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**DAVID LAZARUS**

LAZARUS AT LARGE

SBC gets OK to ask more for local access

[David Lazarus](#)

Friday, September 24, 2004

San Francisco Chronicle▸ [CHRONICLE SECTIONS](#)

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State regulators gave SBC the go-ahead Thursday to raise the rate it charges rivals to access its local-calling system by about 20 percent.

While that won't necessarily translate into higher per-minute fees for SBC customers, telecom-industry experts say Californians should expect an increase in the cost of add-on services like caller ID as competing phone companies drop out of the market.

"Choosing a telephone company soon will be like voting in a Soviet election," said Bruce Fein, a Washington attorney and former Federal Communications Commission general counsel. "Choices will be narrowed, and people can expect higher phone bills and less service."

Under the 1996 Telecommunications Act, local-service providers like SBC were permitted to begin offering customers long-distance service as well. In return, they were required to make their local networks available to long-distance rivals at discount prices.

For years, SBC has complained that wholesale rates set by the state were too low. On Thursday, the California Public Utilities Commission voted 3-2 to raise the cost SBC charges carriers like AT&T and MCI to \$16.53 per line from about \$14.

AT&T, MCI and smaller telecom firms say it may now be too expensive for them to compete with SBC for local service, thus eliminating a crucial element of the bundled packages preferred by consumers.

"As the now uncontested and largest provider of local, long-distance, wireless and DSL services in the state, this vote gives SBC the green light to remonopolize telecommunications," Ken McNeely, president of AT&T California, said in a statement.

The 20 percent rate increase prevailed over several competing measures that ran the gamut

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from a 2 percent increase to as much as 50 percent.

For its part, SBC criticized the rate increase as not being big enough. The company said its cost per line is actually closer to \$30 (an amount PUC member Susan Kennedy said isn't taken seriously by anyone except SBC execs).

"The CPUC failed to properly analyze and apply the true costs of providing wholesale service to competitors, and missed an opportunity to promote more investment and job growth in California," said Lora Watts, president of external affairs for SBC West.

PUC member Loretta Lynch, who joined Commissioner Jeff Brown in voting against the 20 percent rate hike and in favor of the 2 percent alternative, called Thursday's action "one of the most heavily lobbied decisions ever to come before this body."

The rowdy atmosphere at the PUC's San Francisco meeting hall attested to this. More than 100 T-shirted members of SBC's main union, Communications Workers of America, filled the normally staid chamber to applaud and boo various speakers.

CWA, which is typically at odds with SBC, sides with the company on this issue. The union believes jobs will be lost unless SBC receives sufficient compensation for its lines.

But that's not to say all CWA members who turned out for Thursday's vote are passionate about wholesale rates.

Gayle Crawley, vice president of CWA Local 9410 in San Francisco, told me she was instructed by both union officials and a senior SBC executive to produce a strong show of support for the company's position.

"I was told to contact management and get people released," she said. "I was told that all the workers should be wearing CWA shirts."

In fact, SBC paid the workers to be at the meeting, allowing them time off during the workday for union activity. Bill Baker, a shop steward at CWA Local 9400 in Concord who attended the PUC session, called the move very unusual.

At the same time, opponents of the rate hike distributed anti-SBC shirts to transients and passers-by outside the hall and asked them to take seats in the audience.

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"I don't care about any of this," admitted one of the instant activists, an elderly man with a somewhat dazed expression, as he exited the meeting hall. "I just wanted a free shirt."

The man who had distributed the shirts left the vicinity as soon as the vote was completed.

PUC member Carl Wood said that all commissioners were aggressively lobbied in recent weeks by corporate representatives, lawmakers and other interested parties.

He also said that consumers have every right to wonder what's going on when proposed rate increases range from as little as 2 percent to as much as 50 percent.

"This is not an exact science," Wood acknowledged. "Consumers ought to raise some questions about the underlying process here."

Telecom experts say that SBC now has the best of all worlds. Its long- distance business is growing rapidly, while at the same time the company is maintaining a firm grip on local service.

While retail phone rates remain strictly regulated, experts predicted that SBC will now feel less pressure to keep prices low for unregulated offerings like caller ID, call waiting and call forwarding, as well as the total cost of bundled packages.

Lawrence Spiwak, a former FCC attorney and president of the Phoenix Center for Advanced Legal and Economic Policy Studies, a Washington think tank, called bundled features like caller ID the gravy atop regulated telecom revenue.

"Having competitors means you don't get all the gravy," he said. "That's what this is all about -- SBC pushing out competitors by squeezing profit margins that are already extremely thin."

Spiwak said higher wholesale rates will ultimately subvert the intent of the '96 Telecommunications Act.

"The implications of this are severe," he said. "We had gotten to the point in the local phone market where competition was just starting to take off. This has now come to a screeching halt."

John Mayo, an economics professor at Georgetown University specializing in telecom matters, agreed with this assessment.

"Economic history is quite clear on this," he said.

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"Monopolists move aggressively to maintain market power."

As a result of Thursday's rate hike, Mayo said, "You'll see lower levels of service and increased prices on everything that is not regulated."

John Britton, an SBC spokesman, said the company only wants fair compensation for its resources. As such, it's possible SBC will seek further rate increases down the road.

"Our cost per line is around \$30," he insisted. "We're getting closer to that, but we still have a ways to go."

David Lazarus' column appears Wednesdays, Fridays and Sundays. He also can be seen regularly on KTVU's "Mornings on 2." Send tips or feedback to dlazarus@sfgate.com.

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