Small Telecoms Losing Mandated Line Discounts

By Frank Ahrens
Washington Post Staff Writer
Thursday, December 16, 2004; Page E01

Millions of residential and small-business customers may face higher phone bills in coming months as a result of a vote by the Federal Communications Commission yesterday to phase out discounts that major regional phone companies must give rivals that rent space on the big companies' lines.

However, the agency set limits on those price increases and predicted that consumers will benefit in the long run from increased choices and competition for phone service, as cable telephony and Internet phone service take off.

The Telecommunications Act of 1996 required major regional phone companies, such as Verizon Communications Inc. and SBC Communications Inc., to rent space on their phone lines at discount rates to smaller competitors, such as MCI Inc. and AT&T Corp., that did not own their own lines. The sharing process is called "unbundling," and the rules governing it have been controversial and unstable.

Three times since, the FCC has attempted to write unbundling rules, and each time federal courts -- including the Supreme Court -- have sent the rules back, saying the agency did not justify them satisfactorily.

This meant that the 18 million customers who signed up for plans such as MCI's "Neighborhood" and deals offered by other smaller providers did so under unlawful plans, according to the courts.

Yesterday's action phased out unbundling in some markets but not all. It passed by a 3-to-2 vote along party lines, with Republicans supporting and Democrats opposing. The vote represents what FCC Chairman Michael K. Powell said he hoped was the final time his agency had to consider these rules.

"In 1996, no one could have guessed that nearly a decade later the FCC would be on its fourth attempt to develop local competition
rules that are lawful," Powell said. "We hope to end that here and now, for the market cannot possibly continue another day plagued by an ever-shifting regulatory foundation."

Neither the regional carriers -- often known as the Baby Bells -- nor the smaller competitors are completely happy with yesterday's vote, which may be challenged in court, FCC officials acknowledged.

Some carriers were upset by the FCC's selective phase-out.

"SBC is pleased that the FCC took positive steps to eliminate the harmful and unlawful . . . subsidy program on a going forward basis," James C. Smith, SBC senior vice president, said in a statement yesterday. However, SBC pointed out that the FCC ignored cities such as Houston, where 10 rival carriers have their own fiber-optic networks but still rent space at subsidized rates on SBC's lines.

"Today's order clearly eliminates the most significant, and sometimes only, competitive alternative for American residential customers," Leonard J. Cali, AT&T director of federal government affairs, said in a statement. He said that AT&T's "initial estimates indicate that the FCC's decision could deny competitors access to roughly 6.7 million business lines and up to 20 percent of all business lines in the top 50 [metropolitan areas]."

The FCC told the regional carriers that they cannot raise wholesale prices to rivals by more than $1 per customer during the phase-out period, which will last until early 2006. By then, the agency hopes, carriers and rivals will negotiate their own deals, and consumers will have other options.

Democratic commissioners Jonathan S. Adelstein and Michael J. Copps voted against the rules, saying they will end competition. The vote also was opposed by some public-interest groups.

"The FCC today continued its practice of chipping away at telecommunications competition while strengthening the Bell monopoly," said Mark Cooper, research director for the Consumer Federation of America.