

REMARKS OF PATRICIA M. WORTHY, CHAIRMAN
DISTRICT OF COLUMBIA PUBLIC SERVICE COMMISSION
BEFORE THE
IOWA TELEPHONE ASSOCIATION
1989 FALL CONVENTION AND ANNUAL MEETING

"IS ANYBODY LISTENING"

AIRPORT HILTON
DES MOINES, IOWA
NOVEMBER 7, 1989

GOOD MORNING, I AM VERY PLEASED TO HAVE BEEN INVITED TO JOIN YOU AT YOUR 1989 FALL CONVENTION AND ANNUAL MEETING. I WAS STRUCK BY THE SIGNIFICANCE AND TIMELINESS OF THIS YEAR'S CONVENTION THEME-"IS ANYONE LISTENING?", AND I HAVE TRAVELED A VERY LONG DISTANCE TO TELL YOU A MOST RESOUNDING "YES". BUT ALSO TO INQUIRE OF YOU AS TO WHETHER OR NOT YOU ARE ABSOLUTELY SURE OF WHAT IT IS YOU ARE TRYING TO SAY.

IT HAS BECOME FASHIONABLE FOR UTILITIES TO DRIVE TOWARD LESS GOVERNMENT OVERSIGHT AS A MEANS OF PROMOTING COMPETITION. THE CONVENTIONAL WISDOM SEEMS TO BE THAT IF THE GOVERNMENT WOULD STOP INTERFERING AND ALLOW THE COMPANIES TO COMPETE, EVERYONE WILL BENEFIT. MOST PEOPLE CHARACTERIZE THIS AS A MOVE TOWARD DEREGULATION. I PREFER TO CALL IT "UNREGULATION".

OPPONENTS OF REGULATORY REFORM FOR REFORMS SAKE, LIKE MYSELF, HAVE BEEN LABELLED REACTIONARY AND OBSTRUCTIONIST. WE HAVE BEEN FORCED TO FOCUS NOT ON THE STRENGTHS OF RATE OF RETURN REGULATION, BUT ON WHY ITS WEAKNESSES DO NOT MILITATE IN FAVOR OF SUBSTANTIAL CHANGE. RATHER THAN MODIFYING RATE OF RETURN REGULATION TO REFLECT ACTUAL OCCURRENCE IN THE MARKET PLACE, WE ARE SUBJECTED TO THE CONSTANT CRY THAT THE OLD REGULATORY REGIME MUST BE PUT TO DEATH. RATHER THAN BEING ABLE TO ANALYZE AND EVALUATE ALTERNATIVE REGULATORY APPROACHES WE HAVE BEEN SYSTEMATICALLY SUBJECTED, ON A STATE BY STATE BASIS, WITH BOILER PLATE REGULATORY REFORM PROPOSALS THAT NEITHER REFLECT NOR PURPORT TO REFLECT THE DEMOGRAPHIC AND MARKET DIFFERENCES IN EACH OF THESE REGULATORY JURISDICTIONS. AND DURING THESE TUMULTUOUS TIMES, WHEN WE REGULATORS HAVE SOUGHT THE TECHNICAL AND THEORETICAL ADVICE OF YOU, THE INDUSTRY, WE HAVE

LISTENED MOST EARNESTLY TO WHAT YOU HAVE BEEN SAYING.

