the overall market despite its growth, market share and solid profitability outlook due to the competitive uncertainties inherent in the business. However, those telecom providers that have embraced new technologies and addressed the competitive threats they faced have managed to survive and to protect investors from a "Kodak moment."

Exhibit 6
Credit Capacity of Regulated vs. Competitive Industries

Sector/Segment	Enterprise Value ($bn)	Credit Ratings		Credit Quality Metrics	
		Moody's	S&P	FFO/Debt	Debt/EBITDA
Regulated Utilities					
Southern Company	$63	Baa1	A	25%	3.5x
ConEd	27	Baa1	A-	25%	3.3x
Xcel Energy	24	Baa1	A-	23%	3.8x
Hybrid Utilities					
Exelon Corp	48	Baa2	BBB	55%	3.1x
PSEG Resources	23	Baa2	BBB	38%	2.3x
Telephone					
AT&T	266	A2	A-	54%	2.1x
Verizon Communications	222	A3	A-	63%	1.9x

	DDM COE (1)	Debt / EBITDA	Implied Debt / Capital	Pre-Tax WACC
Regulated Entity	10%	3.5	50%	10.20%
Competitive Telco	12%	2	34%	13.80%
Competitive Sector Cost Premium				3.60%
% Change in WACC				35.00%

(1) "DDM COE" is dividend discount model cost of equity

From being led by a "AAA" rated company with monopoly powers (AT&T), the telecommunications industry looks very different today. Services today are often comprised of a bundle of telephone, Internet, and entertainment options provided on an unlimited basis by a monthly fee (relative to usage-based pricing prior to 1982). The market has seen significant new entrants, capital investment, and boom and bust periods leading to bankruptcies and/or mergers to enhance scale. Due to the increased competitive business risk, the credit-rating agencies have downgraded the credit rating of AT&T from "AAA" in 1981 to "A "today. In addition, due to competitive business dynamics, the credit rating agencies expect to see significantly lower debt leverage (thereby, raising the overall cost of capital) in order to support the credit ratings assigned. To compare with the electric sector, a comparable rating in telecom would bear approximately 50 percent of the leverage level of a regulated electric utility—resulting in an approximately 35 percent higher pre-tax weighted cost of capital for the telephone sector based on credit-ratings metrics (See Exhibit 6).

While customers have benefitted from a proliferation of new services provided at a lower cost, investors have not done as well in financing a transition to a competitive industry. These lessons should be fully