

PUBLIC SERVICE COMMISSION'S CENTREX RULING

SEPTEMBER 22, 1987

CENTREX SERVICE IS A MATTER OF EXTREME IMPORTANCE IN THE DISTRICT OF COLUMBIA. AS OF AUGUST, 1987 C&P HAD 308,602 CENTREX MAINSTATION LINES IN SERVICE. THESE CENTREX LINES ACCOUNT FOR 42% OF C&P'S TOTAL ACCESS LINES IN SERVICE, AND FOR APPROXIMATELY 42% OF C&P'S INTRASTATE REVENUES. THIS LARGE DEPENDENCE ON CENTREX REVENUES BY C&P IS UNIQUE AMONG LOCAL EXCHANGE CARRIERS.

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ALSO UNIQUE IS C&P'S HEAVY RELIANCE ON THE FEDERAL GOVERNMENT AS A CENTREX CUSTOMER. THE FEDERAL GOVERNMENT COMPRISES APPROXIMATELY 73% OF THE CENTREX LINES IN SERVICE. GSA IS THE LARGEST GOVERNMENT CUSTOMER, USING 34% OF CENTREX LINES.

UNTIL RECENTLY, CENTREX HAD A VIRTUAL MONOPOLY ON THE SWITCHING MARKET FOR SYSTEMS IN EXCESS OF 2,000 LINES. AS YOU

KNOW, TECHNOLOGICAL ADVANCES IN THE LATE 1970'S AND EARLY 1980'S PERMITTED PBX TO EFFECTIVELY COMPETE WITH CENTREX. 2/

THE COMPANY RESPONDED TO THE INCREASED COMPETITION BY FILING AN APPLICATION TO AMEND ITS GENERAL SERVICES TARIFF IN MARCH OF 1983. THE APPLICATION PROPOSED A RATE STABILITY PLAN, UNDER WHICH CUSTOMERS COULD PROTECT THEMSELVES FROM COMPANY INITIATED RATE INCREASES FOR A THREE YEAR PERIOD. THE COMMISSION GRANTED FULL APPROVAL IN EARLY 1984 (ORDER NO. 7954). CUSTOMER RESPONSE TO THE PLAN WAS APPARENTLY ENTHUSIASTIC, WITH APPROXIMATELY 70% OF ALL CENTREX LINES BEING COVERED BY THE THREE YEAR PLAN. 3/

APPROXIMATELY TWO MONTHS LATER, C&P FILED AN APPLICATION WITH OUR COMMISSION TO REVISE ITS CENTREX TARIFF, ALLEGING THAT THE COMPETITION FOR CENTREX CUSTOMERS FROM PBX SYSTEMS HAD INCREASED DRASTICALLY AND THAT IF THE COMPANY CONTINUED TO OFFER CENTREX AT CURRENT RATES, COMPETITION FROM PBX VENDORS WOULD REPLACE ALL BUT 16.6% OF THE LINES IN SERVICE BY 1989.

THE APPLICATION PROPOSED RENAMING THE EXISTING CENTREX PLAN AS RSP-A AND LIMITING IT TO EXISTING CUSTOMERS, ESTABLISHING A NEW, OPTIONAL RATE STABILITY PLAN-B WHICH CONTAINED A THREE YEAR CONTRACT LIFE AND SUBSTANTIAL PRICING REVISIONS FOR SERVICE CATEGORIES RANGING FROM REDUCTIONS OF 10% TO 95%, AND FOR

ESTABLISHING A "NEW CENTREX-99 SERVICE" TO BE OFFERED TO CUSTOMERS WHO REQUIRED LESS THAN 100 CENTREX LINES. THE APPLICATION ALSO CONTAINED A PROPOSAL TO IMPLEMENT A FULL CALC CREDIT OF \$2.00 TO ENSURE CONTINUED COMPARABILITY WITH PBX SYSTEMS. THE COMMISSION GRANTED PRELIMINARY APPROVAL OF THE PROPOSED TARIFF IN NOVEMBER OF 1984, SUBJECT TO FULL INVESTIGATION IN A FUTURE PROCEEDING.

THE OFFICE OF THE PEOPLE'S COUNSEL ARGUED THAT THE COMMISSION SHOULD, IN ESSENCE, DEREGULATE CENTREX, AND INSTEAD IMPUT A SPECIFIC REVENUE REQUIREMENT TO THE SERVICE CATEGORY. WHILE C&P STRONGLY OPPOSED THE DEREGULATION ON CENTREX.