PRICE CAPS

PRICE CAPS AND THE APPROPRIATENESS OF THIS METHOD OF REGULATION HAS BEEN ONE OF THE CLEAREST EXAMPLES OF THIS TREND TOWARD REGULATORY REFORM - FIRST IN SETTING RATES FOR AT&T'S INTERSTATE SERVICE AND THE EXISTING PROPOSALS TO CAP THE BOC'S PROVISION OF INTERSTATE EXCHANGE ACCESS SERVICE. NOW I REALIZE THAT THE MAJORITY OF TELEPHONE COMPANIES IN IOWA HAVE LESS THAN 15,000 LINES AND CUSTOMERS, AND THEREFORE ARE NOT RATE REGULATED. THUS, IN YOUR VIEW, THE ISSUE OF "PRICE CAPS" WARRANTS LIMITED DISCUSSION AND VERY LITTLE CONCERN. MOREOVER, MY COLLEAGUES AT THE IOWA BOARD HAVE INFORMED ME THAT "QUALITY OF SERVICE", WHICH IS REGULATED, IS NOT A PROBLEM IN YOUR STATE AND THAT BECAUSE OF THE CLOSE RELATIONSHIP BETWEEN COMPANIES AND THEIR CUSTOMERS THE NECESSARY IMPETUS EXISTS FOR MAINTAINING EXCELLENT SERVICE QUALITY. IT IS UNDERSTANDABLE, THEREFORE, ON FIRST BLUSH, YOUR VIEWS, OR THE LACK THEREOF, OF THE APPROPRIATENESS OF PRICE CAP REGULATION. IF WE REGULATORS WERE LISTENING, YOU APPARENTLY HAD VERY LITTLE TO SAY.

OPASTCO, IN ITS COMMENTS TO THE FCC, SUPPORTED THE PROPOSAL, BUT WAS CONCERNED THAT SOME OF THE PROPOSED RULES WOULD PRECLUDE PARTICIPATION BY SMALL TELCOS. BECAUSE OF THIS, IT URGED THE FCC TO ENSURE THAT COMPANIES CHOOSING NOT TO IMPLEMENT PRICE CAPS WOULD NOT BE ADVERSELY IMPACTED. THUS, THE FCC WAS URGED TO GRANT NECA GREATER FLEXIBILITY IN ADMINISTERING THE POOL SO THAT THE NEEDS OF THE REMAINING PARTICIPANTS COULD BE MET. OPASTCO ALSO URGED THAT

SMALL TELCOS BE GIVEN UNTIL DECEMBER 31, 1990 INSTEAD OF DECEMBER 31, 1989 TO GIVE NOTICE THAT THEY INTEND TO WITHDRAW FROM THE POOL.

ON THE ISSUE OF THE RETENTION OF AVERAGE RATE SCHEDULES, OPASTCO COMMENDED THE FCC FOR ITS REAFFIRMATION OF THIS POLICY, BUT URGED THAT ACTUAL RULES BE IMPLEMENTED REQUIRING THAT SUCH RATES BE MAINTAINED.

OPASTCO ALSO BELIEVED THAT A UNIFORM, INDUSTRY-WIDE, SINGLE RATE OF RETURN SHOULD CONTINUE TO BE APPLIED TO COMPANIES THAT DO NOT ELECT PRICE CAPS.

THE 2.5% PRODUCTIVITY FACTOR WAS DEEMED TO BE TOO BURDENSOME WHEN APPLIED TO SMALL LECS AND THE FCC WAS URGED TO USE A LOWER STANDARD FOR THESE COMPANIES. A SIMILAR ARGUMENT WAS MADE FOR THE LEVEL OF SCRUTINY REQUIRED FOR ABOVE-CAP RATE FILINGS AND FOR THE MONITORING OF SERVICE QUALITY. OPASTCO ARGUED THAT SMALL LECS DO NOT REQUIRE THE SAME MONITORING AS LARGE ONES BECAUSE THE OWNERS AND EMPLOYEES OF SMALL TELCOS LIVE IN THE COMMUNITY THEY SERVE. THIS, ACCORDING TO OPASTCO, WOULD ENCOURAGE AND ENSURE THE MAINTENANCE OF GOOD SERVICE QUALITY.

