

**PREPARED REMARKS OF
PATRICIA M. WORTHY, CHAIRMAN
PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
FOR THE**

**MEMBER ADVISORY COMMITTEE
RURAL TELEPHONE FINANCE COOPERATIVE
AUGUST 29, 1990**

WE REGULATORS HAVE BEEN TOLD THAT OUR NATION'S ABILITY TO MEET THE ECONOMIC, SOCIAL AND PUBLIC POLICY CHALLENGES THAT WE FACE DEPENDS, IN LARGE PART, UPON THE STRENGTH AND VIABILITY OF OUR TELECOMMUNICATIONS INDUSTRY.

MOREOVER, BECAUSE TELECOMMUNICATIONS EQUIPMENT AND SERVICES CONSTITUTE APPROXIMATELY 5% OF OUR GNP, WE ARE CAUTIONED THAT THE TELEPHONE INDUSTRY PLAYS A SIGNIFICANT ROLE IN OUR COUNTRIES ECONOMIC WELL-BEING.

INDUSTRY LOBBYIST ARGUE THAT THE EFFICIENT DISSEMINATION AND MANIPULATION OF INFORMATION HAS BECOME CRITICAL TO THE HEALTH AND COMPETITIVENESS OF AMERICA'S BUSINESS SECTOR. CONGRESSMEN HAVE BEEN TOLD THAT IT IS OBVIOUS TO ALL THAT TELECOMMUNICATIONS AFFECTS EVERY ASPECT OF BUSINESS OPERATIONS - MANUFACTURING, RETAILING AND FINANCIAL SERVICE. NEW BREAKTHROUGHS IN YOUR INDUSTRY ARE REVOLUTIONIZING THE DESIGN AND MANUFACTURING OF PRODUCTS AND SERVICES, PROVIDING NEW TOOLS FOR SALES AND MARKETING AND CHANGING THE PLANNING AND MANAGEMENT SYSTEMS THAT SUPPORT TODAY'S CORPORATE INFRASTRUCTURE.

ACCORDING TO INDUSTRY STATISTICS, THE AVERAGE AMERICAN CORPORATION SPENDS AT LEAST 1% OF ITS OPERATING BUDGET ON DISSEMINATING AND MANIPULATING INFORMATION. THIS DEGREE OF COMMERCIAL ACTIVITY, WE HAVE BEEN TOLD, REPRESENTS THE TARGET MARKET FOR TELECOMMUNICATIONS EQUIPMENT AND SERVICES IN THE WORLD, ACCOUNTING FOR APPROXIMATELY 30% OF THE FREE WORLD'S TOTAL CONSUMPTION OR USAGE. IN 1988, THE U.S. MARKET FOR TELECOMMUNICATIONS EQUIPMENT AMOUNTED TO NEARLY \$30 BILLION, WHILE TELECOMMUNICATIONS SERVICES GENERATED APPROXIMATELY \$140 BILLION

IN REVENUES. MOREOVER, ACCORDING TO THE U.S. INDUSTRIAL OUTLOOK, DOMESTIC TELECOMMUNICATIONS SERVICES REVENUES ARE EXPECTED TO RISE AT A COMPOUND ANNUAL GROWTH RATE OF 4.5% OVER THE NEXT FIVE YEARS AND TOTAL INDUSTRY REVENUES IN 1990 ARE PROJECTED TO BE \$175 BILLION FOR DOMESTIC SERVICES ALONE.

AS EXPLAINED TO THE REGULATORS THESE PROJECTIONS ARE ONLY THE "TIP OF THE ICEBERG" AND GIVEN THE APPROPRIATE LEGISLATIVE AND REGULATORY RELIEF THE TELECOMMUNICATIONS INDUSTRY IN THIS COUNTRY CAN COMPETE FOR THE BILLIONS OF DOLLARS ASSOCIATED WITH THE GROWTH IN INFORMATION TECHNOLOGY.

