



# INSITE

The Voice of the Market.

A Newsletter with executive insight from the BellSouth Market InSite Team!

# FOCUS

## Business Announcements

### MCI Launches Integrated Access Offer in GA

On December 1, MCI launched "Versatile T1," a new integrated access offer targeted at SMBs, in GA. "Versatile T1" bundles local voice channels with a bucket of domestic LD minutes and dedicated Internet access over a single, integrated T1 connection. Customers must order a minimum of eight circuits, four of which must be used for local lines or trunks, and one of which must be dedicated Internet access. "Versatile T1" requires a minimum one-year term agreement and is available in three packages. The tariffed offer has only been confirmed in GA within the BellSouth footprint.

MCI's existing Integrated Access offer, "MCI FLEX T1," was filed as a promotion in AL, FL, GA, and KY and is scheduled to expire on December 31. "Versatile T1," based on the information currently available, differs only slightly from "FLEX T1," but it is filed as a permanent offer and may signal MCI's intent to pay more attention to the Integrated Access market in which many CLECs are very active.

### MCI Launches New ADSL Tiers and Out-of-Footprint Access

MCI has launched two new business ADSL tiers nationwide. The two new tiers, "Internet DSL Solo 768K," priced at \$69 per month, and "Internet DSL Solo 1.5M," priced at \$89 per month, have 128K-upload speeds, include Static IP, and are available across the BLS region. The new tiers supplement MCI's existing Business DSL portfolio, which also includes "Internet Solo 384K/128K" for \$75 per month and four flavors of business-class SDSL service priced from \$149 to \$299 per month.

MCI has also launched a DSL service to reach locations outside of its DSL footprint. While MCI gained nationwide DSL reach via its strategic relationship with New Edge Networks, coverage gaps still exist. MCI's new "DSL Solo Resale Service" allows MCI to offer DSL to customers outside of MCI's footprint by using a third-party provider with a DSL presence in the local Central Office (such as the

ILEC). This new service is also available across the BellSouth region.

MCI's new ADSL services can be bundled with its existing IP VPN broadband to build secure corporate networks across the public Internet. MCI's expanded nationwide DSL coverage may appeal to businesses with multiple office locations that require comprehensive DSL coverage and/or VPN connectivity. However, the nationwide reach of the New Edge Network agreement, while giving MCI access to 300 metros, does not necessarily give it significant coverage within each of those metros. Even though the addition of two new speeds gives MCI's product set a boost, the company still lacks a 3.0M ADSL tier, leaving it at a competitive disadvantage to most major broadband providers.

### US LEC Launches Dynamic Integrated Access in GA & TN

US LEC has filed tariffs for its first dynamic integrated access offer, "Dynamic T," which became effective November 27 in GA and December 2 in TN. The new offer leverages dynamic bandwidth allocation and VoIP technologies, giving businesses the flexibility to burst up to 1.5Mbps Internet bandwidth based on the amount of voice traffic being used at a given moment. Dynamic T allows US LEC to bundle local exchange service, LD voice, and data services including Internet access on a single T1 connection. Service can be converted to lines, PRI, or T1 to interface with a customer's legacy voice equipment, allowing customers to add up to 24 voice channels. Dynamic T requires a minimum 1-year term agreement. US LEC offers volume and term discounts, which allow discounting of up to 15% off of the tariff price.

The launch of Dynamic T represents US LEC's first commercial integrated access offer to provide dynamic bandwidth allocation. To date, US LEC's lead integrated access offer has been "ADVANTAGE Power T" (originally launched in June 2003), which provides voice, data, and Internet services over a traditional channelized T1 facility, similar to the BellSouth Integrated Solutions (BIS) offer. US LEC joins CLECs FDN Communications, ITC/DeltaCom, and Xspedius, which have all launched dynamic T1 offers during 2004. Cbeyond, Network Telephone, and Time Warner Telecom also market dynamic T1 packages, which have been available prior to 2004.

In April 2004, US LEC

deployed Internet gateways in Jacksonville and Tampa, facilitating the launch of dynamic T1, which US LEC intended to offer in 7-10 markets by year-end 2004. During a recent earnings call, US LEC management acknowledged that the VoIP-based Dynamic T had already been launched in Jacksonville and Tampa in late 3Q, but the tariffs in GA and TN are the only confirmed within the BellSouth region. US LEC plans to expand Dynamic T to four new markets by the end of the year with an additional 5 to 7 planned for 2005. Management also plans to enhance the offer during 2005 by making it available to businesses with existing IP PBX investments, plus those with legacy PBX equipment.

## Consumer Announcements

### Cox Launches VoIP in Southwest LA

In mid-November, Cox launched its consumer VoIP services in Southwest Louisiana. This launch marks Cox's entry into the SW Louisiana consumer local service market and is the second in-region market in which Cox has launched VoIP services. Call Center inquiries into Lafayette confirm that Cox's pricing and plans are very similar to its New Orleans circuit-switched and Baton Rouge VoIP offers.