THE NATIONAL TELEPHONE COOPERATIVE ASSOCIATION, NTCA, IN ITS WINTER MEETING PASSED A RESOLUTION ON PRICE CAPS NEITHER SUPPORTING NOR OPPOSING THE PROPOSAL, BUT INSISTING ON THE NEED TO ENSURE THAT ADOPTION OF PRICE CAP REGULATION DID NOT ADVERSELY AFFECT THE MECHANISMS WHICH HAD BEEN ADOPTED TO PROTECT UNIVERSAL SERVICE, SPECIFICALLY: (1) THE CONTINUATION OF A UNITARY INDUSTRY-WIDE RATE-OF-RETURN; (2) THAT THE SUPPORT MECHANISMS FOR THE NECA COMMON-LINE POOL CONTINUE TO FUNCTION IN A WAY THAT MINIMIZED RATE DISPARITIES

AS BETWEEN LARGE AND SMALL COMPANIES; (3) THAT NATION-WIDE UNIFORM TOLL RATES BE MAINTAINED AND; (4) THAT THE OPTION TO CHOOSE OR REJECT PRICE CAPS BE PERMANENTLY MAINTAINED.

IN SOME WAYS THE MESSAGES FROM OPASTCO AND NTCA WERE THE SAME - THE SMALL RURAL TELEPHONE COMPANIES' NEEDS AND DIFFERENCES WERE SUCH THAT ANY PRICE CAP REGULATION ULTIMATELY ADOPTED BY THE FCC NEEDED TO BE REVISED AND MODIFIED IN ORDER TO CAPTURE THESE DIFFERENCES. SO THOSE OF YOU WHO BELONGED TO OPASTCO OR NTCA SENT VERY FOCUSED AND LIMITED MESSAGES, "WATCH OUT FOR OUR RURAL INTERESTS", AND MANY OF YOU IN IOWA FELT IT UNNECESSARY, DUE TO IRRELEVANCY, TO SEND A MESSAGE AT ALL - AND THOSE OF US WHO WERE LISTENING HEARD WHAT YOU WERE IN ESSENCE, SAYING, BUT ARE YOU ABSOLUTELY SURE THAT YOU SENT THE RIGHT MESSAGE?

MANY STATE REGULATORS OPPOSE PRICE CAPS FOR A MYRIAD OF REASONS. OF PARAMOUNT CONCERN TO ME, HOWEVER, WAS THE QUESTION OF WHETHER PRICE CAPS WOULD PRESERVE THE HIGH LEVEL OF SERVICE QUALITY THAT WE ENJOY TODAY. I WAS CONCERNED THAT THE PROPOSAL, IF IMPLEMENTED, COULD CREATE PERVERSE INCENTIVES TO FORSAKE NETWORK INVESTMENT, AND THEREFORE QUALITY, IN ORDER TO INCREASE NET PROFITS.

THE BELL SYSTEM SERVICE QUALITY CRISIS IN THE LATE 1960'S RESULTED FROM AT&T'S EFFORTS TO INCREASE NET EARNINGS. THE COMPANY REFUSED TO INCREASE CAPITAL OUTLAYS AT A TIME WHEN DEMAND GROWTH IN SEVERAL AREAS EXCEEDED SWITCHING CAPACITY. THE RESULTING CAPACITY SHORTAGES CAUSED SERIOUS DECLINES IN SERVICE QUALITY, WITH SERVICE INTERRUPTIONS IN MAJOR EAST COAST CITIES DURING 1967-68.

BY 1969, SERVICE THROUGHOUT THE URBAN REGIONS OF THE EASTERN PART OF THE COUNTRY WAS BESET BY DELAYS IN DIAL TONES, REPAIRS, AND INSTALLATIONS OF NEW EQUIPMENT.

