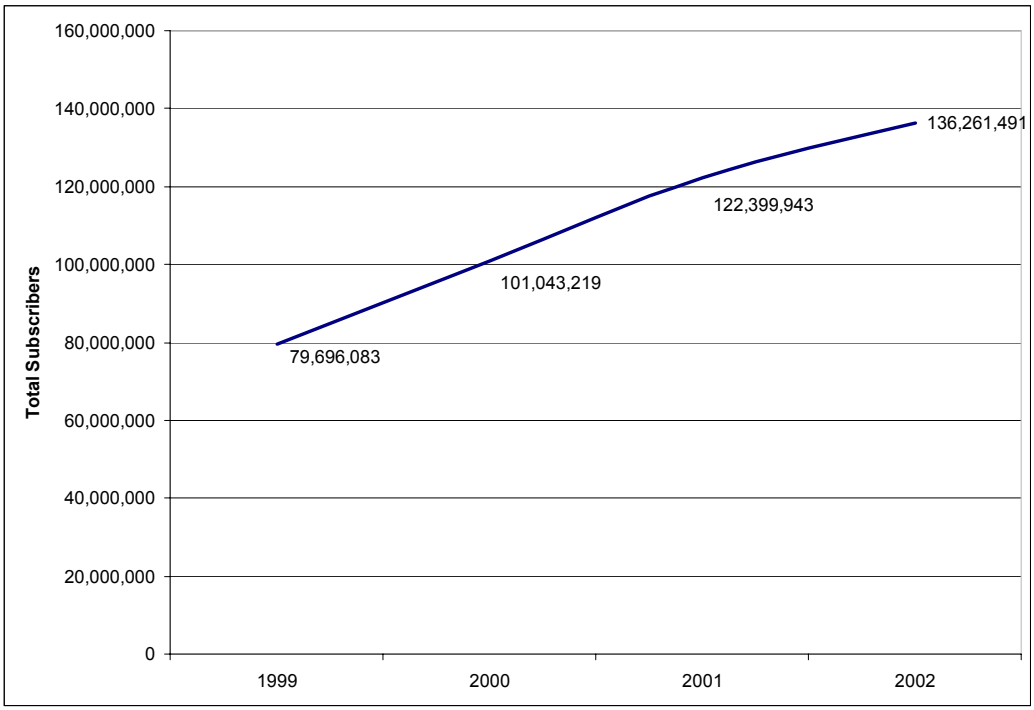
a telecommunications service), or UNE-Platform (UNE-P, which is the lease of a complete set of network elements that allows the provision of an end-to-end circuit). Individual or combinations of UNEs are available pursuant to the parties' relevant interconnection agreement, such as the Texas 271 Agreements (T2A).

B. Wireless Market

Demand for wireless phones remains relatively high and continues to grow. As shown in Figure 4, the number of mobile wireless subscribers at the national level has increased 71% since 1999.

Figure 4— Wireless Subscribers by Year



SOURCE: *Local Telephone Competition Reports,* FCC (Aug. 2000, May 2001, July 2002, Dec. 2002, June 2003).

C. Long-Distance Market

The long-distance market has probably been most heavily influenced by the competitive transition. Competition has increased as the Bell Operating Companies (BOCs) have received authority to enter the market. The long-distance service offered as part of many wireless phone plans allows consumers to substitute wireless service for traditional long-distance usage.

In July of 2000, SBC entered the Texas long-distance market after its grant of Section 271 authority. In 2001, SBC entered the long-distance markets in Kansas, Oklahoma, Arkansas and Missouri, and by year-end 2002, SBC had launched long-distance service in California. Although SBC has been in the long-distance market for a relatively short period, SBC reported that, as of year-end 2002, it has 6.1 million customers out of a total of 30 million access lines in the six states where it provides long-distance service. SBC's share of the long-distance market in those six states is, therefore,

over 20%.[2] In Texas, SBC estimated in January, 2003, less than three years after SBC had been granted the authority to provide long-distance the state, that it served almost 40% of long-distance consumers.[3]

In an effort to combat the loss of long-distance minutes from wireless usage and to respond to the long-distance plans offered by SBC and other RBOCs, many traditional long-distance providers are offering packages that include unlimited long-distance for a fixed rate.[4] For instance, BellSouth and SBC have launched a plan that lets customers buy a bucket of minutes that can be used for either traditional landline long-distance service or for Cingular wireless cell phone plans.[5]

D. Broadband Deployment

"Broadband" is a term used to describe high-speed access to the internet. Modes of broadband include digital subscriber line (DSL) service provided by phone companies over telephone lines; high-speed access via cable typically provided by cable television providers; and satellite and wireless service. As illustrated in Table 1, the number of broadband users nationwide has steadily increased since 1999, and has almost quadrupled in the last three years.

Table 1 — Number of Broadband Users Nationwide (1999-2002)

Broadband Technology	Dec. 1999	June 2000	Dec. 2000	June 2001	Dec. 2001	June 2002	Dec. 2002
Cable Modem	1,411,977	2,284,491	3,582,874	5,184,141	7,059,598	9,172,895	11,369,087
Asymmetric Digital Subscriber Line (ADSL)	369,792	951,583	1,977,101	2,693,834	3,947,808	5,101,493	6,471,716
Other Wireline	609,909	758,594	1,021,291	1,088,066	1,078,597	1,186,680	1,216,208
Fiber	312,204	307,151	376,203	455,593	494,199	520,884	548,471
Sat./Fixed Wireless	50,404	65,615	112,405	194,707	212,610	220,588	276,067
Total	**2,754,286**	**4,367,434**	**7,069,874**	**9,616,341**	**12,792,812**	**16,202,540**	**19,881,549**

SOURCE: *High-Speed Services for Internet Access: Subscribership as of December 31, 2002*, FCC (June 2003).

[2] SBC, SBC INVESTOR BRIEFING (Jan. 28, 2003) at 5.

[3] SBC, SBC INVESTOR BRIEFING (Jan. 28, 2003) at 14.

[4] Ryan Chittum, *Phone Service On the Cheap*, WALL STREET JOURNAL, July 2, 2002, p. D1.

[5] AP, *SBC, BellSouth, Cingular to link landline, cellular minutes,* USA TODAY, June 9, 2003

Table 2 — Growth of Broadband Users Nationwide (1999-2002)

Broadband Technology	% Growth Dec. 1999 – June 2001	% Growth June 2000 – Dec. 1999	% Growth Dec. 2000 – June 2001	% Growth June 2001 – Dec. 2001	% Growth Dec. 2001 – June 2002	% Growth June 2002 – Dec. 2002
Cable Modem	62%	57%	45%	36%	30%	24%
ADSL	157%	108%	36%	47%	29%	27%
Other Wireline	24%	35%	7%	-1%	10%	2%
Fiber	-1.6%	23%	21%	8%	5%	5%
Sat./Fixed Wireless	30%	71%	73%	9%	4%	25%
Total	**59%**	**62%**	**36%**	**33%**	**27%**	**23%**

SOURCE: *High-Speed Services for Internet Access: Subscribership as of December 2002*, FCC (June 2003).

As shown in Tables 1 and 2, the FCC reports that broadband nationwide usage increased by 23% during the last half of 2002, from 16.2 million to 19.9 million lines, compared to a 27% increase, from nearly 12.8 million to 16.2 million lines, during the first half of 2002. Of the 19.9 million high-speed lines, residential and small business subscribers grew 24% from almost 14 million to 17 million users reported six months earlier.

There are indications that growth in landline-based broadband services may be slowing down, while satellite and fixed wireless services are showing signs of dramatic growth. DSL lines increased by 27% during the last half of 2002, from nearly 5.1 million to over 6.5 million lines, compared to a 29% increase, from 3.9 million to 5.1 million lines, during the preceding six months.[6] Cable modem service increased by 24% during the last six months of 2002, from 9.1 million to 11.3 million lines, compared to a 30% increase, from nearly 7 million to 9.1 million lines, during the first half of 2002.[7] In contrast, in the last half of 2002, satellite and fixed wireless broadband services grew 25% percent, compared to just a 4% increase in the first half of the year.