C&P THEORIZED THAT A DECLINE IN THE DEMAND FOR CENTREX LINES WOULD RESULT IN A CORRESPONDING GROWTH IN OTHER SERVICES, SUCH AS PBX AND DID TRUNKS. ACCORDING TO C&P, WITHOUT RSP-B AND CENTREX-99 RATES, CENTREX WOULD LOSE 83% OF ITS 1984 INSTALLED LINES IN SERVICE BY THE END OF 1989, CAUSING A DROP OF CENTREX REVENUE FROM \$43.7 MILLION IN 1984 TO 8.7 MILLION IN 1989, WHILE PBX TRUNK REVENUES WOULD RISE FROM \$500,000 IN 1984 TO \$13.2 MILLION IN 1989. WITH RSP-B AND CENTREX-99 IN PLACE, C&P ESTIMATED THAT CENTREX WOULD LOSE 31% OF ITS 1984 LEVEL OF INSTALLED LINES BY THE END OF 1989, WITH A DROP IN CENTREX REVENUES TO \$26.5 MILLION IN 1989, WHILE PBX TRUNK REVENUE WOULD GROW TO 6.7 MILLION IN 1989.

BECAUSE THIS THREAT TO CENTREX WAS SO SEVERE, WE WERE NOT PERSUADED THAT THE PLAN, AS PROPOSED BY C&P, WOULD BE ADEQUATE. ONE MAJOR PROBLEM WAS THAT IT WOULD HAVE NO IMPACT ON LARGE CENTREX CUSTOMERS (THOSE WITH MORE THAN 10,000 LINES) BECAUSE SUCH CUSTOMERS COULD NOT INSTALL A PBX SYSTEM WITHIN THREE YEARS. WE THEREFORE ORDERED THAT LARGE CUSTOMERS COULD ONLY ELECT PLAN-B, WITH THE PROPOSED RATE REDUCTIONS, IF THE CUSTOMER SIGNED-UP FOR A FIVE YEAR PERIOD. IN ORDER TO FURTHER INDUCE CONSUMER COMMITMENT WE AGREED NOT TO ENTERTAIN ANY REQUESTS FOR AN INCREASE TO THIS SERVICE DURING THE FINAL TWENTY-SEVEN MONTHS OF THE FIVE YEAR PERIOD, EXCEPT FOR A COST ADJUSTMENT WITH A CPI CAP. WE ALSO ALLOWED C&P TO OFFER THE REDUCED RATES CONTAINED IN RSP-B FOR CUSTOMERS WITH LESS THAN 10,000 LINES FOR A THREE YEAR PERIOD WITH THE SAME COMMISSION RESTRAINTS ON RATE INCREASES. THE COMMISSION WAS SO IMPRESSED WITH THE POTENTIAL REVENUE LOSSES ASSOCIATED WITH CENTREX THAT WE ALSO GRANTED C&P'S REQUEST FOR A FULL CALC CREDIT ON THE INTERCOM RATE.

THE FINAL PORTION OF C&P'S RSP PROPOSAL WAS THAT IT BE ALLOWED TO PRESENT CUSTOMERS WITH INDIVIDUALIZED TARIFFS, SUBJECT TO PSC APPROVAL, IN ORDER FOR THE COMPANY TO BE ABLE TO EFFECTIVELY BID ON GOVERNMENT RFPS. HOWEVER, THE COMMISSION WAS CONCERNED WITH THE AMOUNT OF TIME REQUIRED FOR IT TO APPROVE SUCH TARIFFS AND THAT SAID TARIFFS COULD LEAD TO UNJUST DISCRIMINATION AMONG SIMILARLY SITUATED CUSTOMERS. THUS, WE CONCLUDED THAT IT

WAS FAR MORE APPROPRIATE FOR C&P TO USE A FACILITIES-BASED TARIFF FOR CALCULATING ITS CENTREX COMPETITIVE BIDS AND PROPOSALS TO INDIVIDUAL CUSTOMERS. SUCH A TARIFF WOULD BE ON THE ACTUAL FACILITIES USED TO PROVIDE THE SERVICE, AND COULD BE CUSTOMER SPECIFIC WITH CERTAIN LIMITS. IT WOULD INCLUDE OPTIONS RELATING TO SYSTEM SIZE, CONFIGURATION, FEATURES, LOCATION AND LENGTH OF COMMITMENT, AND THE RATES WOULD BE TIED TO THE COST EFFICIENCIES REALIZABLE WITH EACH PARTICULAR ARRANGEMENT. THE TARIFF WOULD SPECIFY RATE ELEMENTS IN TERMS OF INCREMENTAL "BLOCK OF SERVICES, SUCH AS CAPACITY, CONTRACT LENGTH, AND DISTANCE FROM THE CENTRAL OFFICE". 4/

