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Reports: AT&T, MCI Could Begin Dropping Local Service

June 15, 2004 (2:56 p.m. EST)

By W. David Gardner, TechWeb News

Local telephone competition could decline and consumer prices rise if new reports prove accurate that AT&T and MCI will begin phasing out of local markets.

By declining to review telephone access fees on Monday, the Supreme Court added another coffin nail into attempts by [long distance telephone providers](#) to connect to regional Bell operating companies' (RBOCs) lines at low rates.

Asked to respond to widespread reports that AT&T is planning to cease offering local service in some states, an AT&T spokeswoman said she couldn't comment on the reports. Both AT&T and its chief long distance competitor -- MCI -- have indicated for months that they would have to begin withdrawing from offering local service if they can't link to RBOCs' lines at rates low enough for them to make a decent profit.

"This forced exodus of competitive choice is going to hit both the mass market and enterprise market hard," said Lawrence Spiwak of the Phoenix Center Tuesday, "and deprive them of savings of over \$10 billion a year." Spiwak, who is president of the economics consultancy, said the decision by the Federal Appeals Court in March "eviscerated" FCC rules built on the 1996 Telecommunications Act. Effective appeals appear to have been exhausted by the Supreme Court decision Monday.

One facet of the demise of inexpensive access fees for long distance and other independent telecommunications providers is that investment in broadband facilities will drop, Spiwak said. However, the RBOCs have long maintained that rules permitting them to raise access fees would encourage them to raise investment in broadband.

While various state regulatory agencies will see their power in telephony diminish, Spiwak said they will still retain some powers. "States will have to deal with interconnect issues," he said in an interview. "They have their own state telecom regulations and they'll have arbitration (responsibilities). They'll still have a very strong role to play."

Spiwak said the RBOCs and the long distance companies face "a tremendous challenge" to negotiate workable solutions to the access fee problem. "It should come as no great shock to anyone that so-called arms'-length negotiations between monopolists and competitors will fail," he said.

For its part, the FCC has been attempting to formulate guidelines for negotiations between the two sides in the issue. To date, one RBOC -- Qwest -- has worked out an agreement with MCI. The remaining RBOC's -- BellSouth, SBC, and Verizon -- haven't been able to reach any agreement on the issue with long distance carriers or with other independent telecom service providers.

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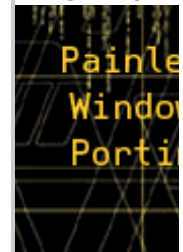
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Consumer organizations say the demise of the discounted access fee schedule will likely lead to higher telephone rates for subscribers. The RBOCs, who will now be able to raise access fees, say they will have more resources to put into other telecom facilities.

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