[6] *High-Speed Services for Internet Access, Status as of December 31, 2002*, Federal Communications Commission, Industry Analysis and Technology Division, Wireline Competition Bureau, June 10, 2003. Available online at: www.fcc.gov/wcb/iatd/comp.html.

[7] Id.

II. Texas Telecommunications Industry Trends

In June 2000, Southwestern Bell Telephone (SWBT), now SBC-Texas (SBCT), was granted approval by the Federal Communications Commission (FCC) to enter the long-distance market in Texas. As determined by the Commission and the FCC during SBCT's Section 271 approval process, SBCT had met the statutory requirements to open its local markets to competition.[8] SBCT entered the long-distance market in July 2000. Two years later, SBC has made significant progress in the long-distance market – SBCT estimates its Texas market share at 40%[9] - while competition in the local market is still emerging, and many competitors of SBCT are struggling to remain financially viable.

A. Local Telephone Competition in Texas

1. Texas CLEC Certifications

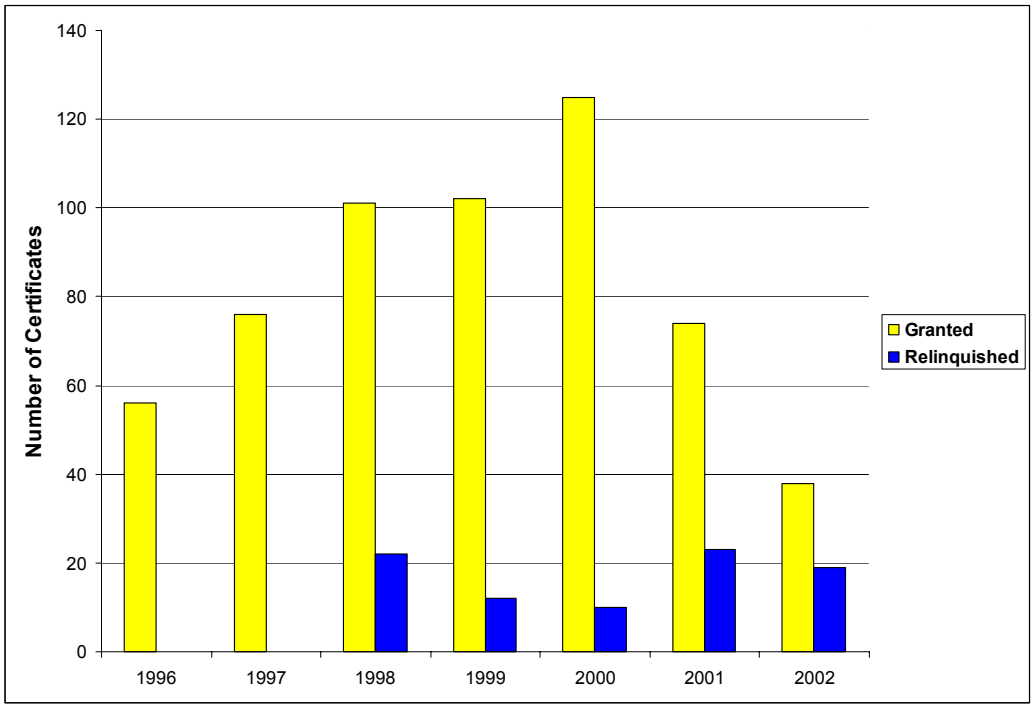
From the passage of the FTA until 1999, Texas saw a huge influx of CLECs seeking to serve markets throughout the State. Under the Public Utility Regulatory Act (PURA) § 54.001, a CLEC must have a certificate issued by the Commission to operate and provide telecommunications service in Texas.[10] As illustrated by Figure 5, the number of service provider certificates of operating authority (SPCOAs) and certificates of operating authority (COAs) applied for and granted annually has declined steadily since 2000. For the year 2001, the Commission awarded 73 SPCOAs and 1 COA; and as of October 23, 2002, the Commission had awarded 34 SPCOAs and 2 COAs. This represents a noticeable decline from the year 2000 when 106 SPCOAs and 6 COAs were awarded. In addition, the number of SPCOAs and COAs relinquished by CLECs has increased from 10 in 2000 to 23 and 19 in 2001 and 2002, respectively.

[8] Application by SBC Communications Inc, Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance Pursuant to Section 271 of the Telecommunications Act of 1996 to Provide In-Region, InterLATA Services in Texas, CC Docket 00-65, Memorandum Opinion and Order, at 395 (rel. June 30, 2000).

[9] SBC, *SBC Investor Update* (Jan. 28, 2003) at 14.

[10] PURA § 54.001 (Vernon 1998 & Supp. 2003).

Figure 5 — Number of Certifications Granted and Relinquished in Texas, as of December 31, 2002



SOURCE: PUC filings.

As shown in Table 3, there are 473 CLECs certified to operate in Texas. Of the 537 certificated telecommunications utilities in Texas, 286 submitted data responses to the latest data request, 224 of them CLECs, compared to 138 CLECs in June 2002.[11] In addition, 60 CLECs filed letters stating that they did not provide services in Texas during the requested time period.[12]

Table 3 — Number of Texas CLECs

	1996	1998	2000	June 2002	Dec. 2002
Number of Certificated CLECs	70	200	432	471	473
Number of CLECs filing Data Responses	n/a	50	128	138	224

SOURCES: *Report to the Seventy-Fifth Legislature on the Scope of Competition in Telecommunications Markets* at 2 (Jan. 1997), *Report to the Seventy-Sixth Legislature on the Scope of Competition in Telecommunications Markets* at 55, 92 (Jan. 1999), *Report to the Seventy-Seventh Legislature on the Scope of Competition in Telecommunications Markets* at 37 (Jan. 2001); Texas PUC 2003 Scope of Competition Data Responses.

[11] The data compiled for this year's scope report includes self-reported data from 286 ILECs and CLECs. The Commission estimates that this represents at least 97% of the access lines served in Texas.

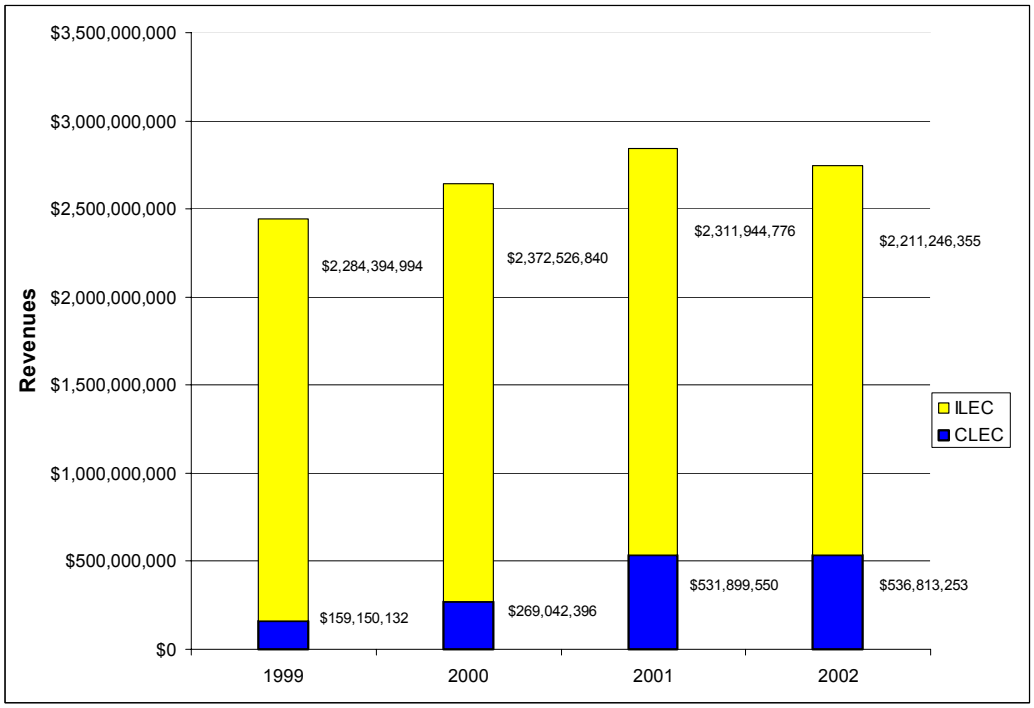
[12] It is important to note that the number of SPCOAs and COAs overstates the actual number of entrants into the market. While the Commission has certified many carriers to provide service, some have yet to offer any service to the public. A carrier who does not have any customers to date is only a potential competitor. In addition, some carriers with certificates no longer provide service.