EVEN THOUGH WE FOUND THAT THE EVIDENCE WARRANTED GIVING CENTREX SPECIAL REGULATORY TREATMENT, WE REJECTED THE PROPOSAL TO CREATE A SEPARATE CENTREX REVENUE REQUIREMENT CATEGORY. WE WERE NOT PREPARED TO DEREGULATE AND THUS RELINQUISH REGULATORY AUTHORITY OVER A SERVICE WHICH UTILIZED SUCH A SUBSTANTIAL PORTION OF COMMON CENTRAL OFFICE FACILITIES AND OUTSIDE PLANT. HOWEVER, THE COMMISSION KNEW THAT IN ORDER FOR CENTREX TO REMAIN VIABLE OVER THE LONG TERM, THE COMPANY HAD TO BE ABLE TO OFFER THE SERVICE IN A MANNER WHICH WOULD ALLOW IT COMPETE EFFECTIVELY WITH PBX.

THE ORDER APPROVING AND IMPLEMENTING THESE MODIFICATIONS TO CENTREX SERVICE WAS ISSUED ON APRIL 15, 1985. ACCORDING TO THE COMPANY, 125,000 OR APPROXIMATELY 40% OF CENTREX LINES IN

SERVICE, OPTED FOR RSP-A. AS OF LAST MONTH, 164,000 LINES OR 53% OF CENTREX LINES HAVE OPTED FOR RSP-B.

WE ALSO KNEW THAT APPLYING TRADITIONAL RATEMAKING PROCEDURES TO CENTREX HAD BECOME PROBLEMATIC IN THAT THREE PROCEEDINGS HAD BEEN INSTITUTED BY THE COMPANY IN THE LAST FOUR YEARS IN AN EFFORT TO DEVELOP NEW WAYS TO ASSURE CENTREX SURVIVAL IN THE NEW COMPETITIVE ENVIRONMENT.

IN ORDER TO REMEDY THIS SITUATION, WE OPENED A SUBSEQUENT DOCKET ON AUGUST 9, 1985 TO CONSIDER WHAT SPECIFIC CHANGES WERE NECESSARY. THE PARTIES AGREED THAT SOME SPECIAL REGULATORY TREATMENT WAS APPROPRIATE, BUT DIFFERED AS TO WHAT THAT TREATMENT SHOULD BE. THE OPTIONS AVAILABLE WERE: 1) FLEXIBLE REGULATION, 2) DETARIFFING AND 3) DEREGULATION.

C&P AGAIN OPPOSED DEREGULATION AND INSTEAD OPTED FOR FLEXIBILITY AND PROPOSED THREE NEW TARIFF OFFERINGS: 1) THE INDIVIDUAL CASE BASIS (ICB) TARIFF; 2) THE FACILITIES BASED TARIFF (FBT) AND 3) THE BUSINESS PAK TARIFF (BPT).

THE ICB TARIFF IN PARTICULAR AFFORDED C&P ALMOST TOTAL REGULATORY FLEXIBILITY FOR LARGE CENTREX CUSTOMERS BY ENABLING IT TO ENTER INTO BINDING CONTRACTS WITH INDIVIDUAL CUSTOMERS PRIOR

TO EXPLICIT APPROVAL FROM THE PSC. THE CONTRACT WOULD BE DESIGNED TO MEET THE SPECIFIC NEEDS OF A PARTICULAR CUSTOMER.