WE HAVE BEEN CONSTANTLY REMINDED OF A \$1.9 BILLION TRADE DEFICIT IN TELECOMMUNICATIONS EQUIPMENT IN 1989. WE HAVE BEEN TOLD REPEATEDLY BY INDUSTRY LOBBYIST, THAT U.S. IMPORTS OF TELECOMMUNICATIONS EQUIPMENT FROM THE FAR EAST, HONG KONG, KOREA, SINGAPORE AND TAIWAN, IN ADDITION TO JAPAN, CONTINUE TO DOMINATE THE TRADE PICTURE. WE KNOW THOSE MEMBERS OF YOUR INDUSTRY THAT TALK ABOUT REGULATORY FLEXIBILITY AND DIVERSIFICATION OPPORTUNITIES. WE HAVE ALL HAD THE OCCASION TO READ THE VARIOUS ANNUAL REPORTS THAT ENTHUSIASTICALLY PROCLAIM SUCCESSES IN REAL ESTATE DEVELOPMENT, LEASING, FINANCIAL SERVICES AND BUSINESS SUPPLIES.

WE HAVE ALL BEEN PRESENT AT CONGRESSIONAL HEARINGS WHERE WE HAVE HEARD PROMISES OF NEW TECHNOLOGIES, NEW OPPORTUNITIES, INTERNATIONAL COMPETITIVES, BETTER QUALITY OF LIFE, EDUCATIONAL ENHANCEMENTS, ELIMINATION OF POVERTY AND NEW JOB OPPORTUNITIES.

BUT, LADIES AND GENTLEMEN, AT NO TIME AND AT NO PLACE BUT WHEN I AM SURROUNDED BY THOSE OF YOU IN THE INDUSTRY WHO MAKE-UP THE SMALL INDEPENDENTS DO I EVER HEAR THE WORDS - CUSTOMERS AND SERVICE QUALITY.

IN THE PAST TWO YEARS, I HAVE HAD THE OPPORTUNITY TO ADDRESS THE INDEPENDENT TELEPHONE COMPANIES BOTH AT THE JANUARY, 1989 ANNUAL WINTER MEETING OF THE ORGANIZATION FOR THE PROTECTION AND ADVANCEMENT OF SMALL TELEPHONE COMPANIES AND THE 1989 FALL CONVENTION AND ANNUAL MEETING OF THE IOWA TELEPHONE ASSOCIATION. I HAVE FOND MEMORIES OF BOTH OCCASIONS.

IN FACT, DURING MY VISIT WITH YOUR IOWA COLLEAGUES, I WAS INVITED TO VISIT A "TYPICAL" SMALL TELEPHONE COOPERATIVE IN PANORA, IOWA. THAT VISIT REINFORCED THE OFTEN-HEARD VIEW THAT SMALL TELEPHONE COMPANY OPERATIONS ARE SOME OF THE BEST IN THE COUNTRY. TO THAT END, YOUR INDUSTRY SHOULD BE CONGRATULATED ON ITS EFFORTS TO ASSURE THAT THE CONCEPTS OF UNIVERSAL SERVICE AND STATE-OF-THE-ART TECHNOLOGIES ARE FOSTERED IN ALL AREAS OF THE COUNTRY. IF PANORA IS ANY INDICATION, YOU ARE MAKING GREAT STRIDES IN ENSURING THAT CONCERNS OF A "HAVE AND HAVE NOTS" SOCIETY WITH RESPECT TO TELECOMMUNICATIONS SERVICES ARE NEVER REALIZED.

WHAT STRUCK ME MOST ABOUT THE VISIT TO PANORA, HOWEVER, WAS THE OVERWHELMING COMMITMENT TO THE CUSTOMER. AS YOU MAY BE AWARE, I LIVE HERE IN WASHINGTON AND I DOUBT WHETHER ANYONE WHO LIVES NEXT DOOR TO A C&P EMPLOYEE WOULD EVER DISCUSS THE PROBLEMS AND/OR CONCERNS HE OR SHE MAY HAVE REGARDING THEIR TELEPHONE SERVICE. IN PANORA, IOWA, I WITNESSED A LEVEL OF ACCOUNTABILITY AND COMMITMENT

TO SERVICE QUALITY THAT WAS TRULY REMARKABLE. IF PANORA IS THE "NORM" FOR SMALL INDEPENDENTS, I APPLAUD YOU FOR YOUR EFFORTS.