This continued decline in the number of CLECs in Texas is consistent with trends at the national level. The number of CLECs in Texas declaring bankruptcy and discontinuing services has steadily increased; between 1999 and 2002, 47 CLECs declared bankruptcy. Seven of those went into Chapter 7 bankruptcy, which resulted in the liquidation of the company's assets.

2. Overall Industry Revenues and Market Share

After three years of rapid growth, CLEC revenues and access lines have shown signs of flattening in 2002. As shown in Figure 6, CLEC revenues from basic dial-tone service in Texas were approximately $537 million in December 2002, compared to $2.2 billion for the ILECs.

Figure 6 — ILEC vs. CLEC Basic Local Service Revenues in Texas

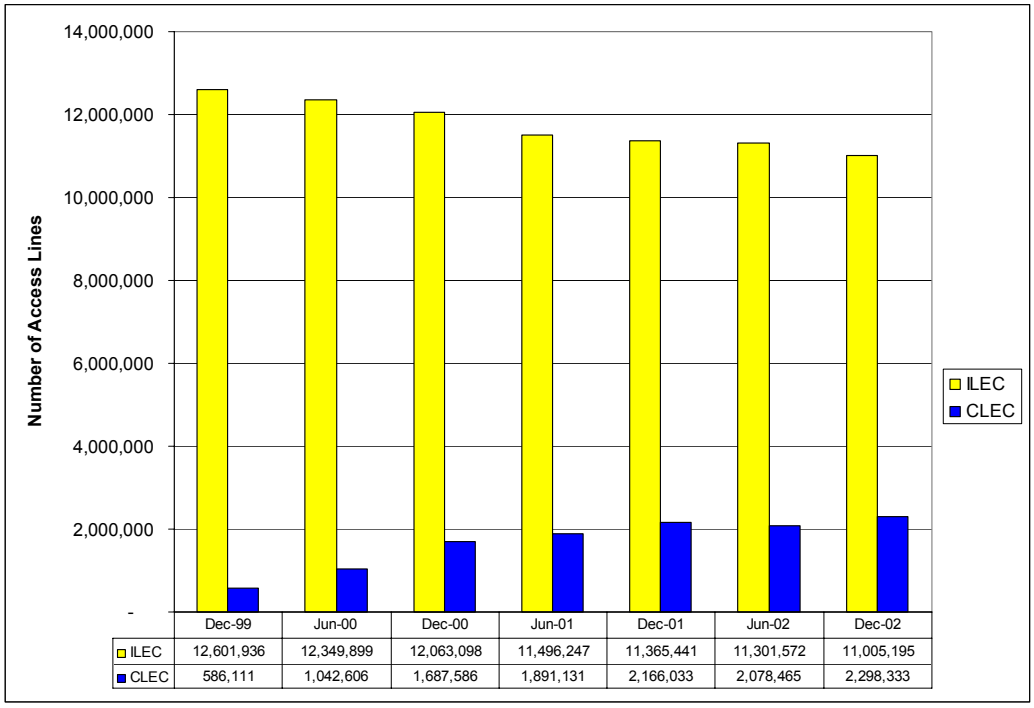


SOURCE: Texas PUC 2003 Scope of Competition Data Responses.

From June 2002 to December 2002, the number of ILEC lines decreased from 11,301,572 to 11,005,193 while the total number of CLEC lines increased from 2,078,465 to 2,298,333. This represents an increase of CLEC market share from 16% to 17% during that same period and a corresponding decrease in ILEC market share.

However, in part because there were 86 more CLECs that reported year-end data than reported June, 2002 data, it is difficult to compare the numbers from these two reporting periods or accurately assess the trend. In addition, the ILECs lost 100,000 more lines than the CLECs gained, indicating that ILEC line losses may be due to intermodal competition as well.

Figure 7 — ILEC vs. CLEC Lines in Texas



	Dec-99	Jun-00	Dec-00	Jun-01	Dec-01	Jun-02	Dec-02
ILEC	12,601,936	12,349,899	12,063,098	11,496,247	11,365,441	11,301,572	11,005,195
CLEC	586,111	1,042,606	1,687,586	1,891,131	2,166,033	2,078,465	2,298,333

SOURCES: *Local Telephone Competition Reports,* FCC (Aug. 2000, May 2001, July 2002), Texas PUC 2003 Scope of Competition Data Responses.

The rate of overall CLEC market-share growth, which measures the momentum of competitors in the local exchange market, has recovered from a sharp downward trend over the last year. However, as noted above, because of the large discrepancy in the number of CLECs reporting in June, 2002 versus December, 2002, it is difficult to accurately compare the data from these two reporting periods or accurately assess the trend.

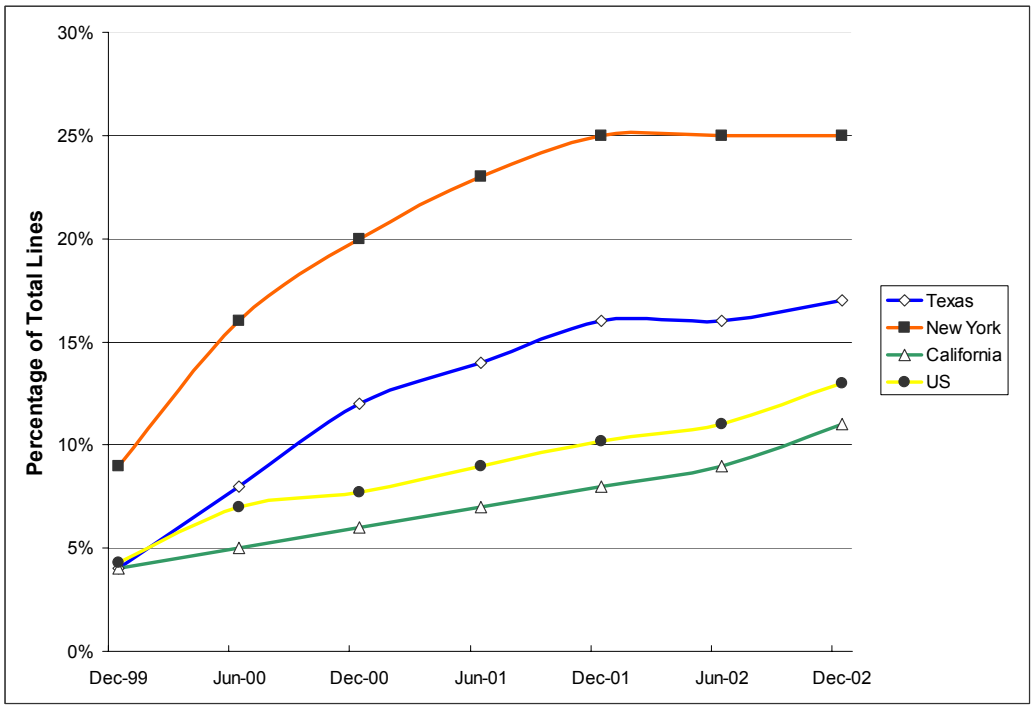
Table 4 — CLEC Market Share and Growth Rates in Texas

	Dec. 1999	June 2000	Dec. 2000	June 2001	Dec. 2001	June 2002	Dec. 2002
Market Share	4.44%	7.78%	12.27%	14.13%	16.01%	15.53%	17.28%
Growth Rate	—	75.17%	57.65%	15.10%	13.32%	-2.96%	11.21%

SOURCES: *Local Telephone Competition Reports*, FCC (Aug. 2000, May 2001, July 2002), Texas PUC 2003 Scope of Competition Data Responses.