BECAUSE C&P WOULD ESTABLISH THE PRICE TO BE CHARGED UNDER ICB CONTRACTS WITHOUT PRIOR COMMISSION APPROVAL, AND THAT PRICE WOULD REMAIN INTACT REGARDLESS OF ANY FUTURE FINDING BY THE COMMISSION, OPC ALLEGED THAT THE ICB TARIFF WAS ACTUALLY A DETARIFFING. THE COMMISSION DISAGREED BECAUSE, UNLIKE A TRUE DETARIFFING, EVERY RATE CHARGED FOR CENTREX WOULD BE PUBLISHED IN A TARIFF WHICH THE COMMISSION WOULD REVIEW. FURTHER, C&P AGREED THAT TO THE EXTENT WE FOUND THAT AN ICB RATE WAS SET BELOW COST, THE COMPANY WOULD NOT INCLUDE THE SHORTFALL IN ITS REVENUE REQUIREMENT IN ANY FUTURE RATE CASE. IN EFFECT, C&P WOULD ALLOCATE THAT SHORTFALL TO ITS SHAREHOLDERS. HOWEVER, THERE WAS NO MECHANISM IN PLACE WHICH WOULD ALLOW US TO DETERMINE WHETHER SUCH REVENUE DEFICIENCIES EXISTED. MORE IMPORTANTLY, THERE WAS NOTHING IN THE RECORD WHICH WOULD ENABLE US TO ESTABLISH A PROCEDURE FOR MAKING SUCH A DETERMINATION.

THEREFORE, WE DIRECTED C&P TO DEVELOP AN EMBEDDED COST OF SERVICE STUDY WHICH WOULD ALLOW US TO DETERMINE WHETHER REVENUE DEFICIENCIES HAD OCCURRED. WE REQUIRED THE COMPANY TO IDENTIFY CENTREX INVESTMENT, COSTS AND REVENUES IN SUCH A MANNER THAT THE PSC COULD DETERMINE WHETHER CENTREX WAS COVERING ALL OF THE COSTS OF PROVIDING THE SERVICE. WE CAUTIONED THAT OUR REQUIRING SUCH A

STUDY DID NOT NECESSARILY MEAN THAT WE WOULD SET RATES BASED ON THE STUDY AND DID NOT MEAN THAT WE WOULD DETARIFF OR DEREGULATE CENTREX. THE PURPOSE OF THE STUDY WAS SIMPLY TO KEEP THE PSC INFORMED AS TO WHETHER NON-CENTREX RATEPAYERS WERE BEING BURDENED WITH CENTREX SERVICE COSTS.

THE NEXT ISSUE TO BE RESOLVED WAS WHAT INFORMATION SHOULD BE CONTAINED IN THE ICB TARIFF? C&P PRESENTED THE COMMISSION WITH A PROTOTYPE TARIFF THAT WAS NOT TYPICAL OF THE TYPE OF DOCUMENT THAT WE WOULD HAVE TO EVALUATE WITH EACH ICB TARIFF FILING. THE REASON IT WAS NOT TYPICAL WAS BECAUSE IT DID NOT INVOLVE A PURELY DEDICATED SWITCH EVEN THOUGH C&P ASSERTED THAT SUCH A SWITCH WOULD BE THE MOST COMMON. FURTHER, THE CRITERIA FOR C&P'S DEPLOYMENT OF DIGITAL SWITCHING FACILITIES, AS WELL AS IMPLICATIONS FOR NON-CENTREX RATEPAYERS, WOULD DIFFER DEPENDING ON WHETHER THE FACILITIES ARE DEPLOYED ON A PURELY DEDICATED, PURELY SHARED, OR A MIXED DEDICATED/SHARED BASIS. THEREFORE, WE ORDERED C&P TO DEVELOP A PROTOTYPE ICB FILING FOR EACH OF THESE SITUATIONS.

TO ASSIST IN THE DEVELOPMENT OF THE PROTOTYPES, WE DIRECTED THE COMPANY TO DEVELOP AN ICB COST MANUAL WHICH WOULD PROVIDE CLEAR INFORMATION ON ICB COST ALLOCATIONS AND INPUT PARAMETERS. WE DIRECTED THAT STAFF ASSIST THE COMPANY AND THAT OPC PROVIDE ITS INPUT, IF ANY, TO STAFF. WE ORDERED THAT THE COST MANUAL BE

COMPLETED ON AN EXPEDITED BASIS SO THAT IT COULD BE UTILIZED WHEN THE TARIFFS WERE REVIEWED. 5/ THE MANUAL WAS FILED LAST MONTH BY THE COMPANY AND A COMMISSION ORDER WILL BE ISSUED SHORTLY.