Cox's new standalone residential VoIP local/unlimited LD price point of \$54.95 per month is at parity with BellSouth's standalone local/unlimited LD list price. Cox's VoIP offering is at an advantage, however, because customers will not be charged additional FCC fees and surcharges.

### Verizon Extends Promotional Length, Reduces MRC for VoIP Plans

On November 22, Verizon announced several changes to its residential VoIP offer. First, Verizon extended the length of its current consumer promotion offering new Verizon DSL customers its residential VoIP service for \$29.95 for the first 12 months, previously 6 months. Customers will be charged \$34.95 per month following the 12-month promotional period. The offer is available through December 31, 2004.

Second, Verizon decreased the price of its VoiceWing service by \$5 per month for new and existing non-Verizon DSL



- ❖ Since wireless LNP went into effect on 11/24/03, nearly 10% of the 8.5 million consumers who ported their wireless numbers cut the cord completely, leaving their local exchange carriers behind. (Source: TelecomWeb, 11/30/04)
- ❖ Only 16% of U.S. small businesses (1-99 employees) subscribed to a telecom bundle at the end of 2003. (Source: Gartner, 10/21/04)
- ❖ 40% of hotspot users access the service once every couple of months or less. Research indicates that hotspot users are willing to pay only \$8.00 per month, on average, for hotspot services. (Source: In-StatMDR, October 2004)

customers. The price is now \$34.95 per month, a price point that was previously offered only for online orders.

Third, new customers who purchase VoiceWing online will receive free activation, regularly priced at \$39.95. All customers will continue to receive a free Telephone Adapter. And lastly, Verizon launched new enhanced call-management features such as "Do Not Disturb" and "Simultaneous Ring" at no additional charge.

Verizon's VoiceWing product is now at price parity with AT&T and exceeds both AT&T and Vonage with the number of enhanced features available. To date, there is no evidence that Verizon is promoting VoiceWing in the Bellsouth footprint, but if it chooses to do so, it will have an advantage over other providers due to its brand awareness from Verizon Wireless.

### Verizon Lowers 3.0M Price to \$29.95 in NY, NJ, and CT

In mid-November, Verizon reduced the price of its residential 3.0M DSL offer by \$10, to \$29.95/mo. in the three states where Cablevision competes—New York, New Jersey, and Connecticut. Availability of Verizon's new 3.0M price point has been confirmed through Verizon's call centers and on its Web site. New residential customers may sign up for the new price by choosing 3.0M DSL with a one-year contract (local service required) or 3.0M DSL without a one-year contract (local and long distance bundle required).

Verizon has aggressively dropped its 3.0M DSL price for the second time in the past two months (\$5.00 drop in October). Because Verizon's new 3.0M DSL price of \$29.95/mo. is only available in the three states where Cablevision competes, this is likely a reaction to Cablevision's triple-play offer, which is advertised at a price point of \$29.95/mo for each service. Verizon's new 3.0M DSL single-play price of \$29.95/mo. now matches Cablevision's 6-month promotional offer at \$29.95. Verizon's double-play bundle (high-speed Internet and digital video) at \$69 is now at parity with Cablevision's comparable bundle. Verizon's triple-play bundle (voice, high-speed Internet, and digital video) is at a ~40% premium versus Cablevision's \$29.95 per service triple-play bundle. By reducing its 3.0M DSL price by \$10, Verizon can now also promote a \$29.95 price point to lure in new residential customers.

### SBC Announces Plans to Launch Residential VoIP Service

On November 16, SBC announced plans to launch residential VoIP service in early 2005. SBC currently has trials under way in four markets out of region: Los Angeles, Dallas, Chicago, and San Antonio. The new VoIP service will have a web-based portal and offer enhanced and traditional calling features. As with all VoIP services, customers are required to have a broadband connection in order to use the service. To date, SBC has not provided information on pricing, although analysts believe the company will be competitive with current market pricing.

SBC's VoIP service will be offered throughout its 13-state territory with approximately 40 million households. SBC plans to initially target its existing DSL base, which includes more than 4 million broadband subscribers.

In October, SBC announced accelerated plans for its "Project Lightspeed," the company's initiative to build a new fiber optic-based network that will deliver digital TV, VoIP, and super high-speed broadband services. Trials are currently under way and network construction is scheduled to begin in the first quarter of 2005. SBC expects its new IP-based network to be available to 18 million households by the end of 2007. The addition of VoIP will enable SBC to deliver bundled telephony, high-speed Internet, and video services to customers on its new fiber optic-based network.

### Verizon Introduces New Unlimited Local/LD Plan

On November 2, Verizon launched "Verizon Freedom Unlimited," a new residential unlimited local and LD plan that includes a choice of three calling features, excluding voicemail. The price varies by state and ranges from \$49.95 to \$54.95 per month. The new offer is currently available via Verizon's inbound call center. Verizon customers still have the option to enroll in "Verizon Freedom," Verizon's existing unlimited local and LD plan that includes unlimited calls to Canada and 5-14 calling features including voice mail, for just \$5 more than the new unlimited offer.

