Are your phone rates going up?

By Terrence L. Barnich

Gov: Rod Blagojevich has taken flak, even from his running mate, for setting land-speed records to sign legislation that doubles the wholesale prices SBC may charge other phone companies for using SBC’s network to provide competing service. The law’s opponents foresee rising consumer phone prices and bused competition. But Blagojevich has gone out on a limb, predicting that consumer phone rates will actually fall because of the new law.

Now, as a rock-ribbed, take-no-prisoners Republican, it pains me to say this, but I think the man may be right.

Critics charge SBC will use the law to strangle their competition, re-establish their local phone monopoly and when the coast is clear, start raising everyone’s phone bills. No doubt, Bill Daley, president of SBC, dreams these dreams late at night. Problem is, they’re just that, dreams. No matter how they try, SBC executives won’t be able to make them real.

Will, as some suggest, the two big competitive dogs, AT&T and MCI, abandon their 500,000 Illinois local service customers and exit the nation’s third largest telecommunications market because of this rent increase? Perhaps. But I’ll bet my phone bill they won’t.

Will AT&T and MCI pass the SBC rent increase on to their own customers? Again, perhaps. But both companies are running uniformly priced, national plans. They charge their customers the same rate in Boston as they do in Chicago, even though today the companies pay local Baby Bell Verizon about $23 for monthly rent in Boston and $12 to SBC in Chicago. The result of the law will be a transfer of wealth from AT&T and MCI to SBC, but probably not enough for AT&T and MCI to jettison their entire strategic plan.

What about the 80 or so smaller companies offering competitive telecom service? Will they be forced to fold their tents here, and if they do does that spell the end of competition in Illinois?

My firm’s research shows that many of these companies are on the verge of collapse and there’s no doubt the effect of this law will put them over the edge. But even if 80 percent of them fail, that leaves 18 competing in the market. That still looks like a competitive market to me.

Among the survivors will be a group of carriers that has invested tens of millions of dollars in fiber cable, telephone switching equipment and software systems to build competitive networks. These competitors are less reliant on SBC’s network, are more innovative and can clean SBC’s clock every day in the marketplace. Some of these will fail, but many will not and those that remain will keep the competitive heat on SBC to keep prices in check.

But this is today’s news and not why Gov. Blagojevich is right about this law’s effect on consumer prices.

Every day technological innovations are wielded by the telecom competition genie let loose from the bottle that makes SBC more vulnerable. I know this is the kind of “cyber talk” that Wall Street shills used to pump up the high-tech stock bubble. But there are today in the field real companies deploying real innovations providing real services over real networks that end run the would-be monopolist.

Cable TV companies like Time-Warner and Cox Communications are aggressively building parallel, competing networks over which they provide cable-based telephone services. In large parts of the United States these two companies are capturing up to 75 percent of all the new phone subscribers.

Today there are 146 million wireless phone users in the U.S. Of those, nearly 20 percent consider their mobile phone their primary phone. And this number will only grow. Wireless companies have already displaced 25 percent of the minutes of use by the first wireless provider, which otherwise carry. As the quality and reliability of wireless continues to increase and prices continue to decline, more and more people will choose to substitute their mobile for their landline phone.

Yesterday we heard that “voice over the Internet” was coming. Today it’s here. Companies with names like Vonage, which sounds suspiciously French, and GoBeam, Cbeyond and Net2Phone, which just sound silly, are offering local and long distance all-you-can-talk smorgasbord service for about $40 a month. SBC can’t touch that.

While we can’t get Ch. 9 from our satellite dish today, tomorrow we will be able to get telephone service. Some experts suggest that when the satellite guys offer phone service it will be offered free of charge.

These alternatives are already commercially available or very soon will be. Any upward price moves by SBC will make these alternatives even stronger competitors.

As a political observer, do I think SBC was guilty of cloutling the law change? Sure. As Illinois’ former chief regulator, would I have preferred the decision rest with the experts at the Illinois Commerce Commission? You bet. As a consumer, do I fear an end to competition? No way.

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