MANY COMMENTERS IN THE PRICE CAP DOCKET RAISED CONCERNS RELATING TO SERVICE QUALITY AND, NARUC, IN ITS COMMENTS, PROPOSED THE ADOPTION OF MINIMUM SERVICE QUALITY STANDARDS. FEW OF YOU RAISED IT AS AN ISSUE AND THE BELL OPERATING COMPANIES AND AT&T IN THEIR COMMENTS SEEMED TO SUGGEST THAT QUALITY OF SERVICE WOULD SOMEHOW TAKE CARE OF ITSELF, AND THE FCC ULTIMATELY DECLINED TO ADOPT MINIMUM STANDARDS IN THE FINAL RULES. PERHAPS I CAN UNDERSTAND YOUR VIEW FROM HERE - THAT THIS IS REALLY NOT YOUR ISSUE - BUT I SUBMIT THAT THE WELL BEING, THE INTEGRITY AND THE MAINTENANCE OF OUR NATIONAL TELEPHONE NETWORK IS - I SUBMIT THAT YOU DID HAVE AN INTEREST - A STAKE IN THE ADOPTION OF A NEW REGULATORY REGIME FOR AT&T, AND I SUBMIT THAT YOU DO HAVE AN INTEREST IN THE ADOPTION OF A NEW REGULATORY REGIME FOR THE BOCS. THIS IS ONE, GREAT, TELEPHONE NETWORK - WE ARE ALL INTERCONNECTED AND THE QUALITY OF THE TELEPHONE SERVICE TO NEW YORK CITY IS AS IMPORTANT AS THE QUALITY OF SERVICE IN PANORA, IOWA.

WE WERE LISTENING, BUT YOU HAD VERY LITTLE TO SAY.

TELEPHONE/CABLE CROSS-OWNERSHIP

IN 1987, THE FCC INSTITUTED AN INQUIRY TO REVIEW THE TELEPHONE COMPANY AND CABLE TELEVISION CROSS-OWNERSHIP RESTRICTIONS ESTABLISHED BY ITS RULES, AND LATER CODIFIED IN THE CABLE COMMUNICATIONS POLICY ACT OF 1984. IN GENERAL, THOSE RESTRICTIONS PROHIBIT TELEPHONE COMPANIES FROM PROVIDING VIDEO PROGRAMMING

SERVICES WITHIN THEIR TELEPHONE SERVICE AREAS IF LOCATED IN NON-RURAL AREAS. THE FCC INITIALLY ESTABLISHED THESE RESTRICTIONS TO PREVENT TELEPHONE COMPANIES FROM IMPEDING THE EARLY DEVELOPMENT OF AN INDEPENDENT CABLE INDUSTRY. THIS OBJECTIVE HAD A TWO-FOLD PURPOSE: FIRST, IT WAS INTENDED TO PREVENT CROSS-SUBSIDIZATION OF NONREGULATED TELEPHONE CABLE TELEVISION ACTIVITIES WITH RESOURCES COMMITTED TO THE REGULATED SECTOR. SECOND, THE PROHIBITION WAS IMPOSED TO PREVENT TELEPHONE COMPANIES FROM USING THEIR MONOPOLY POSITION IN THE BASIC EXCHANGE SERVICE MARKET AS LEVERAGE TO DOMINATE THE CABLE SERVICES MARKETPLACE AS WELL. FOR EXAMPLE, IT WAS FEARED THAT TELEPHONE COMPANIES (TELCOS) COULD USE THEIR OWNERSHIP OF UTILITY POLES AND UNDERGROUND CONDUIT TO COMPEL OTHER CABLE COMPANIES TO PAY EXORBITANT ACCESS FEES, THEREBY AFFORDING THE TELCOS A SUBSTANTIAL COMPETITIVE ADVANTAGE.

IN ITS CABLE INQUIRY, HOWEVER, THE FCC HAS TENTATIVELY FOUND THAT THE CABLE INDUSTRY HAS HAD AN OPPORTUNITY TO OUTGROW THE LIKELIHOOD OF ABUSES FOUND AT THE INCEPTION OF THE CROSS-OWNERSHIP PROHIBITION. THE FCC NOW BELIEVES THAT THE MARKET LANDSCAPE COULD SUPPORT TELEPHONE COMPANY ENTRY INTO THE PROVISION OF CABLE CHANNEL SERVICES, EVEN OUTSIDE OF RURAL AREAS, AND IS NOW CONSIDERING SUBMITTING TO CONGRESS LEGISLATIVE RECOMMENDATIONS THAT WOULD DO AWAY WITH THE RESTRICTION.

