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NEWS ANALYSIS

Is a Truce Possible in Phone Fight?

■ A proposal by AT&T gives some people hope for an end to the war between the Baby Bells and their competitors.

By James S. Granelli, Times Staff Writer

It's all about the money.

The companies that own the nation's local telephone networks want more for leasing their lines and equipment. Their rivals figure they can't pay higher rates and stay profitable. Nobody wants to send customers bigger monthly bills.

As lawmakers, regulators and telephone company executives struggle to provide the choices and lower prices envisioned by the Telecommunications Act of 1996, it's becoming clear to all of them that something has to give.

That realization was driven home March 2 when a federal appeals court threw out key competition rules enforcing the act. The Bell phone companies and their rivals quickly launched talks to reach new lease agreements before a June 15 deadline for appealing the case. And last week Bell rival AT&T Corp. threw something into the mix.

The nation's largest seller of long-distance service proposed a different approach to relations with the Bell companies, saying that it would use more of its own gear and lessen its dependence on Bell equipment in exchange for concessions on the Bells' part.

Federal Communications Commission Chairman Michael K. Powell, who has been highly critical of AT&T in the past, applauded the company for moving forward on the "highly contentious issue" of rivals using the Bells' networks to sell local telephone service.

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Powell said the proposal was "significant and important" for the industry and "clearly shows that AT&T has taken seriously the commission's call to engage in good-faith negotiations."

Some Baby Bells reacted warily to AT&T's proposal. But **BellSouth Corp.** dismissed the idea, calling it "a desperate attempt to perpetuate the regulatory scheme" vacated by the appeals court.

There's big money at stake.

In California, for instance, **SBC Communications Inc.**, the dominant local phone company, wants to double wholesale rates paid by rivals for leasing its lines and equipment to nearly \$30 a month per line. **Verizon Communications Inc.**, the state's second-largest local phone company, wants a bigger hike in the state-mandated rates, from \$16 to more than \$41 per line.

They have argued that consumers shouldn't end up paying more. Competitors don't see how that's possible.

For an industry at war with itself for the last eight years, AT&T's proposal for a negotiating framework generated a buzz that is giving some people hope that the fractious industry can reach a truce.

SBC, Verizon and BellSouth, for instance, quickly announced after the court decision that they would discuss rate hikes with individual competitors behind closed doors. **Qwest Communications International Inc.**, the remaining Bell company, agreed with rival **MCI Inc.**, the FCC and the Bush administration to bring in a mediator and hold open talks with all competitors. Those talks began last week.

AT&T wanted to broaden the scope of the negotiations to cover not only hikes in wholesale rates but reductions in copper line costs, high-speed Internet access and other contentious issues that would give the Bells' competitors incentives to invest in their own facilities.

"I think this proposal would be considered a success if it did nothing more than start all parties thinking of new ways of coming together," said Jeff Kagan, an independent telecom analyst in Atlanta. "They've been butting heads since 1996, and their positions haven't changed much."

The Bells see competition all around, from wireless carriers and, someday soon, from cable companies. For now, they control more than 80% of the lines into homes and businesses and a growing chunk of the long-distance market — up to 45% in Verizon's case.

"What are we fighting about? We're trying to go from one monopoly to many competitors. Everyone has lost sight of that," said Lawrence J. Spiwak, president of the Phoenix Center for Advanced Legal & Economic Public Policy Studies in Washington.

"The only issue for me is if the FCC has promoted competitive entry in the market."

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Scott C. Cleland, chief executive of Washington research firm Precursor Group Inc., said the significance of AT&T's proposal is the willingness to wean itself off Bell-owned equipment. But Cleland said in a report last week that he remained skeptical that industrywide negotiations would be fruitful.

Qwest and MCI "appear to be the industry's leading pragmatists and mavericks," he said in his report, while "AT&T's cost discipline and Verizon's relative strength among the Bells" make the pair the least likely to come to an agreement.

All the Bells recognize, though, that they are continuing to lose access lines and local customers. With big networks to fill, they are realizing that it's better to get traffic from competitors than lose it altogether to cable companies.

Indeed, Cleland noted, the whole issue of wholesale prices is a "sideshow" to the larger competitive threat of voice over Internet protocol, a technology that sends voice over data lines like e-mail. AT&T and others are rolling out the less expensive VOIP on broadband lines, and cable companies plan to use VOIP for their telephone service.

How soon the Bells feel pressure to make concessions themselves is anybody's guess, Spiwak said.

AT&T Chairman David W. Dorman has long said his company has made a good business out of selling long-distance lines to the Bells and others.

"Dorman's hope," said one telecom expert, "is that one of these [Bell] guys will wake up and say the world has changed."

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