

## In latest twist in telecom wars, is the end at hand?

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**By Terrence Barnich**

AT&T is raising my monthly residential local phone bill by the price of a Superdawg and a Coke, and that's okay. Not because I'm an AT&T shareholder, but because this will turn out to have been a small price to pay to bring an end to the interminable regulatory phone wars and accelerate the introduction of truly innovative business and residential telecom services.

Since 1999, federal and state regulators have tried to micromanage an orderly transition in local phone service from a 100-year-old monopoly to a competitive marketplace. To a degree, they have succeeded.

The regulators have required local phone monopolies like SBC Communications Inc. to lease parts of their network to long-distance giants AT&T Corp. and MCI Corp., as well as to small start-up companies, at administratively determined wholesale prices. The leasing companies have thus been able to repackage the service under their brand names and sell it at deep discounts while still accruing substantial profit. Today, some 13 million customers nationwide have signed up for this type of service. And, if the industry's Washington, D.C., trade association is to be believed, customers have been saving \$11 billion a year as a consequence.

But recent events have thrown a wrench into this happy state of affairs. In March, a federal court threw out the federal rules that governed the scheme and the Federal Communications Commission promptly announced its next rule-making would severely limit the continued accessibility of the local phone companies' infrastructure.

For its part, the Illinois Commerce Commission last month raised by 30% the mandated wholesale price leasing companies pay SBC for the use of its network.

Needless to say, all hell's broken loose. AT&T and MCI have announced they will pull out of the residential business in some states, raise prices in others. AT&T is threatening a scorched-earth approach of running ads blaming all of this on President Bush.

This is a fight over yesterday's stale bagel. AT&T, MCI and most of the other lessees of SBC's network are simply offering plain old dial-tone service at a price discounted from SBC, which in and of itself is fine. But the promise of bringing competition to the local phone market is supposed to yield a rich new fancy pastry of telecom services not yet tasted. Removing the government jury-rigged discount scheme may well be the secret ingredient to seeing that through.

Waiting in the wings for the economics to improve have been a host of Internet-based technologies that will not only lower prices for everyday voice services, but will introduce customers to entirely new services. Cable companies, other wire-line and wireless telecom competitors and even power companies want to get into the mix. Ironically, AT&T itself announced last week it was introducing Internet phone service in 27 cities.

And the action has just begun. Dismantling the politically subsidized "easy access" system offers new service competitors the economic boost of real-world pricing, which will accelerate new service introductions. While SBC's competitors howl that the regulators are now preparing to bestow a huge windfall on SBC, the competition that is likely to unfold will hurt SBC more in the long run than a continuation of the now overturned scheme.

I'm sure we will see more, rather than less competition. And competitors will fight over bringing the latest, gee-whiz stuff to customers, as well as the lowest prices.

That's what free markets do. And I can hardly wait.

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