

AT&T, Verizon can raise lessees' rates next week

Thursday, March 2, 2006

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Michigan's telephone heavyweights are well on their way to reasserting control over their networks as deregulation approaches. This will force competitors to pay higher prices for wholesale circuit components or invest in their own costly equipment.

That means customers of phone companies that themselves lease AT&T Inc. or Verizon Communications Inc. network elements soon might pay more for dial-tone service as the wholesale cost rises.

Some small competitors, however, are using technology to work around the Baby Bells. Rural Communications Inc. in Three Rivers, for example, now passes signals through its own switches, President and CEO Jerry Ludwick said. To handle customers outside St. Joseph County, it is working out arrangements with alternative providers.

Technology and new relationships allows small phone companies to wean themselves from the big incumbents, Ludwick said, which would have been very difficult a year and a half ago.

"We are seeing generally a conversion by most of the CLECs (competitive local exchange carriers) over to a different form of purchasing of the switch," noted J. Peter Lark, chairman of the Michigan Public Service Commission.

The MPSC recently issued an order reminding CLECs to have their contingency plans or contracts in order by the deadline -- that's next week -- lest customers be left without service.

Federal regulators in 2004 gave CLECs a year to work out new deals with the big phone companies before deregulation. After March 11, the Baby Bells are no longer obligated to make unbundled network elements such as costly switching available to competitors at state-regulator-set discount prices.

About 90 percent of AT&T's wholesale customers have worked out new contracts, Lansing-based spokesman Jon Kreger reported. "We are still pursuing those agreements. We'd like to get everybody over to negotiated settlements."

"It's all individual contracts worked out with those CLECs, individual negotiations with them rather than an established rate," added Verizon spokesman John VanWyck from its state headquarters in Muskegon.

The negotiated cost depends on the buyer and the size of the contract, he said, but industry players agree the costs are higher.

The FCC's decision to eliminate the network element mandate "essentially destroyed the entry strategy for many competitors, including those who were or would become facility based," said Roderick Coy, a Lansing telecommunications lawyer.

"Subsequent history bears this out as local competitors, large and small, simply disappeared from the horizon by virtue of being acquired, merged, or simply leaving the market. The trend toward local competition is over," he said.

"What's left is simply a two horse race between cable and the Bells, which is quite different than the potential for robust local competition from many suppliers that existed just a few years ago," he said.

Even facilities-based competitors, which need only lease the so-called last-mile local loops from AT&T [NYSE: T] or Verizon [NYSE: VZ] to reach customers' premises without having used the regulatory network element rate, are noticing fallout.

"Our cost for last-mile elements, we're having to lease them for higher and higher rates," said Mark Bowen, regional manager for TDS Metrocom. That requires a reassessment of market investment costs, he said.

TDS is a subsidiary of Chicago-based Telephone and Data Systems Inc. [AMEX: TDS].

Meanwhile, AT&T is working hard to entice customers back from TDS and others, Bowen said.

"We are paying approximately what SBC is turning around and selling services to their customers for," Bowen said.

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