To put the data in a national context, CLEC line penetration in Texas (approximately 17% at year-end 2002) was higher than both the national average (approximately 13%) and the CLEC share in California (approximately 11%). As shown in Figure 8, CLECs in New York, the first state to gain Section 271 approval in 1999, had 25% of the lines.

Figure 8 — CLEC Line Growth in Texas Compared with Nationwide and Other States



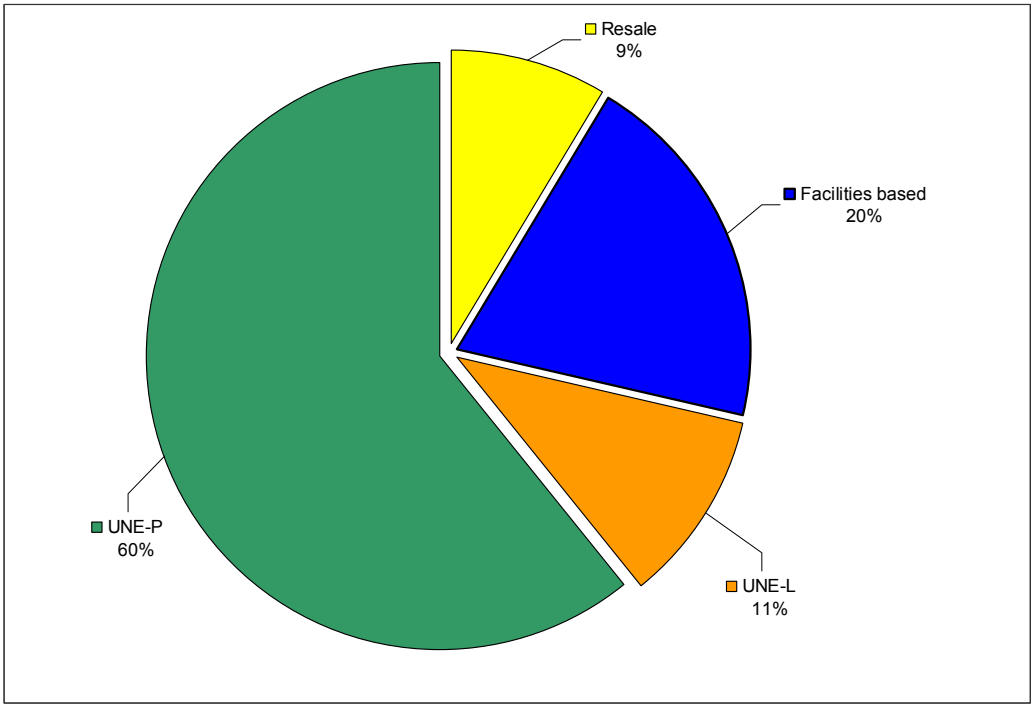
SOURCES: *Local Telephone Competition Reports,* FCC (Aug. 2000, May 2001, July 2002, Dec. 2002), Texas PUC 2003 Scope of Competition Data Responses.

. CLEC Business Strategies

a. CLEC Modes of Entry

As illustrated by Figure 9, Texas CLECs serve customers primarily through UNE-P. In its press statements, the FCC has indicated that CLECs' ability to provide service to end-use customers through UNE-P may be restricted by the FCC's upcoming *Triennial Review Order*. Because Texas CLECs rely heavily on the use of UNE-P as an entry mechanism, such a decision could have a widespread effect on the competitive market for local telecommunications services in Texas. As is also shown in Figure 9, CLECs serve 31% of their customers using the UNE-L entry strategy or solely their own facilities.

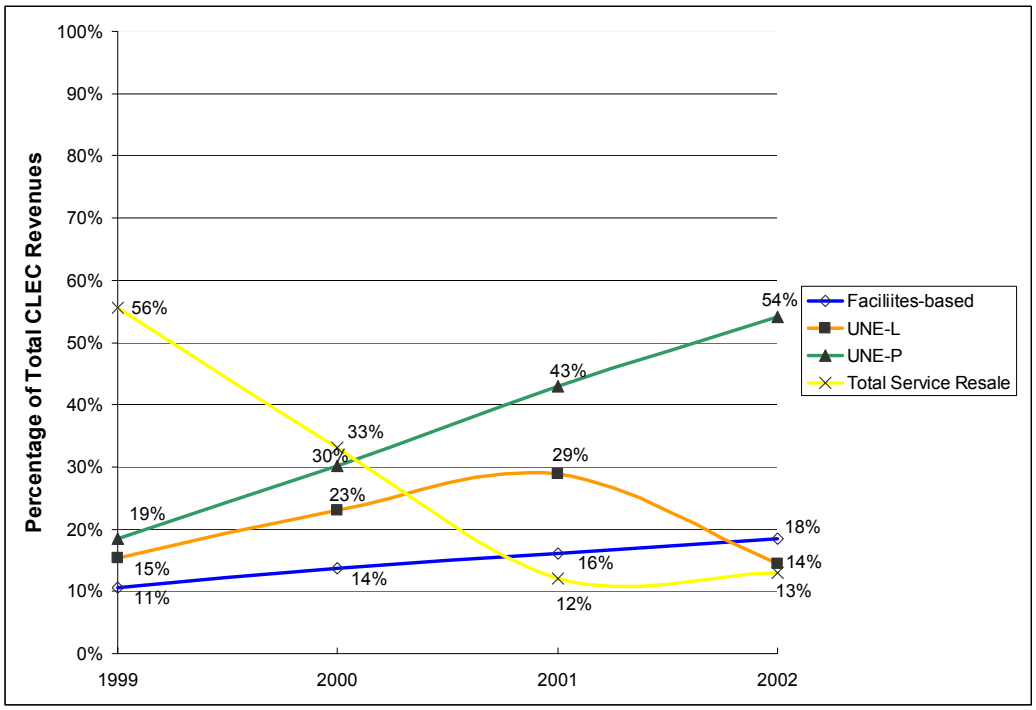
Figure 9 — CLEC Lines by Entry Strategy in Texas, as of December 2002



SOURCE: Texas PUC 2003 Scope of Competition Data Responses.

Revenues from total service resale have dropped sharply since 1999, but have shown a slight increase in the past year. Revenues reported from the use of UNE-L have also sharply declined in the last year. In contrast, revenues from providing service entirely through the CLEC's own facilities (facilities-based) have steadily increased in the past three years. CLECs using UNE-P reported revenues that almost doubled since 2000 and continue to climb.

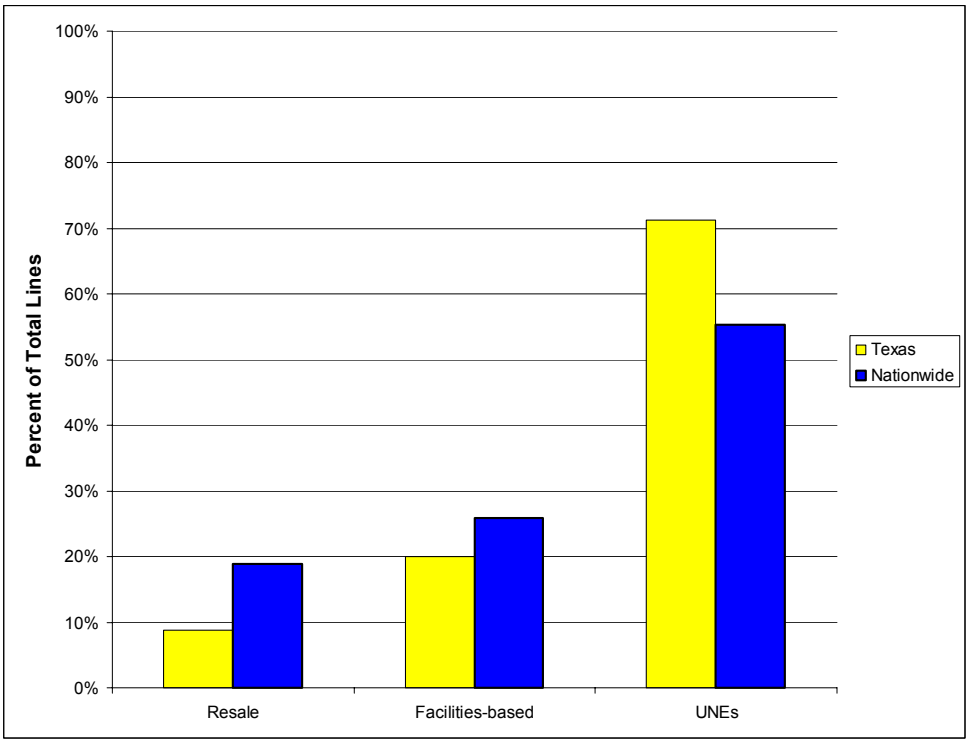
Figure 10 — Revenue by CLEC Entry Strategy in Texas