AS EXPECTED, THE TELEPHONE INDUSTRY SUPPORTS THE FCC'S PROPOSAL. IN FACT A MAJORITY OF THE COMMENTERS SUPPORT LIFTING THE RESTRICTIONS. THE IOWA TELEPHONE ASSOCIATION AND THE WESTERN IOWA TELEPHONE ASSOCIATION FILED COMMENTS EXPRESSING THEIR

10,000.

WHY THE CONCERN? I POSE TO YOU THE QUESTION, WHY THIS NEW INTEREST ON THE PART OF THE BOCS TO PROVIDE CABLE. IN THE RURAL AREAS, YOUR TELEPHONE COMPANIES HAVE BEEN PROVIDING THE SERVICE BECAUSE YOU WERE FILLING A VOID. IT IS THEREFORE UNDERSTANDABLE THAT YOU WOULD WANT TO CONTINUE PROVIDING THE SERVICE AND HAVING THE OPPORTUNITY TO BRING CABLE TELEVISION TO LARGER POCKETS OF RURAL AMERICA. WHAT I CANNOT UNDERSTAND IS WHY THIS NEW BUT INTENSE INTEREST ON THE PART OF THE BOCS, UNLESS OF COURSE, IT WILL SERVE AS THE JUSTIFICATION, IMPETUS, AND MOTIVATION FOR REPLACING COPPER WITH THE STILL VERY EXPENSIVE FIBER. IF THAT IS TRUE THE MYRIAD OF REGULATORY PROBLEMS TO BE FACED WITH MODERNIZATION COST BEING DRIVEN BY THE PROVISION OF UNREGULATED SERVICES IS DEVASTATING. IF IT IS TRUE THEN CABLE CROSS-OWNERSHIP BY THE BOCS CAN ONLY BE ALLOWED, IF AT ALL, THROUGH ARMS-LENGTH SUBSIDIARIES.

WHILE THERE IS SOME DEBATE THAT THIS WOULD DIMINISH BENEFITS OF ECONOMIES OF SCALE, I REJECT THIS ARGUMENT IF THE ALTERNATIVE RESULT IS CAPTIVE RATEPAYERS BEARING THE BURDEN ASSOCIATED WITH CROSS-SUBSIDIES.

TO THE EXTENT THAT THE CABLE CROSS-OWNERSHIP ISSUE IS BEING DEBATED IN CONGRESS, AT THE JUSTICE DEPARTMENT AND AT THE FCC, YOU HAVE AN OBLIGATION TO SAY MORE THAN "YOU APPROVE" - YOU HAVE AN OBLIGATION TO THE INDUSTRY AND THE CUSTOMERS IT SERVES TO IDENTIFY POTENTIAL PITFALLS AND TO OFFER VIABLE SOLUTIONS. WE ARE LISTENING, ARE YOU SURE YOU DON'T HAVE MORE YOU WANT TO SAY?

THE MFJ

APPROVAL. OPASTCO ALSO EXPRESSED ITS APPROVAL, BUT URGED THAT SAFEGUARDS, IF ANY, ONLY BE IMPOSED ON THE BOCS.