I ALSO AM IMPRESSED WITH RECENT DEVELOPMENTS IN THE RURAL AREAS WHICH INDICATE THE COMMITMENT YOUR COMPANIES HAVE MADE TO NETWORK QUALITY. FOR EXAMPLE, IN THE 1990 SUMMER EDITION OF THE "RURAL TELECOMMUNICATIONS" MAGAZINE PUBLISHED BY THE NATIONAL TELEPHONE COOPERATIVE ASSOCIATION (NTCA), THERE WAS AN ARTICLE WHICH CHRONICLED THE MOVES OF "CITICORP" FROM NEW YORK TO SIOUX FALLS, SOUTH DAKOTA AND "LAND'S END" FROM CHICAGO, ILLINOIS TO DODGEVILLE, WISCONSIN, AND THE SUCCESSES THAT BOTH THE COMPANIES AND THE COMMUNITIES RECEIVED FROM THOSE OPERATIONS. THOSE STORIES, AND I AM SURE THAT THERE ARE MANY MORE, ARE A TESTAMENT TO YOUR COMMITMENT TO EXCELLENCE, A COMMITMENT THAT I AM SURE YOUR STATE COMMISSIONS SHARE. THESE EXAMPLES ARE INDICATIVE, HOWEVER, OF WHY THE INTERESTS AND NEEDS OF SMALL RURAL TELEPHONE COMPANIES HAVE TO BE MADE CLEAR SO THAT YOUR LARGER BRETHERN, THE BOCs, DO NOT OVERSHADOW YOUR ACCOMPLISHMENTS AND CONCERNS WITH THEIR PERSISTENT AND SELF-SURVIVING RHETORIC.

THEREFORE, LET ME TOUCH BRIEFLY ON FOUR AREAS THAT I BELIEVE ARE OF GREAT IMPORTANCE TO BOTH STATE REGULATORS AND THE INDEPENDENTS. THESE ARE: (1) THE PUSH BY THE BOCs FOR LEGISLATIVE RELIEF FROM THE MODIFIED FINAL JUDGMENT (MFJ); (2) THE ADVANCEMENT OF TECHNOLOGIES AND THE COSTS ASSOCIATED WITH THAT ADVANCEMENT; (3) AND THE ISSUE OF RATE DEAVERAGING.

MFJ

ALTHOUGH WE ARE ASSURED THAT CONGRESSIONAL ACTION CONCERNING THE MFJ RESTRICTIONS WILL NOT OCCUR THIS YEAR, THAT STRUGGLE AND THE BOCs' ABILITY TO DICTATE THE FOCUS OF THE DEBATE WILL CONTINUE FAR BEYOND THIS CONGRESS. THEREFORE, I BELIEVE THAT THE DEBATE WILL CONTINUE, BUT THAT DIFFERENT FORUMS, INCLUDING THE UPCOMING DISTRICT COURT REVIEW, WILL SEE THE ISSUES AIRE.

THEREFORE, I THINK IT APPROPRIATE THAT I REVISIT THIS ISSUE IN LIGHT OF THE SPRING 1990 EDITION OF NTCA'S RURAL TELECOMMUNICATIONS MAGAZINE. IN MY OPINION, THAT EDITION WAS APTLY ENTITLED "SHAPING THE FUTURE: RURAL TELCOS FACE THE POLICIES OF THE 90s." IN THE SECTION ENTITLED "EXECUTIVE VIEWPOINT," MICHAEL E. BRUNNER, THE EXECUTIVE VICE PRESIDENT OF NTCA, IN HIS ARTICLE "PROVIDE RURAL SAFEGUARDS OR LEAVE THE MFJ ALONE," PROVIDES A KEEN INSIGHT INTO THE BOCs' EFFORTS CONCERNING THE MFJ. MR. BRUNNER STATED THAT

SOME PEOPLE SEEM TO BELIEVE WE CAN RELY ON THE BOCs TO DO WHAT'S BEST FOR SMALL COMPANIES. I THINK THIS ATTITUDE IS NAIVE. THE BOCs HAVE THEIR OWN BOTTOM LINES; AFTER ALL, IT WAS NOT ALL THAT LONG AGO THAT WESTERN ELECTRIC WOULD NOT EVEN SELL TO SMALL COMPANIES. CAN OUR MEMORIES BE SO SHORT?