SOURCE: Texas PUC 2003 Scope of Competition Data Responses.

As reflected in Figure 11, the CLECs in the Texas market rely on UNEs more than CLECs in other States. Texas is second only to New York in the number of lines served via UNEs.

Figure 11 — Texas CLEC Entry Strategy vs. Nationwide



SOURCES: December 2002 national data reported in *Local Telephone Competition Reports,* FCC (June 2003), compared with December 2002 Texas data from the Texas PUC 2003 Scope of Competition Data Responses.

b. CLEC Geographic Markets

Overall, CLECs serve Texas customers in all areas of the State, although CLECs serve more customers in urban than in rural areas in absolute terms.

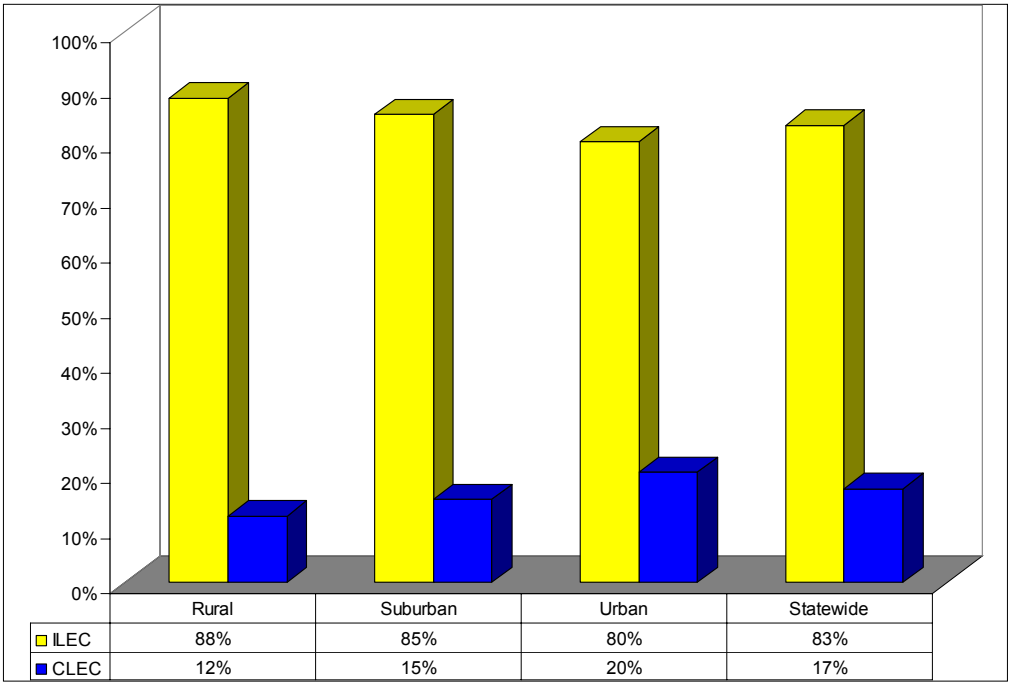
Table 5 — Total Access Lines by Geography

	Rural	Suburban	Urban	Total
ILEC	2,856,744	2,233,385	5,896,158	10,986,287
CLEC	389,966	409,037	1,518,238	2,317,241
Total	3,246,710	2,642,422	7,414,396	13,303,258

SOURCE: Texas PUC 2003 Scope of Competition Data Responses.

As expected, on a percentage basis, CLECs serve more customers in urban areas than in rural areas, as shown in Figure 12. CLEC market penetration in urban areas exceeds the statewide average of 17%.

Figure 12 — ILEC versus CLEC Lines in Texas by Geography as of December 31, 2002



	Rural	Suburban	Urban	Statewide
ILEC	88%	85%	80%	83%
CLEC	12%	15%	20%	17%

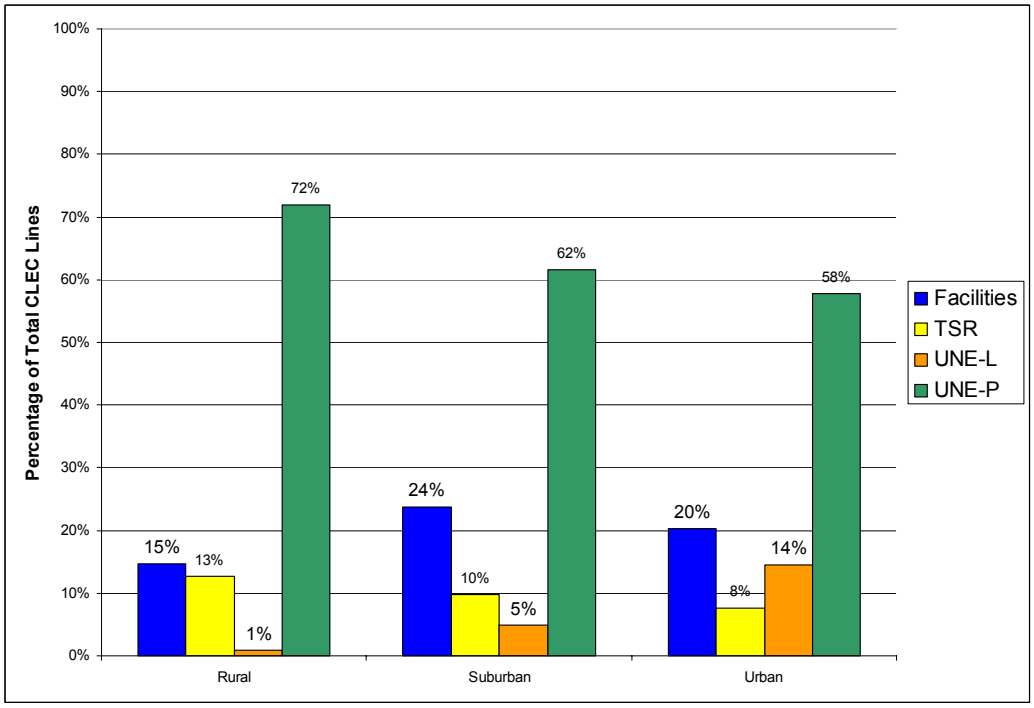
SOURCE: Texas PUC 2003 Scope of Competition Data Responses.

While many CLECs continue to focus their competitive efforts in urban areas, a few niche players have remained strong by serving suburban or rural customers. Sage Telecom, for example, serves rural residential and business customers exclusively through UNE-P, without using any of its own facilities.[13] Using market entry strategies such as UNE-P, UNE-L, TSR, and facility deployment, CLECs have acquired some level of penetration in virtually all areas of the State.

[13] Petition of MCI Metro Access Transmission Services, LLC, Sage Telecom, Inc., Texas UNE Platform Coalition, McLeod USA Telecommunications Services, Inc. and AT&T Communications of Texas, L.P. for Arbitration with Southwestern Bell Telephone Company Under the Telecommunications Act of 1996, Docket No. 24542, Direct Testimony of Gary P. Nuttall at 7 (Dec. 7, 2001).