Separately, Verizon introduced a new discount offering unlimited local and LD customers a new \$5 discount off their local service if they subscribe to Verizon DSL, Dial, DirecTV, or link their home and Verizon Wireless bills.

By introducing an unlimited local/LD plan at a lower monthly rate, Verizon can position itself more in-line with circuit-switched and UNE-P competitors such as Cox, Comcast, and MCI in its region. Verizon's new plan, however, offers fewer features and lacks voicemail and is priced \$5-\$10 more than comparable offers. Verizon's new plan may appeal to customers who feel they are paying for something they don't use such as extra features.

Verizon's new bundled discount encourages customers to bundle affiliate products with its unlimited local/LD packages. Verizon rewards customers who purchase affiliate products with a \$5 incremental discount off local service, bringing its price point in line with competition.

### MCI Raises 1.5M Price and Launches "Access Only" Option

In the first week of November, MCI enhanced its consumer 1.5M DSL portfolio, which now consists of three flat-rate offers that are available to all MCI local customers. First, MCI introduced a new 1.5M DSL service that offers high-speed Internet "access only" without features, priced at \$19.99/mo. No other leading broadband provider in the marketplace offers a comparable, stripped-down broadband service today. Second, MCI raised the price of its standard 1.5M DSL to \$29.99/mo., a \$5 and \$10 increase for former Neighborhood Advantage 200 (local + 200 LD minutes) and Neighborhood Complete (unlimited local/LD) customers, respectively. Third, MCI priced its enhanced 1.5M DSL service with AOL as the ISP at \$32.99/mo, an increase of \$3 for Neighborhood Complete customers, and a decrease of \$2 for Neighborhood Advantage 200 customers. Lastly, MCI increased the upstream speed of its 1.5M DSL offer from 256K to 768K.

Despite the fact that MCI's 1.5M DSL has been aggressively priced at \$19.99-\$24.99 since the first of the year, BellSouth's DSL losses to MCI have remained minimal. MCI's consumer DSL price increase to \$29.99/mo. brings it to parity with Verizon and AT&T's 1.5M offers (although MCI now has a higher upstream speed of up to 768K). Compared to BellSouth, MCI is priced slightly below FastAccess Ultra (1.5M), except in markets where BellSouth provides an additional \$5 geo discount. While not as aggressive as its previous price point of \$19.99/mo., MCI maintains a price advantage versus BellSouth and AT&T.

### 3Q 2004 Broadband Results

In early November, the top DSL and cable modem Internet providers completed reporting their operational results for the quarter ended September 30, 2004. Most significantly, leading cable competitors Comcast and Cox both reported the highest number of quarterly high-speed Internet subscriber additions in each of the providers' history during third quarter. Comcast credits its success this quarter to an aggressive promotional campaign of \$19.95 per month for six months, targeting back-to-school college students. Comcast also announced that it plans to end the year with 1.6-1.7 million cable modem subscribers, versus previous guidance of 1.5-1.6 million net additions. While Cox's Internet subscribers have steadily increased, as of third quarter, the proportion of Cox's bundled customers (those with two or more services) has risen to 42% of its basic video customer base.

Wachovia Securities reports that "trends are that cable will win the market share battle this quarter." Other analyst firms such as UBS agree that cable is gaining a larger share of the broadband flow share. UBS predicts "while the 10 biggest phone companies grabbed 53% of new broadband customers in second quarter, that figure will fall to 47% in third quarter." As to total U.S. broadband subscribers, UBS estimates that 16.7 million households currently have cable modem, while 11.3 million households have DSL at home.

Company	3Q04 Net Adds	3Q04 Total Subs	3Q04 Growth
Comcast	549,100	6,554,000	9%
SBC	402,000	4,679,000	9%
TWC	181,000	3,878,000	5%
Verizon	309,000	3,253,000	10%
Cox	184,446	2,430,555	8%
BellSouth	134,000	1,872,000	8%
Charter	108,500	1,819,900	6%
EarthLink	74,000	1,280,000	6%
Insight	37,600	311,500	14%

Updated: 11/24/04. Sources: Co. earnings reports.

BellSouth Market InSite:  
<http://insite.bbs.bls.com>

This Newsletter was prepared by the BELLSOUTH MARKET INSITE team. All information contained herein is confidential in nature and is not to be distributed outside BELL SOUTHWEST. Contains private and/or proprietary information. May not be used or disclosed outside BellSouth except pursuant to a written agreement. This material contains confidential information for background use only and shall not be used as a basis for any BellSouth competitor. Neither a copy of nor any extract from this material can be provided to any customer or potential customer of BellSouth. ©2004 BellSouth Corporation