MORE THAN A YEAR HAS PASSED SINCE THE UNITY 1b TALKS COLLAPSED. WE DISCOVERED THEN THAT, EVEN AS THEY SAT IN THE UNITY MEETINGS DISCUSSING A JOINT INDUSTRY POSITION ON THE MFJ, THE BELLS WERE TAKING THEIR POSITION TO CAPITOL HILL WITH WHAT BECAME THE SWIFT-TAUKE BILL. A BOC REPRESENTATIVE TOLD INDEPENDENTS WE WERE "EXTRANEIOUS AND TANGENTIAL" TO THE

PROCESS OF GETTING THE RESTRICTIONS LIFTED. MAYBE SO. AND THEN AGAIN, MAYBE NOT.^{1/}

FAIRLY STRONG STATEMENT; BUT ONE WITH WHICH I AGREE. THE UNDERLYING THEME OF THE "TRUST" THAT ONE COULD PLACE IN THE BOCs IS A CENTRAL CONCERN THAT I KNOW IS SHARED BY ME, AND PROBABLY BY OTHER STATE COMMISSIONERS. MR. BRUNNER'S OBSERVATIONS ALSO RING TRUE WITH ANOTHER CONCERN SHARED BY THE STATES -- IT IS A DIFFERENT WORLD SINCE THE BREAK-UP OF AT&T. I AM SURE YOU CAN ATTEST TO THAT.

IN ADDITION, MR. BRUNNER CONTINUED IN HIS ARTICLE TO INDICATE THE SIX (6) SAFEGUARDS THAT THE SMALL INDEPENDENTS, THROUGH THE RURAL TELEPHONE COALITION (RTC), WOULD INSIST UPON IN ORDER TO SUPPORT THE LIFTING OF THE MFJ RESTRICTIONS. THOSE SIX POINTS ARE:

- (1) THERE SHOULD BE A NATIONAL POLICY GOAL TO PROMOTE A NATIONWIDE LOCAL TELEPHONE COMPANY NETWORK, WITH ADVANCED CAPABILITIES AND UNIVERSAL ACCESS TO INFORMATION SERVICES;
- (2) THERE SHOULD BE A COMPREHENSIVE NATIONWIDE JOINT NETWORK PLANNING AND OPERATIONS BY ALL TELEPHONE COMPANIES;
- (3) A FEDERAL-STATE JOINT BOARD SHOULD INVESTIGATE WHETHER NEW MECHANISMS ARE NEEDED TO BRING NEW SERVICES TO ALL CUSTOMERS AT AFFORDABLE RATES;

^{1/} Rural Telecommunications, "Provide Rural Safeguards or Leave the MFJ Alone" (Spring 1990) at 86.

- (4) BOC MANUFACTURING OPERATIONS MUST BE REQUIRED TO SELL THEIR HARDWARE AND SOFTWARE PRODUCTS TO THE LECs ON A NON-DISCRIMINATORY BASIS OR SELF-PREFERENCE BASIS, WITH THE ADDITIONAL REQUIREMENT THAT THE BOCs MUST BE REQUIRED TO MAINTAIN THE AVAILABILITY OF EQUIPMENT NEEDED BY COMPANIES SUCH AS YOURS;
- (5) THERE SHOULD BE STRONGER STATUTORY PROTECTIONS FOR STATE JURISDICTION OVER INTRASTATE TELECOMMUNICATIONS SERVICES; AND
- (6) THE BOCs SHOULD BE PROHIBITED FROM SELLING COMMUNICATIONS SERVICES IN ANOTHER LEC's FRANCHISE AREA.^{2/}

IN LIGHT OF THESE POSITIONS, I WOULD LIKE TO OFFER MY COMMENTS CONCERNING THREE OF THE RTC SAFEGUARDS.

THE FIRST SAFEGUARD IS THE NEED FOR STRONGER STATE JURISDICTION. NOT SURPRISINGLY, I AM IN TOTAL AGREEMENT WITH THIS RECOMMENDATION. I AM OF THE OPINION THAT THE STATES, NOT THE FCC, ARE IN THE BEST POSITION TO ADDRESS THE SPECIFIC NEEDS OF THEIR JURISDICTIONS, MUCH AS YOUR COMPANIES ARE UNIQUELY ABLE TO ADDRESS THE CONCERNS EXPRESSED BY THE RURAL COMMUNITIES YOU SERVE. THE STRENGTHENING OF THIS ABILITY FOR THE STATES IS OF PARAMOUNT CONCERN TO ME AND, IN MY OPINION, SHOULD BE TO YOU AS WELL.