C&P AGAIN URGED FOR A PARTIAL SLC CREDIT WHICH WOULD RESULT IN CUSTOMERS PAYING APPROXIMATELY THE SAME SLC THAT THEY WOULD PAY IF THEY HAD PURCHASED A PBX. FOR EXAMPLE, A PBX CUSTOMER WITH A STATION-TO- TRUNK RATIO OF 17:1 WOULD PAY THE \$4.35 SLC FOR EVERY 17 STATIONS, WHICH FOR A 1000 LINE SYSTEM WORKS OUT TO 59 TRUNKS, FOR A TOTAL MONTHLY SLC PAYMENT OF \$257. ASSUMING C&P PROVIDED NO CREDIT, A 1,000 LINE CENTREX SYSTEM WOULD PAY THE \$4.35 SLC FOR EACH OF THE 1,000 STATIONS, RESULTING IN A TOTAL MONTHLY SLC PAYMENT OF \$4,350. THE PURPOSE OF C&P'S CREDIT WAS TO EQUALIZE SLC PAYMENTS FOR EQUIVALENT-SIZED CENTREX AND PBX SYSTEMS IN ORDER TO CREATE A LEVEL PLAYING FIELD. THE COMPANY ACKNOWLEDGED THAT THE CREDIT WOULD REDUCE THE INTRASTATE REVENUES PRODUCED BY CENTREX, BUT ASSERTED THAT THE PARTIAL CREDIT WAS NECESSARY TO MAINTAIN CENTREX AS AN IMPORTANT PART OF THE REVENUE STREAM. THIS WAS A CHANGE FROM C&P'S POSITION IN PHASE I OF THIS CASE IN WHICH IT HAD ARGUED THAT A FULL CALC CREDIT WAS NECESSARY.

STAFF OPPOSED THE PARTIAL CREDIT FOR THE SLC AS "AN UNNECESSARY BONUS FOR CENTREX".

THE COMMISSION HAD SOME CONCERNS ABOUT THE PARTIAL SLC CREDIT. IN PHASE I, THE COMPANY TOOK OUR APPROVAL OF A FULL SLC CREDIT TO MEAN THAT THE FULL CREDIT WOULD APPLY REGARDLESS OF THE LEVEL OF THE SLC. THUS, WE CAN ASSUME THAT IF C&P IS ALLOWED TO IMPLEMENT ITS PARTIAL CREDIT, THE AMOUNT OF THE PARTIAL SLC WILL INCREASE AS THE SLC INCREASES. THIS CREATED A PROBLEM BECAUSE C&P DID NOT DO ANY ANALYSIS OF THE EFFECTS ON JURISDICTIONAL COSTS AND REVENUES RESULTING FROM INCREASES IN THE SLC. THE SLC CREDIT MERELY GIVES THE CUSTOMER AN OFFSET TO THE INTRASTATE SLC CHARGE. THEREFORE, THE EFFECT OF AN INCREASE IN THE SLC IS TO REDUCE THE INTRASTATE RATES CHARGED TO THE CUSTOMER, BUT C&P ON A TOTAL COMPANY BASIS LOSES NO REVENUES.

WE FOUND THIS TROUBLESOME. A SLC OFFSET OF THE MAGNITUDE PROPOSED BY C&P COULD REDUCE JURISDICTIONAL CENTREX REVENUES TO A LEVEL WHICH COULD ELIMINATE THE CONTRIBUTION FROM THE FBT AND BPT RATES AND COULD RESULT IN THOSE RATES NOT COVERING THE APPLICABLE COSTS.

BECAUSE OF OUR CONCERN ABOUT THE LACK OF EVIDENCE ON THE IMPACT OF INCREASING THE SLC OFFSET, WE ALLOWED C&P TO INCREASE THE DOLLAR AMOUNT OF THE OFFSET WITH INCREASES IN THE SLC ONLY IF C&P SUBMITTED EVIDENCE IN A FUTURE PROCEEDING WHICH DEMONSTRATED THAT ALLOWING SUCH INCREASES WOULD NOT ELIMINATE THE INTRASTATE CONTRIBUTION FROM THE FBT AND BPT RATES. HOWEVER, IF THE COMPANY

COULD NOT MAKE SUCH A SHOWING, WE GAVE IT THE OPTION OF ABSORBING THE INCREASE SO LONG AS THE COST OF DOING SO WAS BORNE ENTIRELY BY ITS SHAREHOLDERS. 6/