As shown in Figure 13, as of December 2002, a higher percentage of suburban than urban or rural customers were served by CLECs using the CLEC's own facilities.

Figure 13 — Texas CLEC Lines by Geography and Entry Strategy, as of December 31, 2002



SOURCE: Texas PUC 2003 Scope of Competition Data Responses.

As shown in Table 6, CLECs serve over twice as many customers via CLEC facilities in urban areas than in rural areas. In rural areas, 85 percent of CLEC customers are served via UNE-P or TSR.

Table 6 — CLEC Lines by Entry Strategy and Geography in Texas

	Facilities	TSR	UNE-L	UNE-P	Total
Rural	54,133	46,905	3,363	266,657	371,058
Suburban	96,839	39,852	20,148	252,198	409,037
Urban	308,341	114,250	218,774	876,873	1,518,238

SOURCE: Texas PUC 2003 Scope of Competition Data Responses.

CLECs have obtained more lines in urban areas, primarily in downtown and other business districts. This could be attributed to high investment costs and small customer bases in rural areas, resulting in smaller profit margins.

c. CLEC Business and Residential Customers

As of December 2002, CLECs served more residential than business lines in all markets throughout the State. However, it is important to note that the statewide ratio of residential versus non-residential lines is 1.75 to 1, whereas the CLEC ratio is 1.5 residential lines to 1 non-residential line.

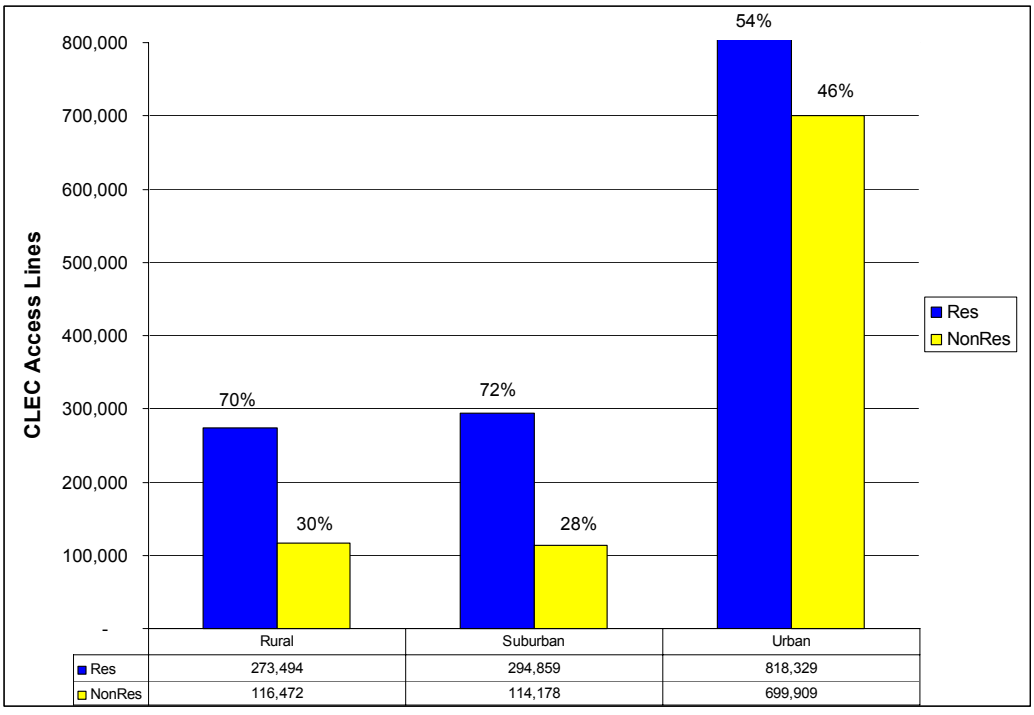
Table 7 — Total ILEC and CLEC Residential and Non-Residential Lines in Texas, as of December 31, 2002

	ILEC	CLEC	TOTAL
Residential	7,116,434	1,371,563	**8,487,997**
Non-Residential	3,888,761	926,770	**4,815,531**

SOURCE: Texas PUC 2003 Scope of Competition Data Responses.

A further breakdown of the CLEC residential and non-residential lines in Texas reveals that in all three zones of the State (rural, suburban, and urban), CLECs have more residential lines than non-residential.

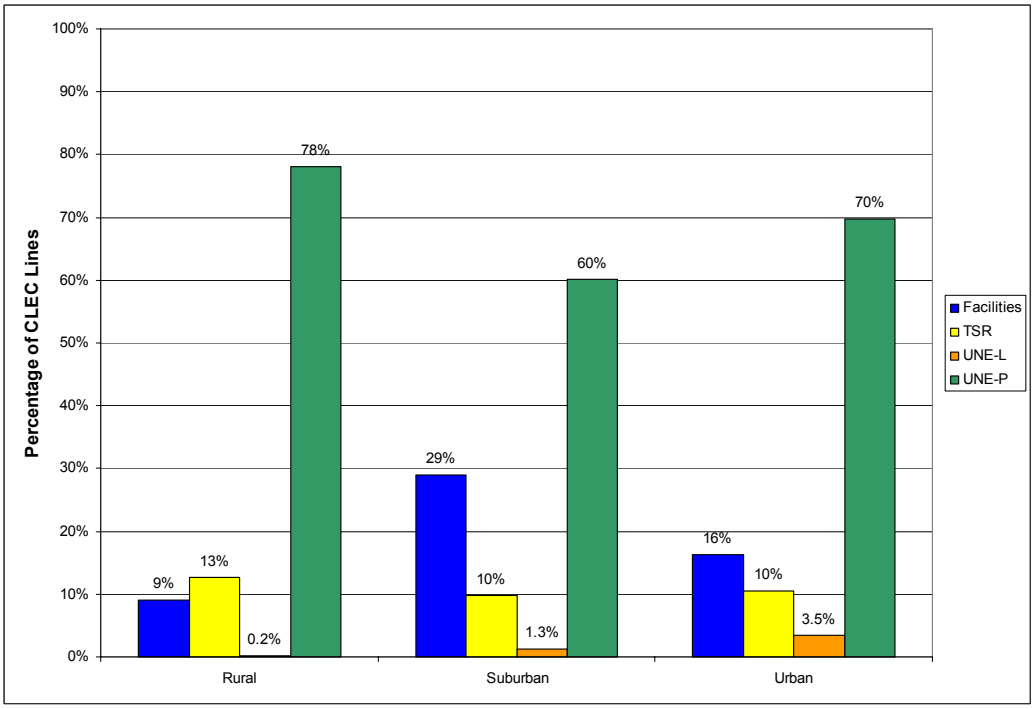
Figure 14 — Texas CLEC Lines by Geography and Type of Customer



SOURCE: Texas PUC 2003 Scope of Competition Data Responses.

UNE-P remains the entry strategy of choice for CLECs to serve residential customers in any of the three zones.