TO THIS END, THE NARUC, IN TESTIMONY BEFORE CONGRESS REITERATED WHAT IT BELIEVES TO BE A MENU OF REGULATORY OPTIONS

^{2/} See *id.*

AVAILABLE WHICH NEED TO BE AVAILABLE TO THE STATES IN ORDER TO ASSURE THEIR RIGHTFUL REGULATORY AUTHORITY SHOULD THE MFJ RESTRICTIONS BE RELIEVED. THESE OPTIONS INCLUDE: (1) THE USE OF SEPARATE SUBSIDIARIES; (2) STATE ACCESS TO ACCOUNTING RECORDS OF BOC AFFILIATES; (3) STATE-DETERMINATION OF APPROPRIATE ALLOCATIONS OF COSTS BETWEEN REGULATED AND UNREGULATED BOC OPERATIONS; (4) A STATE ANNUAL AUDIT REQUIREMENT; (5) THE ALLOCATION TO THE NEW SERVICES OF NEW COSTS TO THE TELEPHONE NETWORK AND THE REQUIREMENT OF CONTRIBUTION TO THE UNDERLYING NETWORK COSTS; (6) STATE APPROVAL OF BOC/AFFILIATE PURCHASE AGREEMENTS, "INCLUDING THE AUTHORITY TO REQUIRE AND ESTABLISH THE TERMS OF COMPETITIVE BIDDING FOR BOC CONTRACTS"; (7) STATE APPROVAL OF THE SALE BY A BOC OF ITS CUSTOMER PROPRIETARY NETWORK INFORMATION; (8) OVERSIGHT AUTHORITY CONCERNING AFFILIATE RECOURSE CREDIT ARRANGEMENTS AGAINST BOC ASSETS; AND (9) STATE AUTHORITY TO DISALLOW, IN RATEMAKING PROCEEDINGS, INCREASED COSTS ASSOCIATED WITH "COST OF CAPITAL DUE TO A FAILED COMPETITIVE VENTURE" IN WHICH THE BOC AFFILIATE MAY HAVE ENGAGED. I NOTE THAT THIS MENU ONLY "ILLUSTRATES THE KINDS OF ACTIONS STATES MAY CONSIDER TAKING...." HOWEVER, I ALSO NOTE THAT THE MENU INDICATES THE DEGREE OF FLEXIBILITY THAT THE STATES SEEK IN FASHIONING REGULATORY RESPONSES TO BOC-PARTICIPATION IN THOSE MARKETS CURRENTLY RESTRICTED BY THE MFJ.

THE SECOND SAFEGUARD CITED TO BY MR. BRUNNER IS THE NEED FOR A JOINT BOARD TO EXAMINE THE NEW MECHANISMS TO ASSURE THAT NEW SERVICES ARE BEING MADE AVAILABLE TO ALL CONSUMERS. I NOTE THAT NARUC COMMENDED THE CONGRESSIONAL STAFF FOR PROVIDING FOR A JOINT

BOARD IN THE DRAFT MFJ BILL, IN THAT THE JOINT BOARD ASSURES STATE INPUT INTO AREAS WHICH ARE OF IMPORTANCE TO BOTH STATE AND FEDERAL REGULATORS. HOWEVER, NARUC SUGGESTED THAT THE DRAFT'S PROVISIONS REGARDING THE JOINT BOARD BE MODIFIED TO PROVIDE FOR NARUC-APPOINTMENT OF STATE COMMISSIONERS, WITHOUT THE REQUIREMENT THAT THE FCC APPROVE NARUC'S NOMINATIONS. THE D.C. COMMISSION, IN ITS COMMENTS ON THE MFJ BILL, WENT ONE STEP FURTHER, ARGUING THAT THE JOINT BOARD DECISION SHOULD BE FINAL AND APPEALABLE DIRECTLY TO THE UNITED STATES COURT OF APPEALS, AND, IN THE EVENT OF A TIE VOTE, THE SUBJECT MATTER OF THAT VOTE WOULD BE NULL AND VOID.

