IOWA competitive telecommunications COALITION

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MIT Economist Says Iowa Consumers Will Benefit From Qwest's Re-entry into Long-Distance Business

Predicts annual savings of more than $30 million, increased competition

DES MOINES -- Iowa consumers could save at least $30 million a year when Qwest re-enters the long distance market in the state, according to a new study by a noted economist.

Professor Jerry A. Hausman, Director of the Massachusetts Institute of Technology (MIT) Telecommunications Economics Research Program, recently completed a detailed study of the effect of long-distance entry by Bell Operating Companies (BOCs), such as SBC in Texas and Verizon in New York (executive summary attached). Hausman found that consumers saved 10-20% on long distance in the first year after BOC entry, compared to changes in states without BOC entry. In addition, he found that local phone bills in those states where the BOC had entered the long distance market had decreased by around 4% and that the number of consumers purchasing services from Competitive Local Exchange Carriers (CLECs) increased significantly after BOC entry.

Using Hausman's formula to calculate savings for the average Iowa residential and small business customer, the projected impact of Qwest's re-entry into the Iowa long-distance market will be significant.

The average Iowa residential customer will save nearly $35 a year in local and long distance charges, with high-volume users seeing higher savings. The average Iowa small business will save more than $40 a year, with high-volume business customers again seeing greater savings.

"This is good news for Iowa consumers," said Iowa Competitive Telecommunications Coalition (ICTC) Executive Director Bill Menner. "It proves what we've been saying all along—that increased competition will help lower phone bills for average Iowans."

The Coalition was created to give the state's consumers a voice in advocating for greater competitive choice in communications service. The Coalition's members include residential consumers, associations, business leaders and communications companies such as Qwest. The Coalition believes that increased competition will deliver lower prices, better service and advanced technology in all sectors of the communications marketplace, local, long-distance, wireless, high-speed Internet and cable.

For more information, visit the Coalition website at www.iacompetition.org.

Effect of BOC Entry into InterLATA and IntraLATA Service in New York and Texas

Executive Summary

Background

In an effort to quantify the consumer benefit of BOC entry into the long distance business, Hausman undertook the most complete effort to date to compare local and long distance telephone rates pre- and post-BOC long distance entry.

Hausman obtained a sample of local and long distance phone bills in New York, Pennsylvania, Texas and California, using them to compare pre-entry and post-entry changes in prices in a state where entry occurred to the change in prices over the same time period in a state where no entry occurred. New York was compared to Pennsylvania and Texas was compared to California. The comparison states were chosen because of similarities such as LATAs, BOC ownership of the ILEC and geography.

In an effort to quantify the effect of BOC entry on the development of local service competition, Hausman tracked the percentage of households using a Competitive Local Exchange Carrier (CLEC) rather than the BOC during the pre- and post-entry periods.

Results

New York/Pennsylvania

- In the pre-entry period, prices and monthly fees in New York and Pennsylvania were quite similar.
- Prices fell between the pre-entry and post-entry periods in both states, Pennsylvania peak-calling prices fell by 11%. Hausman found that much of this price decease was associated with changes made by the FCC in long distance access tariffs.
- Prices in New York decreased relative to Pennsylvania. The data demonstrated that BOC entry had a substantial price-reducing effect on long-distance prices in New York. Prices in New York were 9-14% lower than they would have been in the absence of BOC entry.
- In New York, the average consumer would have paid a long-distance bill of $18.41 in the pre-entry period and $16.63 in the post-entry period, for a savings of $1.78 or 11%.
- In Pennsylvania the average consumer would have paid $19.25 in the pre-entry period and $18.89 in the post entry period, for a savings of $0.36 or 2%. Thus, in New York, the average consumer would have saved an additional $1.42 or 9% relative to Pennsylvania.
- In New York after BOC entry, Hausman found a decrease in basic local service bills of 6.6%.
- Finally, Hausman found that CLECs share of the local service market in New York increased from 3.5% to 17.2% after BOC entry. This change was much larger than the CLEC increase of 1.1% in Pennsylvania where BOC entry has not occurred.

Texas/California

- In the pre-entry period, Texas had substantially higher long-distance prices than California. The average monthly fees in the two states were roughly the same.

- Prices fell between the pre-entry and post-entry periods in both states, California peak-calling prices fell by 8%. Hausman found that much of this price decease was associated with changes made by the FCC in long distance access tariffs.
- Prices in Texas decreased relative to California. The data demonstrated that BOC entry had a substantial price-reducing effect on long-distance prices in Texas. Prices in Texas were 19-24% lower than they would have been in the absence of BOC entry.
- In Texas, the average consumer would have paid a long-distance bill of $16.58 in the pre-entry period and $13.54 in the post-entry period, for a savings of $3.04 or 22%.
- In California the average consumer would have paid $12.73 in the pre-entry period and $12.83 in the post entry period, for a loss of $0.10 or 1%. Thus, in Texas, the average consumer would have saved an additional $3.14 or 23% relative to California.
- In Texas after BOC entry, Hausman found a decrease in basic local service bills of 2.8 percent.
- Finally, Hausman found that CLECs share of the local service market increased from 8% to 15.1% in Texas after BOC entry. This change was much larger than the CLEC increase of 0.9% in California where BOC entry has not occurred.