WHAT IS DRIVING THE FCC'S CABLE INQUIRY IS CLEARLY CUSTOMER DISSATISFACTION WITH LOW SERVICE QUALITY AND HIGH RATES. CUSTOMERS BELIEVE THAT INTRODUCING COMPETITION WILL FORCE CABLE COMPANIES TO IMPROVE IN THESE AREAS AND CUSTOMERS DO NOT CARE WHERE THAT COMPETITION ORIGINATES SO LONG AS IT HAS THE DESIRED EFFECT. I AGREE THAT THE CABLE INDUSTRY HAS PROBLEMS AND THAT SOME OF THESE PROBLEMS COULD BE ALLEVIATED WITH COMPETITION. HOWEVER, I AM NOT SURE THAT SUCH COMPETITION SHOULD OR WOULD COME FROM THE TELCOS. IF REVISIONS ARE MADE TO THE CURRENT FCC RULES, I HAVE SOME IDEAS ON HOW IT SHOULD BE ACCOMPLISHED.

FIRST, STATES SHOULD HAVE THE OPTION OF DETERMINING WHETHER AND UPON WHAT CONDITIONS THE RESTRICTION SHOULD BE LIFTED FOR THEIR COMPANIES.

SECOND, TELCOS SHOULD NOT BE ALLOWED TO PURCHASE EXISTING CABLE COMPANIES FOR AT LEAST TEN YEARS, AND TO AVOID "BIG BROTHER" CONCERNS PERHAPS SOME LIMITATIONS SHOULD BE PLACED ON THE NUMBER OF CABLE SYSTEMS A TELCO SHOULD OWN.

THIRD, CABLE SYSTEMS PROVIDING TELCO SERVICES WHICH ARE REGULATED BY THE STATES SHOULD CONTINUE TO BE REGULATED.

FOURTH, THE STATES SHOULD BE ALLOWED TO IMPOSE WHATEVER SAFEGUARDS THEY DEEM NECESSARY TO PREVENT CROSS-SUBSIDIZATION AND ANTICOMPETITIVE CONDUCT.

AND FIFTH, TO ENSURE THE AVAILABILITY OF CABLE TO RURAL AMERICA THE EXISTING POPULATION WAIVER SHOULD BE INCREASED TO

YOU ARE FAMILIAR WITH THE COURT RULINGS CONCERNING THE MFJ'S LINES OF BUSINESS RESTRICTIONS AND I KNOW YOU ARE FAMILIAR WITH YOUR CONGRESSMAN'S PROPOSED FEDERAL LEGISLATION TO ALLOW THE BOCS TO ENGAGE IN MANUFACTURING AND INFORMATION SERVICES (H.R. 2140). I KNOW THAT OPASTCO AND MANY INDIVIDUAL SMALL RURAL TELEPHONE COMPANIES SUPPORT BOC ENTRY INTO MANUFACTURING AND INFORMATION SERVICES, WITH APPROPRIATE SAFEGUARDS TO PREVENT DISCRIMINATION.

THE NTCA PASSED A RESOLUTION THAT CAUTIONED THAT ANY REVISIONS OF THE MFJ MUST BE CAREFULLY LIMITED TO ENSURE THAT IT PROMOTES UNIVERSAL SERVICE, FULL PARTICIPATION IN FUTURE INFORMATION SERVICES BY RURAL TELEPHONE SYSTEMS, AND AN ADEQUATE SUPPLY OF MODERN TELECOMMUNICATIONS EQUIPMENT AND SOFTWARE AT NONDISCRIMINATORY PRICE TERMS AND CONDITIONS. NTCA EXPRESSED THE CONTINUED SUPPORT OF THE CONCEPT OF THE LOCAL FRANCHISE AS AN IMPORTANT FACTOR IN THE PROVISION OF UNIVERSAL SERVICE AND THAT THE INTEREXCHANGE RESTRICTION NOT BE REMOVED.

THE NARUC ALSO HAS CONCERNS AND PASSED A RESOLUTION URGING THAT ANY STATUTE LIFTING THESE RESTRICTIONS CONTAIN EXPLICIT LANGUAGE PROHIBITING FEDERAL INTERFERENCE WITH THE STATES' AUTHORITY TO ENGAGE IN ANY REGULATORY ACTION IT DEEMED APPROPRIATE TO PROTECT MONOPOLY RATEPAYERS.