THEREFORE, I BELIEVE THAT THE SMALL COMPANIES' POSITIONS, AS INDICATED BY MR. BRUNNER'S POSITION, IS CONSISTENT WITH THE POSITION TAKEN BY NARUC AND BY THE D.C. COMMISSION. AGAIN, I BELIEVE THAT THIS SAFEGUARD, LIKE THAT OF ASSURING STATE JURISDICTION, ENSURES THAT STATE INPUT IN THE DECISION MAKING PROCESS PROVIDES A VEHICLE FOR ALL INTERESTS TO BE REPRESENTED FULLY.

MY THIRD COMMENT CONCERNS MR. BRUNNER'S POINT REGARDING THE DEVELOPMENT OF A NATIONWIDE ADVANCED NETWORK. THIS SAFEGUARD, AND MORE IMPORTANTLY, THE IMPLICATIONS ARISING FROM IT, RELATE TO MY SECOND POINT FOR TONIGHT REGARDING THE COST OF NEW TECHNOLOGIES. THEREFORE, PLEASE PERMIT ME TO ADDRESS THESE CONCEPTS TOGETHER.

COST OF NEW TECHNOLOGIES

WHILE I DO NOT DISAGREE WITH THE CONCEPT OF A NATIONWIDE NETWORK, THE TRUE ISSUE IS WHO WILL BEAR THE COST OF THAT NETWORK. FOR STATE COMMISSIONS, I BELIEVE THAT THIS IS THE CENTRAL ISSUE.

I NOTE THAT THE FCC HAS ISSUED A NUMBER OF DECISIONS WHICH SHIFT THE BURDEN OF COST RECOVERY TO THE STATE ARENA. AS THE COSTS RISE, SO DOES THE DEMAND ON A STATE COMMISSION'S ABILITY TO ASSURE QUALITY SERVICE AT RATES THAT ARE REASONABLE. COMPOUNDING THIS ALREADY DIFFICULT BALANCE IS THE STATE COMMISSIONS' COMMITMENT TO ASSURE THAT SPECIAL CIRCUMSTANCES PRESENTED IN THEIR RESPECTIVE JURISDICTIONS ARE ACCOMMODATED TO THE EXTENT POSSIBLE. THAT BALANCE WILL BECOME EVEN MORE DIFFICULT AS THIS ERA OF RAPID TECHNOLOGICAL DEVELOPMENT CONTINUES.

I AM OF THE VIEW, GENERALLY, THAT ADVANCEMENTS IN THE NETWORK SHOULD BE "DEMAND-DRIVEN," WITH THE COSTS ASSOCIATED WITH THOSE ADVANCEMENTS SHARED AMONG THE INTENDED BENEFICIARIES OF THOSE ADVANCEMENTS. WHILE I AM NOT NOW IN A POSITION TO STATE HOW THAT COULD BE ACCOMPLISHED, I DO NOT BELIEVE THAT LOCAL RATEPAYERS SHOULD BEAR THE BURDEN OF CONSTRUCTING A "CADILLAC" NETWORK, IF THE LOCAL RATEPAYERS ONLY DEMAND SIMPLE TRANSPORTATION.

WHILE IT IS NOT A NOVEL CONCEPT, I DO BELIEVE THAT THE OVERRIDING PRINCIPLE SHOULD BE TO PLACE THE COST ON THE COST-CAUSER. IN THIS CONTEXT, THE COST-CAUSER IS THE CUSTOMER WHICH DESIRES THE NEW TECHNOLOGIES. UNDOUBTEDLY, AS THE D.C. COMMISSION IS CONFRONTED WITH THESE ISSUES, MY OPINIONS WILL BECOME MORE CRYSTALLIZED. HOWEVER, I WELCOME YOUR INSIGHTS AND OBSERVATIONS ON THIS ISSUE, TO THE EXTENT YOU WISH TO SHARE THOSE WITH ME.

NEVERTHELESS, THE IMPORTANCE FOR THE SMALL COMPANIES IS, IN MY OPINION, QUITE CLEAR.

