California Public Utilities Commission

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News Release

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PUC ADOPTS MAJOR TELECOMMUNICATIONS PRICING REFORMS; BASIC RESIDENTIAL PHONE PRICES FROZEN UNTIL JANUARY 2009

SAN FRANCISCO, August 24, 2006 – The California Public Utilities Commission (PUC) today announced that it will allow the state's four largest wireline phone companies – AT&T (formerly SBC/Pacific Bell), Verizon, SureWest, and Frontier – to price their services more like their voice market competitors. While freezing basic residential prices until Jan. 1, 2009, the PUC's decision gives these landline telephone companies great flexibility in how they charge for voice communications services, products, bundles, and promotions.

"Regulation needs to recognize there is a competitive voice communications marketplace," stated PUC President Michael R. Peevey. "The changes we order today will enhance competition by allowing new services to be provided sooner and eliminating unnecessary government regulation."

The decision stems from the PUC's Uniform Regulatory Framework (URF) proceeding, the first major examination of California telephone regulation in 18 years. Until today, the PUC imposed many regulatory reporting requirements and conducted extensive reviews of landline telephone prices. The PUC, however, did not impose these rules on many competitors that have entered into the voice communications market in recent years. These voice competitors include cable companies, Voice over Internet Protocol providers, and mobile and fixed wireless companies.

The 264-page PUC decision conducted an extensive review of market conditions and related federal and state statutes. The PUC found that market competition now adequately checks

landline phone companies' pricing power. The PUC also noted that California statutes encourage it: (1) to rely on open and competitive markets unless the elimination of regulation would result in rates being set above "just and reasonable" levels; and (2) to use technologically and competitively neutral measures in order to encourage the development of new technologies.

Although the Commission recognized that market competition sufficiently checks landline phone companies' pricing power, the Commission decision maintains current basic residential rates for phone service at current levels until Jan. 1, 2009. These rates are linked to social policy programs, which are currently under Commission review.

"We are not going to leave low income consumers out in the cold," assured Commissioner Rachelle Chong, the assigned Commissioner to the URF proceeding. "Basic residential rates are tied to important public policy programs, such as LifeLine. We have frozen basic residential prices for more than two years to perform a comprehensive review of their relationship with these programs."

The PUC decision eliminates required state approvals of price changes for all other business and residential rates and services. While landline and competitive local exchange carriers will be required to provide 30-day notice to customers of any proposed price increase, a price increase will go into effect the day after it is filed with the PUC.

"Today, the Commission forbears from regulation of the competitive phone market," commented PUC Commissioner John Bohn. "Our authority remains, however, and we stand ready to step in should we see market abuses or other anticompetitive behavior."

The PUC amended its reporting requirements for telephone companies so that they conform to national standards. The decision replaced its state-specific accounting practices with ones used by the Federal Communications Commission. Other issues regarding reporting and monitoring reports were deferred to the second phase of the URF proceeding.

The URF decision was approved unanimously by the Commission.

The proposal the Commission voted on is available on the PUC's website at http://www.cpuc.ca.gov/PUBLISHED/AGENDA_DECISION/59132.htm.

For more information on the PUC, please visit www.cpuc.ca.gov.