SUCH REGULATORY ACTION COULD INCLUDE THE USE OF SEPARATE SUBSIDIARIES, ACCESS TO THE BOOKS OF AFFILIATES, AND ITS APPROVAL OF PURCHASE AGREEMENTS BETWEEN A BOC AND AN UNREGULATED AFFILIATE, APPROVAL OF THE SALE OF CPNI AND THE DISALLOWANCE IN REGULATED RATES OF COSTS ASSOCIATED WITH THE FAILURE OF A COMPETITIVE VENTURE

OF AN AFFILIATE.

WHILE I AM IN ACCORD WITH THE CONCERNS OF NARUC, I OPPOSE THE LEGISLATION AS PRESENTLY DRAFTED BECAUSE IT RELIES ON THE FCC'S NON-STRUCTURAL SAFEGUARDS AS THE PRIMARY PROTECTION AGAINST POTENTIAL ABUSE. THE LEGISLATION'S RELIANCE ON THE COMPUTER III NONSTRUCTURAL SAFEGUARDS IS WHOLLY INADEQUATE AND GROSSLY PREMATURE. THE NONSTRUCTURAL SAFEGUARDS APPLIED TO BOC PROVISION OF UNREGULATED ENHANCED COMMUNICATIONS SERVICE INCLUDE, AS YOU KNOW, (1) PROVIDING COMPETITORS WITH "EQUAL ACCESS" TO TRANSMISSION AND OTHER FACILITIES, ULTIMATELY THROUGH TECHNICAL RECONFIGURATION OF THE NETWORK CALLED OPEN NETWORK ARCHITECTURE; (2) SEGREGATING REGULATED FROM UNREGULATED COSTS, REVENUES, AND PROPERTY USING THE ACCOUNTING MANUALS REQUIRED BY PART 64 OF THE FCC'S RULES REGARDING COST ALLOCATIONS; (3) DISCLOSING NEW TECHNICAL DEVELOPMENTS AND CONFIGURATIONS IN A TIMELY FASHION TO ALLOW COMPETITORS TO PLAN NEW SERVICE OFFERINGS WITHIN SIMILAR TIME CONSTRAINTS TO THOSE OF THE BOCS; AND (4) ADOPTING PROCEDURES GOVERNING THE DISCLOSURE OF COMPETITORS OF CUSTOMER PROPRIETARY NETWORK INFORMATION KNOWN TO THE BOC REGULATED NETWORK SERVICES SUBSIDIARIES.

THE FCC'S COMPUTER III FRAMEWORK HAS NOT BEEN TESTED OVER TIME, NOR HAS IT EVEN BEEN UPHELD AS LAWFUL BY THE COURTS. I AM ALSO CONCERNED ABOUT THE EFFECTIVENESS OF NONSTRUCTURAL SAFEGUARDS, GIVEN THE TREMENDOUS LEVEL OF HUMAN RESOURCES NECESSARY TO OVERSEE THEM - PARTICULARLY WITH RESPECT TO COST ACCOUNTING, WHICH MUST FORM THE FOUNDATION FOR RELAXED CROSS-OWNERSHIP REGULATIONS. FOR EXAMPLE, INCREASING THE AUDIT RESPONSIBILITIES OF STATE COMMISSIONS

TO INCLUDE TRANSACTION-BY-TRANSACTION ANALYSIS OF BOC ENTERPRISES COULD REQUIRE ADDITIONAL RESOURCES AND FACILITIES AT GREATLY INCREASED REGULATORY COST. PUBLIC UTILITY ACCOUNTING IS REMARKABLY COMPLEX AND EXTREMELY INTRICATE IN DETAIL. IT IS IMPOSSIBLE FOR EVEN THE MOST VIGILANT REGULATOR TO TRACK EVERY TRANSACTION AND BALANCE EVERY ACCOUNT.