SMALL COMPANIES SERVING THE RURAL AMERICA DO NOT WANT TO BE LEFT BEHIND AS THIS NATION SURGES FORWARD INTO THE INFORMATION AGE. MOREOVER, IT WOULD APPEAR THAT, IN LIGHT OF YOUR COMMITMENT TO THE AREAS YOU SERVE, YOU WOULD WANT TO ASSURE THAT YOUR CUSTOMERS, TO THE EXTENT FEASIBLE, WOULD HAVE ACCESS TO THOSE SERVICES THAT THEIR "URBAN" COUNTERPARTS HAVE ACCESS TO, THEREBY AVOIDING THE "HAVE AND HAVE NOT" SITUATION MENTIONED EARLIER. AS IN THE CASE OF "CITICORP" AND "LAND'S END," YOUR ABILITY TO ATTRACT LARGE USERS TO YOUR SERVICE AREA IS CONTINGENT, IN PART, ON YOUR ABILITY TO MEET THOSE USER'S NEEDS. A MODERNIZED NETWORK IS ESSENTIAL TO THAT ABILITY.

WE ALL ARE BEING FACED WITH THE SPECTER OF RISING COSTS AND FEWER DOLLARS, I.E., BEING ASKED TO DO MORE WITH THE SAME RESOURCES. THAT IS A CHALLENGE THAT THIS ENTIRE NATION FACES. FOR EXAMPLE, IN THE CONTEXT OF TELECOMMUNICATIONS, YOUR INDUSTRY CONTINUALLY FIGHTS THE BATTLES TO ASSURE THE WELL-BEING OF THE RURAL ELECTRIFICATION ADMINISTRATION; THE FCC IS CONFRONTED WITH BUDGET CONSTRAINTS IN LIGHT OF THE FEDERAL DEFICIT; AND THE STATE COMMISSIONS ALSO ARE FACED WITH THEIR OWN STATE BUDGET SITUATIONS.

THEREFORE, I SUBMIT TO YOU THAT WE ALL ARE FACING A CHALLENGE TO ASSURE THAT WE ARE GETTING THE MOST FOR OUR DOLLAR OF INVESTMENT. WHETHER IT BE THROUGH HUMAN RESOURCES OR PLANT FACILITIES, THOSE INVESTMENT DECISIONS HAVE RAMIFICATIONS FOR FUTURE CONSUMERS AND USERS OF THE NETWORK. AS COSTS OF NEW

TECHNOLOGIES ARE SOUGHT TO BE RECOVERED, COUPLED WITH THE QUICKENED RECOVERY OF THE EXISTING PLANT IN ORDER TO AVOID STRANDED INVESTMENT, THE CHALLENGE TAKES ON AN ENTIRELY NEW DIMENSION. FOR EXAMPLE, I HAVE HEARD ESTIMATES THAT THE DEPLOYMENT OF A FIBER NETWORK MAY BE AS MUCH AS \$250-300 BILLION. THAT IS A STAGGERING AMOUNT. HOW WILL THESE COSTS BE RECOVERED IS BOTH A THORNY POLICY AND FINANCIAL ISSUE, AND ONE WHICH I AM SURE WE WILL FACE TOGETHER.

RATE DEAVERAGING

THE FINAL AREA I WOULD LIKE TO BRIEFLY DISCUSS IS THE ISSUE OF RATE DEAVERAGING. I RECOGNIZE THE IMPORTANCE OF THIS ISSUE FOR YOUR COMPANIES IN THAT THIS LAUDABLE POLICY ASSURES INTERSTATE ACCESS FOR YOUR SUBSCRIBERS AT REASONABLE RATES. I NOTE THAT IN THE FCC'S RECENT INQUIRY CONCERNING INTERSTATE COMPETITION, THE FCC INDICATED ITS STRONG COMMITMENT TO THE CONCEPT. SPECIFICALLY, THE FCC STATED THAT IT WISHED