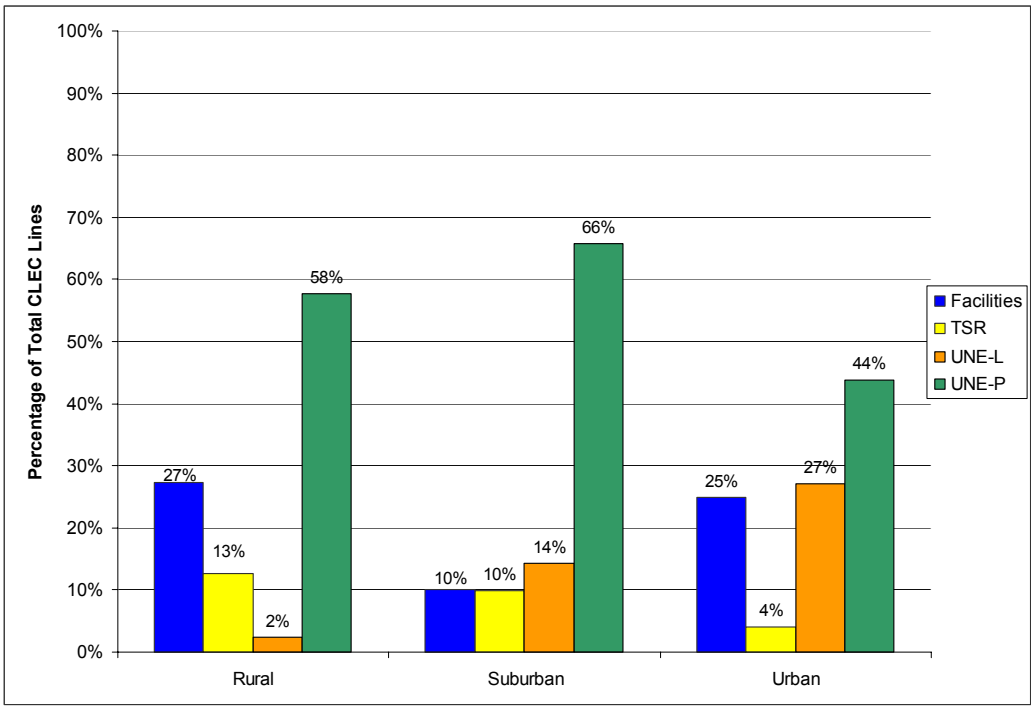
Figure 15 — CLEC Residential Lines by Entry Strategy in Texas



SOURCE: Texas PUC 2003 Scope of Competition Data Responses.

However, as shown in Figures 16 and 17, CLECs have made deeper inroads into the non-residential market. CLECs serve a greater percentage of non-residential customers in rural areas than in urban areas using their own facilities to provide service.

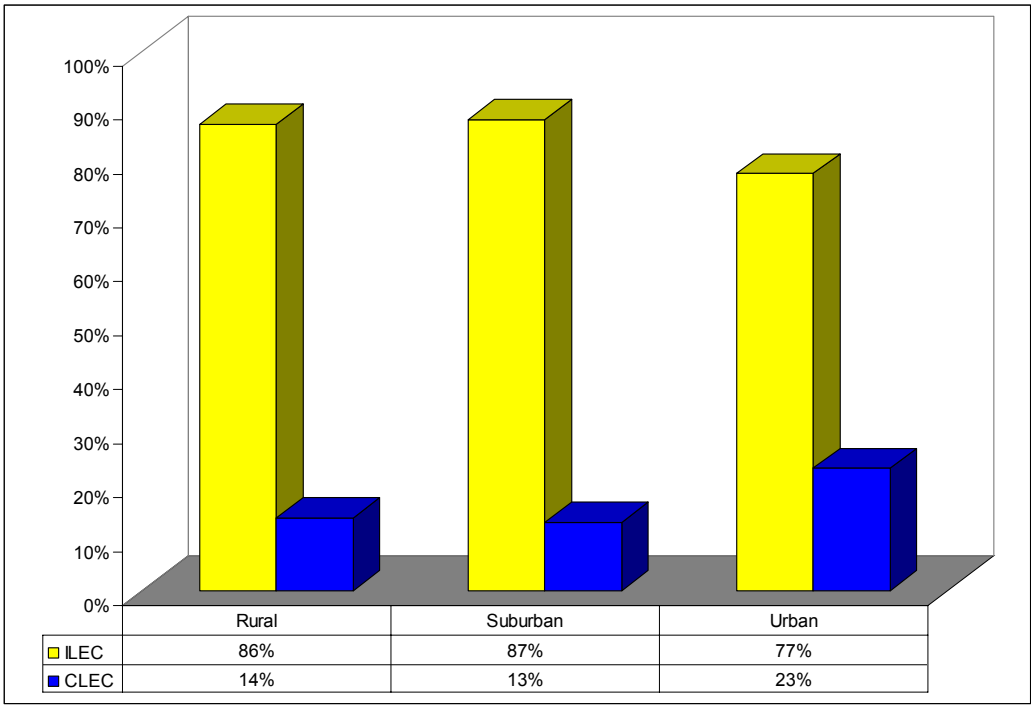
Figure 16 — CLEC Non-Residential Lines by Entry Strategy in Texas



SOURCE: Texas PUC 2003 Scope of Competition Data Responses.

In addition, CLECs serve 14% of the business customers in rural areas of the State, compared to 23% market penetration in urban areas, and just 13% in suburban areas.

Figure 17—LEC Non-Residential Lines in Texas by Geography as of December 31, 2002



	Rural	Suburban	Urban
ILEC	719,834	787,626	2,381,301
CLEC	112,683	114,178	699,909

SOURCE: Texas PUC Scope of Competition Data Responses.

B. Broadband Market in Texas

Broadband subscribership in Texas has grown from 152,000 customers in December 1999 to over 1.3 million customers as of December 2002.

FCC data reveals that of the high-speed lines in Texas, 89% were for residential and small business use; the remaining 11% were lines in service connecting to medium and large business, institutional, or government end-user customers.[14] With respect to technology deployed in the last mile, 55% of high-speed services were delivered over coaxial cable; 36% were delivered over asymmetric digital subscriber line (ADSL); and 9% included wireline technologies other than ADSL, optical fiber to the subscriber's premises, satellite, and terrestrial, fixed wireless systems.[15]

With respect to other States, Texas was ranked fourth for the number of high-speed lines. For the period 1999 to 2002, Texas's broadband growth rate exceeded the national average and that of many other large States.[16]

Table 8 — Broadband Subscribers in Texas Compared to Other States

STATE	1999 TOTAL	JUNE 2000 TOTAL	DEC. 2000 TOTAL	JUNE 2001 TOTAL	DEC. 2001 TOTAL	JUNE 2002 TOTAL	DEC. 2002 TOTAL	% CHANGE 1999 TO 2002
TX	152,518	267,087	522,538	646,839	840,665	1,050,511	1,349,628	785%
CA	547,179	910,006	1,386,625	1,705,814	2,041,276	2,598,491	3,035,756	455%
Mass.	114,116	185,365	289,447	357,256	505,819	583,627	679,084	495%
NY	186,504	342,743	603,487	893,032	1,199,159	1,460,894	1,997,195	971%
NC	57,881	81,998	136,703	205,616	357,906	461,736	594,039	926%
Penn.	71,926	79,892	176,670	263,236	376,439	516,488	631,717	778%
National Total	2,754,286	4,367,434	7,069,874	9,616,341	12,792,812	16,202,540	19,881,549	622%

SOURCE: *High Speed Services for Internet Access,* FCC (June 2003).

Broadband providers continue to offer new products and services to attract additional customers. In August 2002, SBC Communications released plans to roll out additional lower-speed, lower-priced digital subscriber line (DSL) options in certain markets in Texas in an attempt to compete with the cable modem market.[17] For example,

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[14] Federal Communications Commission, Industry Analysis and Technology Division, *High-Speed Services for Internet Access, Status as of December 31, 2002*. WIRELINE COMPETITION BUREAU, June 2003. Available online at: www.fcc.gov/wcb/iatd/comp.html.

[15] Federal Communications Commission, Industry Analysis and Technology Division, *High-Speed Services for Internet Access, Status as of December 31, 2002,* WIRELINE COMPETITION BUREAU, June 2003. Available online at: www.fcc.gov/wcb/iatd/comp.html.