FURTHER, STATE REGULATORS HAVE NOT BEEN ABLE TO OBTAIN ACCESS TO THE BOOKS OF THE RHCS. BELL ATLANTIC AND US WEST HAVE BEEN PARTICULARLY DIFFICULT IN THIS REGARD. I WOULD LIKE TO SEE STATES HAVE THE SAME AUTHORITY GRANTED THE SECURITIES AND EXCHANGE COMMISSION UNDER THE PUBLIC UTILITY HOLDING COMPANY ACT, 15 U.S.C., SECTION 79 ET SEQ. THIS ACT ALLOWS THE SEC TO HAVE ACCESS TO THE BOOKS OF THE HOLDING COMPANY AND OVERSIGHT OF THE BUSINESS DEALINGS OF GAS AND ELECTRIC UTILITIES.

THE CONSEQUENCE OF INEFFECTIVE NONSTRUCTURAL SAFEGUARDS IS THE FAR GREATER RISK OF CROSS-SUBSIDIZATION. THE ARTIFICIAL INCREASE IN TELEPHONE RATES CAUSED BY THIS SUBSIDY COULD BE ENOUGH TO DRIVE MANY SUBSCRIBERS OFF THE NETWORK. UNIVERSAL TELEPHONE SERVICE MUST BE A NATIONAL GOAL IN THIS COUNTRY AND NOT A TERM OF ART BANDIED ABOUT BY THOSE ATTEMPTING TO STAVE OFF BLAME AND PUBLIC SCRUTINY.

WHEN I HAVE BEEN TO THE HALLS OF CONGRESS TO EXPLAIN MY CONCERNS I HAVE BEEN TOLD BY CONGRESSIONAL STAFFERS THAT THE ONLY PEOPLE THEY HAVE HEARD FROM ON THIS ISSUE HAVE BEEN THE BELL OPERATING COMPANIES. I KNOW OF YOUR EXPERIENCES WITH AT&T'S WESTERN ELECTRIC, AND I KNOW THAT THE BOCS DO NOT INTEND TO BUILD MANUFACTURING FACILITIES, AND I UNDERSTAND THE IMPLICATIONS OF

THESE FACTORS ON RURAL TELEPHONE COMPANIES - BUT ARE YOU SURE THAT YOU ARE PROPERLY COMMUNICATING THESE CONCERNS - CONGRESS WOULD BE MORE THAN WILLING TO LISTEN.

CONCLUSION

TO SUMMARIZE BRIEFLY: WHAT YOU ARE SAYING IS THAT PRICE CAP REGULATION IS FINE AND THAT QUALITY OF SERVICE IS, IN FACT, NOT AN ISSUE. THAT CABLE CROSS-OWNERSHIP IS APPROPRIATE AND CARRIES WITH IT NO RISKS OF CROSS-SUBSIDIES. THAT THE MFJ RESTRICTIONS ON MANUFACTURING AND INFORMATION SERVICES CAN BE LIFTED IF SOME, UNNAMED SAFEGUARDS, ARE IN PLACE.

MOREOVER, SOME SEGMENTS OF THE INDUSTRY ARE SAYING TO STATE REGULATORS THAT YOU WANT SOMETHING OTHER THAN RATE OF RETURN REGULATION, BUT YOU WANT US TO BE AVAILABLE IN CASE THE ALTERNATIVE DOES NOT WORK. YOU ALSO WANT THE FREEDOM TO ENGAGE IN BUSINESSES OTHER THAN POTS AND YOU DON'T BELIEVE SEPARATE SUBSIDIARIES ARE A PREREQUISITE TO DOING SO. FINALLY, YOU ARE SAYING THAT IF THE STATES DO NOT RESPOND TO YOUR NEEDS, THERE ARE FEDERAL REGULATORS, LEGISLATORS AND JUDGES WHO WILL.

OH, WE ARE LISTENING, BUT ARE YOU ABSOLUTELY SURE OF WHAT IT IS YOU ARE TRYING TO SAY?