TO REEMPHASIZE THE COMMISSION'S LONGSTANDING COMMITMENT TO GEOGRAPHIC RATE AVERAGING. THE COMMISSION'S RECENT PRICE CAPS ORDER STATED THAT RATE AVERAGING "FURTHERS OUR GOAL OF PROVIDING A UNIVERSAL NATIONWIDE TELECOMMUNICATIONS NETWORK," ENSURES THAT RURAL RATEPAYERS SHARE IN THE BENEFITS OF INTEREXCHANGE COMPETITION, AND CONTRIBUTES TO THE SIMPLICITY OF THE MTS RATE STRUCTURE, ALLOWING CUSTOMERS TO COMPARE THE INTEREXCHANGE CARRIERS' CHARGES WITH RELATIVE EASE.^{3/}

^{3/} In the Matter of Competition in the Interstate Interexchange Marketplace, Notice of Proposed Rulemaking, CC Docket No. 90-132, FCC 90-90, released April 13, 1990 at para. 181 (footnotes omitted).

THE FCC ALSO INDICATED ITS BELIEF THAT IT WAS IN AT&T'S ECONOMIC INTEREST TO MAINTAIN GEOGRAPHICALLY AVERAGED RATES, IN THAT THE "COSTS OF ADMINISTERING A GEOGRAPHICALLY DEAVERAGED RATES STRUCTURE, INCLUDING THE COSTS OF CALCULATING, BILLING, AND MARKETING RATES FOR ALL OF THE VARIOUS NATIONWIDE ROUTE PERMUTATIONS WOULD BE SIGNIFICANT...." AND THAT THE FCC'S ACCESS CHARGE RULES WERE DESIGNED, IN PART, TO DISCOURAGE RATE DEAVERAGING.^{4/} I ALSO NOTE THAT IN RECENT INTERVIEWS BY NTCA WITH COMMISSIONERS QUELLO, MARSHALL AND BARRETT, EACH EXPRESSED THEIR COMMITMENT TO THIS CONCEPT.^{5/}

IN MY OPINION, I BELIEVE THAT YOUR VIGILANCE IN SUPPORT OF THE CONCEPT OF NATIONWIDE RATE AVERAGING IS WORTHWHILE AND SHOULD BE CONTINUED. MY CONCERN IS THAT, WHILE THE FCC'S POLICIES APPEAR FAIRLY ENTRENCHED, THE FCC, NEVERTHELESS RELIED, IN PART, ON ITS BELIEF THAT RATE AVERAGING WAS CONSISTENT WITH AT&T'S ECONOMIC INCENTIVES. HOWEVER, WITH THE INTRODUCTION OF PRICE CAPS FOR AT&T, AND THE PRICE CAPS PLAN'S FLEXIBILITY AFFORDED AT&T, AND ASSUMING THE PROPOSED PRICE CAP PLAN FOR THE LECs IS IMPLEMENTED, ALONG WITH THAT PLAN'S FLEXIBILITY, THE ECONOMIC INCENTIVES MAY CHANGE. LET US NOT FORGET THAT AT&T ALREADY HAS SOME ADDITIONAL FLEXIBILITY THROUGH THE TARIFF NO. 12 PROCEDURES. THEREFORE, YOUR POSITION ON RATE AVERAGING SHOULD CONTINUE TO BE HEARD TO ASSURE THAT THE CURRENT POLICIES REMAIN IN EFFECT.

^{4/} Id. at para. 182.

^{5/} Rural Telecommunications, "A New Cast Begins to Carve Policy: An Interview with Three FCC Commissioners," (Spring 1990) at 13.

I WANT TO AGAIN THANK YOU FOR THIS OPPORTUNITY TO BE WITH YOU THIS EVENING. WE ALL HAVE VERY INTERESTING CHALLENGES AHEAD OF US. WHILE MY PERSPECTIVE AS A D.C. COMMISSIONER MAY BE A LITTLE DIFFERENT THAN YOURS, WE ARE ALL WORKING TOWARD THE SAME GOAL OF ASSURING THAT THIS NATION'S TELECOMMUNICATIONS NETWORK OFFERS STATE-OF-THE-ART, DEMAND DRIVEN SERVICES ON A JUST AND REASONABLE BASIS. THEREIN, I BELIEVE, LIES THE CHALLENGE AHEAD OF US AS TECHNOLOGY DRIVES US FURTHER INTO THE INFORMATION AGE.

AGAIN, THANK YOU. I LOOK FORWARD TO ANSWERING ANY QUESTIONS YOU MAY HAVE.