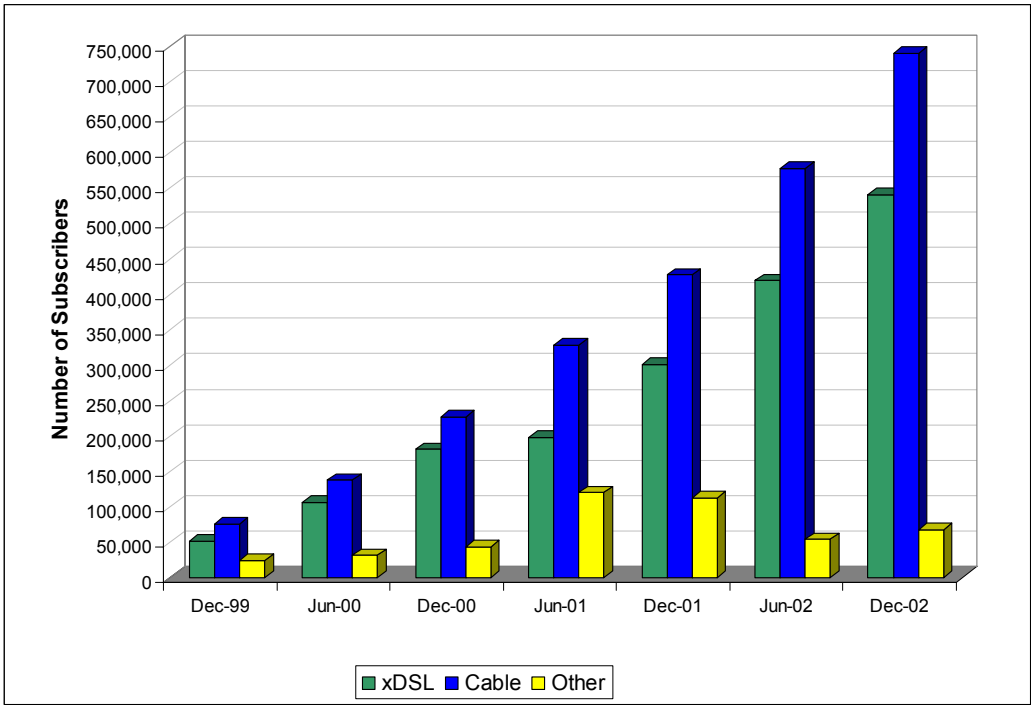
[16] *Id*.

[17] Andrea Ahles, *Quick studies*, FORT WORTH STAR-TELEGRAM, August 22, 2002, p. C1.

in a co-branding arrangement with Yahoo, SBC rolled out its latest DSL promotion dropping prices to $29.95 per month with a one-year commitment.[18]

As shown in Figure 18, broadband penetration continues its rapid growth. Cable continues to capture market share, and with the addition of video-on-demand platforms, the cable industry is expected to continue to perform well.[19]

Figure 18—Broadband Subscribers in Texas



SOURCE: *High Speed Services for Internet Access*, FCC (Dec. 2000, Aug. 2001, Feb. and July 2002, June 2003).

C. Long-Distance Market in Texas

1. Market Share

Since entering the interLATA telephone markets in 2000, SBC's share of the Texas long-distance market has grown. Comparing the long-distance market share (measured in minutes-of-use) jointly held by AT&T, MCI/WorldCom, and Sprint with that of SBC and other carriers, the market share of SBC and others grew from 23% in 2000, to 34% in 2001, and reached 38% in 2002.[20] SBC estimates its Texas market share at almost 40%.[21]

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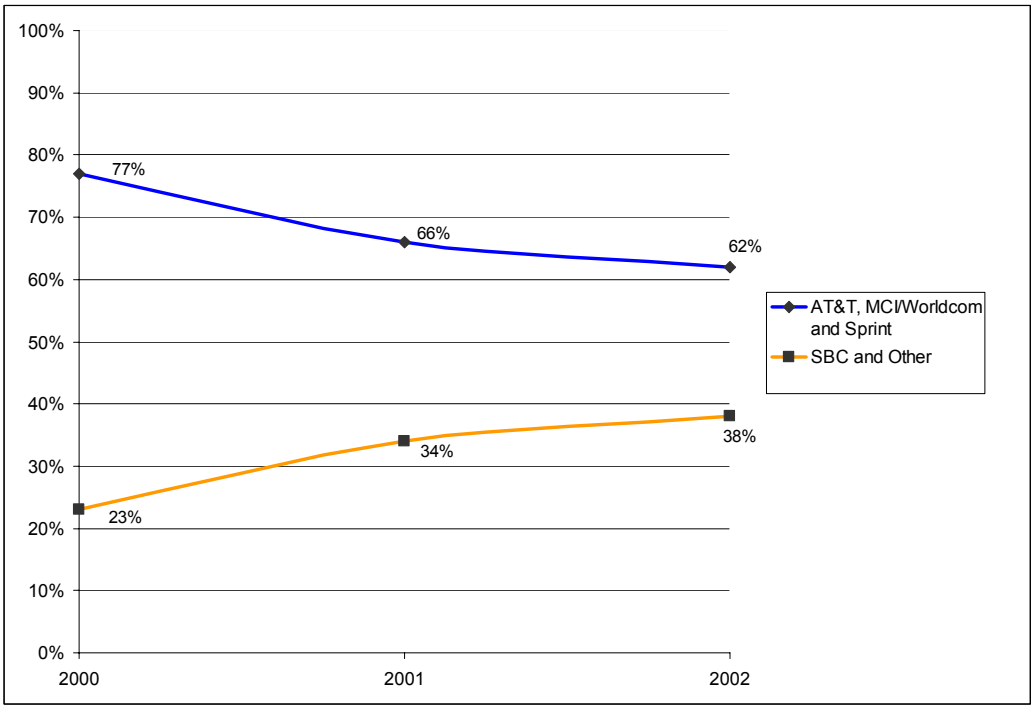
[18] SBC Yahoo!, http://promo.yahoo.com/sbc/dsl/, June 26, 2003.

[19] Roben Farzad, *Telecom-Mess Survivors*, FWST (May 5, 2002); Dan Sweeney, *Cable's Plumb Position*, AMERICA'S NETWORK at 32 (July 1, 2002).

[20] Texas PUC 2003 Scope of Competition Data Request.

[21] SBC, *SBC Investor Update* (Jan. 28, 2003) at 14.

Figure 19 — Long-distance Market Share Over Time



SOURCE: Texas PUC 2003 Scope of Competition Data Responses. The other category includes facilities-based IXCs, such as Williams Communications and Broadwing, Inc., as well as resellers.

Increased long-distance competition has resulted in substantial savings for customers. A recent analysis of Texas long-distance rates indicated that Southwestern Bell's entry into the long-distance market lowered peak long-distance prices by 11%, weekday off-peak prices by 18%, and weekend off-peak prices by 9%.[22] The same study found that the average Texas consumer would have paid $17.52 for long-distance prior to SWBT's entry and would have paid $15.72 in the post entry period, implying a savings of $1.80 or 10.3%.

2. Long-Distance and Wireless Comparison

The wireless market is growing while the long-distance market seems to be shrinking. Indeed, the FCC has found that the long distance, local and payphone providers have been losing business to wireless carriers.[23] Table 9 demonstrates that in Texas there may be some interaction between the growth in the wireless market and the decline in the long-distance market. This comparison was done by comparing the number of mobile subscribers in Texas, which has nearly doubled in the last two years, with the number of switched access minutes-of-use in Texas, which increased slightly

[22] Hausman, Leonard, and Sidak, Does Bell Company Entry Into Long Distance Telecommunications Benefit Consumers?, 70 ANTITRUST L.J. (2002) at 463.

[23] *Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993: Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services*, WT Docket No. 02-379, Eighth Report (rel. July 14, 2003).

between 2000 and 2001 and has subsequently fallen off by about 3%. Table 9 also includes the number of basic dial tone lines, which has steadily decreased since 2000.

Table 9 — Comparison of Wireline and Wireless in Texas

	2000	2001	2002
Mobile Wireless Subscribers	7,548,537	9,062,064	9,943,429
Long-distance (Switched Access) Minutes of Use	11,397,493,545	11,495,969,512	11,364,074,299
Total Basic Dialtone Lines	13,750,684	13,531,474	13,303,528

SOURCES: *Local Telephone Competition Reports,* FCC (May 2001, July 2002, June 2003), Texas PUC 2003 Scope of Competition Data Responses.