STILL, THE COMMISSION BELIEVED THAT MORE NEEDED TO BE DONE IN PROVIDING A LEVEL PLAYING FIELD. RATHER THAN CONTINUING TO SOFTEN THE IMPACT OF THE SLC, WE DECIDED TO ATTEMPT TO CONVINCING THE FCC THAT THE SLC AS APPLIED TO CENTREX SERVICE IN THE DISTRICT OF COLUMBIA WAS NOT IN THE BEST INTEREST OF C&P OR ITS RATEPAYERS. THUS, ON JULY 9, 1987 THE COMMISSION FILED A PETITION FOR RECONSIDERATION IN THE MATTER OF MTS AND WATS MARKET STRUCTURE, AMENDMENT OF PART 67 OF THE COMMISSION'S RULES AND ESTABLISHMENT OF A JOINT BOARD, CC DOCKET NO. 78-72 AND 80-286.

WE ARGUED THAT THE FCC SHOULD RECONSIDER ITS DECISION TO INCREASE THE SLC ON EMBEDDED CENTREX LINES BECAUSE IT WAS A DEPARTURE FROM THE FCC'S INITIAL COMMITMENT TO MAINTAIN EQUALITY BETWEEN THE RESIDENTIAL SLC AND EMBEDDED CENTREX UNTIL 1989. (MTS AND WATS MARKET STRUCTURE, FIRST RECONSIDERATION ORDER, SEPTEMBER 21, 1983.) BY DEFAULTING ON ITS COMMITMENT, THE FCC WAS HARMING OUR EFFORTS TO PRESERVE CENTREX. THE ONLY JUSTIFICATION FOR SUCH INCREASES SEEMED TO BE THE JOINT BOARD'S CONCLUSION AND I QUOTE THAT "SUFFICIENT TIME HAS ELAPSED TO ALLOW STATE REGULATORS TO ADJUST INTRASTATE RATES" TO ALLOW CENTREX TO

COMPETE WITH PBX. (SEE MTS AND WATS MARKET STRUCTURE, RECOMMENDED DECISION AND ORDER, MARCH 31, 1987).

GIVEN THE EXTRAORDINARY NUMBER OF EMBEDDED CENTREX LINES IN SERVICE IN THE DISTRICT, WE DID NOT BELIEVE THAT SUFFICIENT TIME HAD IN FACT ELAPSED.

WE ALSO EMPHASIZED THAT OUR COMMITMENT NOT TO RAISE RATES FOR RSP CUSTOMERS UNTIL 1990 WAS MADE IN DIRECT RELIANCE ON THE FCC'S STATEMENT THAT IT WOULD MAINTAIN EQUALITY FOR CENTREX UNTIL 1989.

WE FURTHER ARGUED THAT THE SLC INCREASE FOR EMBEDDED CENTREX LINES WAS NOT WARRANTED, COULD NOT BE JUSTIFIED, AND SHOULD NOT BE IMPLEMENTED. IN THE EVENT THAT IT WAS IMPLEMENTED, WE URGED THE FCC TO EXEMPT THE DISTRICT WHICH HAS A SIGNIFICANT NUMBER OF EMBEDDED CENTREX LINES. SPECIFICALLY, WE PROPOSED THAT THE FCC EXEMPT FROM SLC INCREASES THOSE JURISDICTIONS IN WHICH AT LEAST ONE THIRD OF THE LINES IN SERVICE ARE CENTREX LINES. FAILING THAT, WE REQUESTED A MORE GRADUAL PHASE-IN OF SLC INCREASES. FOR EXAMPLE, RATHER THAN ORDERING FULL \$1.00 INCREASES, THE FCC COULD REDUCE THE SCHEDULED INCREASE FOR THE DISTRICT BY ONE-HALF UNTIL 1990. BELL ATLANTIC, C&P'S PARENT-COMPANY, SUPPORTED OUR ARGUMENTS. 7/

THE DISTRICT'S CENTREX PROBLEM DEMONSTRATES THE COMPLEXITY AND DIFFICULTY NOW FACING REGULATORS IN AN ENVIRONMENT WHERE SOME DEGREE OF COMPETITION EXISTS. IT HOPEFULLY ALSO ILLUSTRATES THE BENEFICIAL RESULTS WHICH CAN BE ACHIEVED THROUGH INNOVATIVE, FLEXIBLE PRICING AND A COOPERATIVE REGULATORY ENVIRONMENT.