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Phone giants all invoke the little guy

Rhetoric gets hot in fight over access to SBC lines

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New Analysis

Local phone competition that's bringing low prices and the ability to choose service from AT&T to Z-Tel Communications Inc. is under attack.

At least that is the alarm sounded by AT&T, MCI and others that piggyback the networks of SBC Communications Inc., Wisconsin's dominant local phone company.

The companies, which compete with SBC for local customers, pay a fee for use of the network. They say a recent federal court ruling and a push by SBC and other so-called Baby Bells to boost these rates is anti-consumer. If SBC gets its way, the companies contend, customers can say goodbye to the billions of dollars in annual savings and other benefits competition brought.

"Right now the future is precarious," Joan Campion, MCI vice president for law and public policy, said last week from her Washington, D.C., office.

"It is just a scare tactic," countered Paul La Schiazza, SBC's top executive in Wisconsin. Competitors are spreading fear in a bid to preserve cut-rate prices they pay to SBC, he said.

The future of phone competition could be shaped nationally in the coming months as regulators and judges sort through the latest barrage of claims and counter-claims.

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One of the key disputes will play out in Madison as the Wisconsin Public Service Commission considers an SBC request to raise the prices competing phone companies pay to lease the lines leading to homes. SBC wants the rates to roughly double.

SBC is campaigning for wholesale increases throughout its Midwestern territory, where it says rates lag those in other parts of the country.

A case with national implications involves a recent D.C. Circuit Court of Appeals ruling affecting local telephone competition rules. MCI, AT&T and other competitors, along with some members of the Federal Communications Commission, are pressing hard for the U.S. Supreme Court to take up the case.

The root of the regulatory tussles can be traced to the 8-year-old law that upended the nation's monopoly system for local telephone service.

The idea was to stimulate local competition in a way that would bring consumers more choices of companies, innovative services and lower prices. The telephone networks of switches and wires leading to individual customer homes was seen as a bottleneck.

SBC and its Baby Bell siblings had built and still controlled the networks. Requiring competitors to build networks of their own was seen as too expensive and difficult to be a realistic option.

The deal struck then with the Bells was that they could sell long-distance service once local competition took hold in their markets. This required them to help competitors such as MCI and AT&T, which paid to use the network so they could sell retail service to homes and businesses.

Competition initially was slow to emerge, but more recently the trend has been gaining traction.

Between December 2002 and June 2003, competing phone companies boosted their share of the nation's phone lines from 13% to 15%, according to FCC statistics.

The trend was identical in Wisconsin. Competing companies increased the lines they served in the state from 477,915 to 526,343 during the period, an increase in market share from 13% to 15%.

Reasonably priced wholesale rates played a critical role in nurturing local competition, said Lawrence J. Spiwak, president of the Phoenix Center, a Washington, D.C., think tank that follows the phone industry.

"It is working," Spiwak said.

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Flat-rate, all-you-can-call packages that emerged over the past couple of years are key contributors to the \$10 billion in annual consumer savings the Phoenix Center found in a January study.

These plans - bringing individual consumers, on average, \$429 in annual savings - could be jeopardized if rates are raised markedly or if the competing companies face restricted access to Bell company networks, Spiwak said.

Competitors are suspicious that a key aim of SBC's rate requests is to hinder their market-share gains.

"They are lobbying as hard as they can to get the rates up," said Curt Pawlisch, a Madison attorney representing a group of consumer advocates and competing phone companies called Wisconsin Calls. "They want to do that to make it more difficult for competitors to enter the market."

It's not a conspiracy, but basic economics driving SBC to seek wholesale rate increases, said La Schiazza, the SBC executive. The current rates aren't adequate compensation for SBC's investment to build the network and maintain it, he said.

"We can't sustain the network as it is today at such a ridiculously low price," La Schiazza said. "It doesn't even return our cost of capital to us."

The current issues are drawing particularly bitter volleys between SBC and AT&T.

After wholesale rate increases were imposed in Indiana and Ohio, AT&T pulled some of its less expensive, no-frills phone service packages from the market. AT&T said it might do the same if increases come in Wisconsin.

Such talk appears to be more for dramatic effect, La Schiazza said. AT&T is active in more than 20 other states where the wholesale rates are higher than they are here, he said.

"What they are getting in Wisconsin is an unreasonable subsidy," La Schiazza said.

AT&T hits back that SBC's efforts are intended to drive competitors from the market.

"We think that is SBC's ultimate aim," said Mike Pruyn, an AT&T spokesman in Chicago. "They would like to get their monopoly back."

SBC's claim that the fees don't cover the costs doesn't engender sympathy from AT&T. SBC gave a big compensation boost to its chairman and is posting solid profit gains, Pruyn said.

"This is not a company heading for financial ruin because of these wholesale rates," Pruyn said. "They are very, very profitable."

As intense as today's fights are over wholesale rates, the outcome will matter little as the communication system of tomorrow continues to emerge, said Jeff Kagan, an Atlanta-based telecommunications analyst.

Over the next few years, the traditional circuit-switched phone system will give way to an Internet-based system that blends voice, video and data networks to create advanced multimedia communications, Kagan said.

Cable companies will join the fray as they use these systems to offer phone service.

"Is local competition going away?" Kagan asked. "No. But it won't look the same."

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